INSTITUTIONAL FACTORS OF SMEs' INTERNATIONALIZATION IN TRANSITION ECONOMIES

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Abstract

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

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

INTRODUCTION

In the midst of the global recession emerging economies are driving global economic growth. According to The Conference Board for the period 2010-2020 transition, emerging and developing economies will grow three times faster than advanced economies and, China and India will account for half of global growth and their share in global output will rise to up to 24 percent in 2020 from 16 percent in 2010. In particular, China overtook Germany to become the world's top exporter in 2009[1] and surpassed Japan as the world's second-largest economy in the second quarter of 2010[2]. It has also been estimated that China will overtake the U.S, as the world's largest economy by 2030 (IADB, 2004)[3].

Understanding the Chinese case, and in particular the successful, diverse and dynamic internationalization processes of Chinese firms, has become a priority research subject in many academic centres and institutions. Several books and articles published in recent years have provided a comprehensive overview of the role played by international trade in promoting economic growth and productivity, as well as about the strategies of Chinese multinationals to enter to new markets, the effects of institutional environment on the internationalization process and, the role played by regional and national government policies in the international expansion of large Chinese companies (Child & Lu, 1996; Fornes, 2009; Hoskisson, Eden, Lau, & Wright, 2000; Peng, Wang, & Jiang, 2008; Wright, Filatotchev, Hoskisson, & Peng, 2005; Yeung, 2002). However, scarce attention has been devoted to understand the internationalization strategies of

[1] In 2009 China exported more goods ($957 billion) than Germany ($917 billion) according to data compiled by Global Trade Information Services.
[2] Japan's nominal gross domestic product for the second quarter of 2010 totaled $1.288 trillion, less than China's $1.337 trillion
3 This extraordinary transformation and impressive economic growth has been achieved during the last three decades since Deng Xiaoping introduced free-market reforms and opened up the economy to the outside world in 1978 (Ding, Akoorie, & Pavlovich, 2009).

SMEs from transition economies and this area remains relatively under-explored in the international business (IB) literature and demands more attention. This is even more surprising considering that SMEs are responsible for 68% of China's exports and 80% of outward investment; provide more than 80% of total employment account for 60% of China's GDP; contribute with 66% of the country's patent applications; and more than 60% of sales 80% of its new products (The Economist, 2009)[4].

In particular, it is surprising how little has been written about the influence that institutional environments may have on the international expansions of Chinese SMEs considering that firm strategic options are not only conditioned by their capabilities and industry environment, but are also affected the institutional setting in which they operate (Hoskisson et al., 2000; Peng, 2002; Wright et al., 2005; Yamakawa, Peng, & Deeds, 2008). The present study aims at filling this gap in the literature and to gain a better understanding of the influence of institutional environment on SMEs internationalization in transition economies.

In this paper, we aim to contribute to a better understanding of SMEs internationalization from a transition economy using a systematically collected firm-level data set. Our premise is that, in comparison with Chinese MNCs and SOEs which benefit from political and economic advantages and enjoy from favourable institutional settings designed and supported by local and central governments to accelerate their internationalization[5], the Chinese SMEs have to deal with additional obstacles associated to limited resources and capabilities and therefore, perceived greater

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[4] In addition, according to the Ministry of Industry and Information Technology (MIIT) (People's Daily Online, 2010), there are more than 10 million Chinese SMEs and they account for 99 percent of the total enterprises and 50 percent of tax revenue..

[5] Chinese SOEs and MNCs receive preferential support in China mainly through: a- broad access to financial resources, b- government involvement, usually through ownership; c- market monopoly, d- government procurement contracts, e- assistance to form partnerships and joint ventures and f- access to state-supported scientific and technical knowledge (Child & Rodrigues, 2005).

institutional obstacles that limit their strategic choices and affect their international expansion.

We adopt an institution-based view of internationalization to study the interaction between institutions and strategic choices of organizations. Accordingly, we put forward that five institutional factors affect Chinese SMEs internationalization: a- the access to public financing; b- the extent of state ownership; c- the access to government procurement contracts; d- the quality of regulation and legal framework and, e- the level of government support.

To this end, we address the following central questions: How do managers and owners at small and medium-sized enterprises (SMEs) perceive institutional barriers in their internationalization strategic decisions?Does institutional constrains such as restricted access to financing and inefficient government assistance systems hinder the international expansion of Chinese SMEs? ¿Do adverse laws and regulations pose difficulties for SME's international expansion? In addition, in the current transition between the centrally planned to the market-based economy, it seems important to understand, How the role of Chinese local and central governments participation in the SMEs´ capital and the public procurement contracts affect their decision making process regarding their internationalization strategies?

We believe that a more thorough understanding of the institutional settings affecting Chinese SMEs internationalization can help to extent the IB literature. Moreover, our paper contributes to the international business literature in several ways: a- providing a unique setting to validate existing theories in different contexts, in particular, the set of barriers presented by Leonidou (2004) on SMEs internationalization in the western countries; b- broadening the internationalization framework of Chinese enterprises propose by Boisot & Meyer (2008) by taking into consideration the impact of institutional factors on their expansion strategies and provide the possibility of empirically testing their hypothesis about early internationalization as a way to overcomes institutional constraints in China; c- by studying the link between financing, state ownership, regulatory and legal frameworks, government support and internationalization. The study also draws important lessons from the Chinese experience that can offer useful insights for policy-making in transition and emerging economies interested in accelerating the internationalization process of SMEs.

The paper proceeds as follows. The first section provides a general overview of the main scholarly contributions to the theory of the institutional-based view of competitiveness in transition economies and formulates several research questions within an institutional-based perspective. Section 2 presents a review of studies arguing that companies in transitions economies overcome internal barriers and competitive disadvantages through internationalization and develops the hypothesis. Then, section 3 presents the methodology and section 7 the results of the data analysis. The paper concludes with the discussion and conclusion sections.

AN INSTITUTIONAL-BASED VIEW OF COMPETITIVENESS IN TRANSITION ECONOMIES: A LITERAURE REVIEW

Over the last decades a growing body of research has been devoted to studying how institutional environment (IE)[6] influences business strategies and internationalization of companies from transition and emerging economies. In fact, based on his research on Asian organizations, Peng (2002) argued that in addition to the existing theories –

[6] (197) defined the institutional environment as "the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution." Accordingly, institutions are created to: 1- structure and coordinate political, economic, and social relationships among the members of a set society and therefore are essential for economic development (North, 1991; Williamson, 1985) , and 2- reduce the uncertainty and costs in transations derived from imperfect information that economic players possess (North, 1993, 1995).

mainly competition based on industry conditions (Porter, 1980) and firms' resource and capabilities perspective (Barney, 1991) – it is necessary also to adopt an institution-based view to explain differences in business strategy since "institutions govern societal transactions in the areas of politics (e.g., corruption, transparency), law (e.g., economic liberalization, regulatory regime), and society (e.g., ethical norms, attitudes toward entrepreneurship)" (Peng et al., 2008).

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

In particular, Peng and Heath (1996b) analyzed how different institutional environments determine the growth strategy of state-owned enterprises in centrally planned economies in transition. Along the same lines, Peng (2002) observed that Chinese firms in order to overcome barriers to expand their business, mainly due to the lack of strategic factor markets and critical resources (e.g. capital and technology), tend to rely on joint ventures and strategic alliances in order to access financial resources and technologies.

In their study on influences of IE on firms from emerging and transition markets, Child and Lu (1996) found that they face different institutional constraints related to: 1- intervention by authorities and regulatory bodies in the decision making process; 2- restriction of information usually controlled by authorities; and 3- access for public funding. Similarly, weak institutional frameworks, characterized by shortages of skilled labor, deficient capital markets (Hoskisson et al., 2000) and low levels of legitimacy (Yamakawa et al., 2008) are found to affect companies' strategies and performance.

However, with few exceptions (Cardoza & Fornes, 2009; Cardoza & Fornes, 2011; Chen, 2006; Ma, Wang, & Gui, 2010) the institutional environment's influence on SMEs internationalization has received attention from researchers, particularly on emerging and transition economies. This is particularly important since, as it has been argued by Hoskinson et al. (2000), in the first phase of transition when markets are still in formation, institutional theory presents a more relevant theoretical framework to understand the behavior of firms.

Overcoming institutional barriers and competitive disadvantages through internationalisation

Chinese SMEs are facing different obstacles and multiple competitive disadvantages to become global players, including: restricted access private and public financial resources to reach the size necessary to benefit from economies of scale; weak R&D capabilities and isolation from the research centres and universities; outdated technology; poor management training; shortages of talent; regional protectionism; weak brands; and limited information and knowledge about overseas markets (Cardoza & Fornes, 2009; Child & Rodrigues, 2005; Ding et al., 2009). Moreover, deficiencies in infrastructure, lack of suitable policy and regulative frameworks, weak legal frameworks and protection systems for intellectual property rights as well as the over-regulated environments in which they operate in their domestic markets hinder their process of international expansion. As explained by Lu and Tao (2010), until 1988 private enterprises were not allowed to exist in China and the institutional environment (mainly, property rights protection and contract enforcement) in which they have emerged was mostly hostile during the transition from a centrally planned economy to a market-based economy. The misalignment of IE with SMEs needs limit the possibilities of strengthening the SMEs' management and the financial and technological capabilities needed to compete in domestic and foreign markets.

To overcome these obstacles, several explanations have been advanced. For instance, based on case studies of Chinese firms, Child and Rodrigues (2005) asserted that contrary to mainstream theories that presuppose that companies internationalize to exploit competitive advantages, Chinese firms go abroad to overcome competitive disadvantages and to get access to technologies and other resources and capabilities they require to compete internationally[7][8]. Similarly, when analyzing the internationalization of the so-called newcomers and latecomer firms in China, Mathews (2006) added that their success is not based on "the possession of overwhelming domestic assets which can be exploited abroad [but rather]… their international expansion has been undertaken as much for the search for new resources to underpin new strategic options, as it has been to exploit existing resources". Using the resource-based framework to explain the success of latecomer firms from China in their internationalization process, Mathews (2006) argues that internationalization of Chinese firms has been undertaken, often through partnerships and joint ventures, for the search for key resources such as skills, knowledge and capital.

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

[8] Child and Rodrigues (2005) argue that the latecomer perspective offers a more suitable framework to understand the internationalization process in China since "it directs attention to international investment as a means of addressing competitive disadvantages". They also consider that the concepts of 'late development' and 'catch-up' used to explain the rapid growing economies of South-East Asia could also be useful to describe the process of internationalization of many Chinese firms since these 'latecomer firms' internationalize to overcome internal obstacles and to get access to new resources and capabilities.

Boisot and Meyer (2008) also observed that, contrary to the internationalization literature that was mostly based on the assumption that a firm first expands in home markets then goes abroad to exploit some competitive advantage, Chinese firms expand internationally "at a smaller size than their Western and Japanese counterparts [and that] they will do so in order to escape the competitive disadvantages that they confront in the domestic market and that outweigh the competitive advantages of a large market size". Also, as observed by Yamakawa et al. (2008), new ventures find more friendly institutional environments in developed countries including better intellectual property protection and easier access to financial support. Summing up, these authors posit that to overcome these domestic disadvantages new ventures are also forced to go abroad where they eventually will have easier access to necessary resources. Building on these insights and considering that these arguments have been mostly based on case studies, we conducted empirical research to verify whether, as suggested by the cited works, Chinese SMEs' internationalization is positively related to the perception by managers and entrepreneurs about the difficulties and obstacles imposed by their domestic institutional environments.

Limited access to public financial support as a trigger for SMEs internationalization

Despite three decades of reforms, Chinese authorities have remained suspicious of the domestic private sector and have created institutions and policies that continue constraining the development and growth of the private sector. The 'Go Global' policy launched in 1999 by the Chinese government was largely oriented to promote internationalization of large state-owned enterprises (SOEs) mainly through outward FDI based on low interest loans to purchase foreign companies (Ding et al., 2009). In comparison with SOEs and TVEs, that enjoyed from distinct advantages in financing investment and preferential treatment from local and central governments, the Chinese private firms face additional constrains to get access to financial support and perceive greater institutional obstacles that limit their international expansion (Child & Rodrigues, 2005). In fact, during the 1980s and 1990s, as pointed out by Huang and Di (2004), there was a ´lending bias and legal and regulatory discrimination against private firms in the Chinese economy´[9].

Although China has made important advances in the process reform from the central planning economy into a market-oriented one, the business environment in China is in many ways adverse, especially for SMEs. As pointed out by Shen et al (2009) there is an asymmetry in China between the contribution of SMEs to economic growth and the amount of credit they get from banks and other financial institutions[10]. Although Chinese SMEs account for 60% of China's GDP, are responsible for 68% of China's exports and 80% of outward investment; and provide more than 80% of total employment; they merely obtain less than 25% of total bank credit (Shu et l 2011.) and only 12% of their capital come from bank loans.

Even though, Chinese SME Promotion Law, enacted in 2002 by the National People's Congress Standing Committee, comprise the public support and encourage the financial institutions to improve the financing for SMEs, SMEs are still experiencing difficulties to get access to financial resources (Zhu, Wittmann, & Peng, 2011). Around 98% of

[9] According to Brandt and Li (2002) during the 1990s, government gave preferential treatment to SOEs for political rather than for economic reasons and TVEs received four times as much credit as private firms.

[10] Lack of ad-hoc financial institutions supporting SMEs and adequate credit guarantee system are often mentioned to limited access to financial support. Also as pointed out by several authors SMEs find difficult to obtain bank loans due to weak management and governance structures, poor accounting and information systems and high business risks (Liu, 2007; Yuan and Vinig, 2007).

SMEs have no access to formal financing, face greater credit constrains and have to rely on self-financing (Zhu et al, 2011; Shen et al, 2009). Specifically, Jiangsu Province favoured collective firms (TVEs) and discriminated against domestic private firms mainly through heavier restrictions to credit access[11] (Wei YD. 2002; Brandt and Li, 2002; Huang and Di, 2004, p).

In addition, as pointed out by (Cai, Jun, & Yang, 2010), government involvement in the firm decision making process and the variety of types of support depending on the firm's location and relationship to central or local governments (i.e. economic importance, industrial sector, size) have an effect on the firm's competitiveness and behaviours[12]. In particular, the extent of state ownership has a decisive influence in firm behaviour and conditions their strategic decisions of international expansion. Similarly, Chinese industrial policies, such as government procurement, have been used mostly to promote the internationalization of selected state-owned enterprises however, private enterprises not benefitting from large public contracts may be forced to internationalize earlier (Nolan, 2002).

On the other hand, as mentioned above, several researchers have suggested that Chinese firms expand internationally in order to mitigate risks associated with domestic market imperfections, to escape the competitive disadvantages in their home markets they require to compete globally (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews, 2006; Yamakawa et al., 2008). Even though these theoretical arguments seem plausible, there is a need to validate them empirically.

[11] As explained by Huang and Di (2004) the Sunan Model prevailing in Jiangsu Province was characterized strict government control of firms including punishments for workers who left TVEs, systematic controls on the enterprise registration documents and procedures; and limits on managers' compensation.

[12] That situation largely explains why to overcome institutional failures and avoid ideological discrimination against private ownership, companies tend to establish close ties with local or central governments (Li et al, (2008)

So adopting an institutional-based view, we can argue that the access to support systems such as public financing, government procurement contracts and the extent of state ownership affect the internationalization of Chinese SMEs. Following this line of reasoning a first group of hypothesis can then be formulated:

H1: To address the competitive disadvantages associated with limited access to financial resources, Chinese SMEs from Jiangsu are more likely to internationalize their business activities.

H2: Chinese SMEs without state participation in their capital are more likely to internationalize

H2a: Lack of state participation in Chinese SMEs capital strengthens the association between limited access to financial resources and early internationalization.

H3: Chinese SMEs not benefiting from public procurement contracts exhibit more propensities to internationalize

H3a: Lack of public procurement contracts strengthens the association between limited access to financial resources and early internationalization of Chinese SMEs.

Government assistance, regulatory framework, and internationalization

Although China has experienced an evolution towards a more entrepreneurial institutional policy framework in recent years, still the all-encompassing controls of local government generate institutional dependence and increase transactions costs (Boisot & Meyer, 2008; Child & Rodrigues, 2005). Even though the SME Promotion

Law was passed in 2002, Chinese SMEs still face discriminatory and complex regulations and uncoordinated policies that make difficult to benefit from the existing support systems and to expand their businesses at the national and international levels. Weak market structures, overwhelming government influence, excessive bureaucratic controls and regulation and arbitrary state intervention on business[13] further diminish competitiveness of private enterprise in transition economies, in particular of SMEs. Besides the lack of a well-defined property rights-based contract law are hindering the SMEs development and affects their internationalization; Yuan and Vinig 2007). In fact, compared with SOEs, private new ventures suffer regulative discrimination that preventing them having access to key resources for their domestic and international expansion.

On the other hand, the large diversity and inconsistency of legal protection, regulatory systems and government support policies across different Chinese regions and industries[14] determine different levels of legal protection that force firms to rely on interpersonal relationships (*guanxi*) to build trust and to overcome market and state failures (Cai et al., 2010).

As discussed in the previous sections, several authors have conjecture that given the institutional bias to favour large state-owned enterprises (SOEs) international expansion and the domestic regulative discrimination and scarcity of resources that face SMEs, many new ventures may decide to do business abroad where they find more-friendly institutional settings and in so doing, escape from their home market and the

[13] As pointed out by Zhu et al (2011) , Chinese SMEs find regulatory obstacles for the establishment, approval and registration of companies and find bankruptcy proceedings very intricate, time-consuming, and expensive.

[14] According to Gao (2008) due to the existence of different political and economic priorities there is inconsistency between the local and central government in regard to the interpretation and application of laws and regulations.

misalignment between firm needs and home country institutional condition (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews, 2006; Yamakawa et al., 2008). Two additional hypotheses can be then formulated:

H4: Chinese SMEs not receiving appropriate government assistance are more likely to internationalize their business activities.

H5: Chinese SMEs perceiving adverse regulatory and inconsistent legal frameworks are more likely to internationalize their business activities.

Summing up, Figure 1 presents a theoretical framework illustrating the interaction among diverse institutional factors and how they constrain the outcome of internationalization Chinese SMEs.

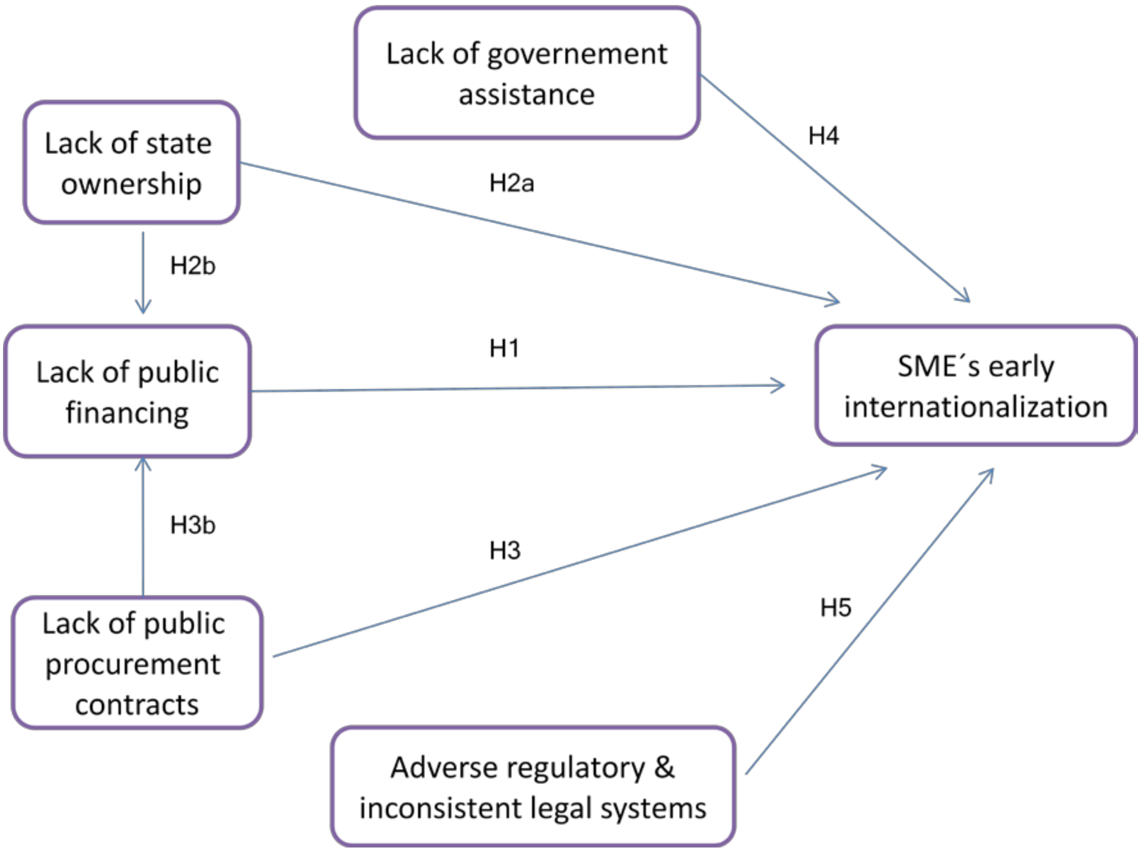

Figure 1 – Institutional determinants of Chinese SMEs international expansion

SAMPLE, DEFINITIONS AND METHODOLOGY

The data was collected through a survey applied to a sample of 137 senior managers and directors of SMEs in Jiangsu Province[15] (data from only 134 questionnaires were used as the replies from the other three were not complete) gathering information about the companies along with data on managers' perception using 5-Point Likert-type scales. Participants operate within similar idiosyncratic characteristics (managerial, organizational, and environmental) making the responses operative (Barret & Wilkinson, 1985) and, as a consequence, a similar contextual view of the challenges faced by their firms was obtained.

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

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

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

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

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

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

Table 2: Definition of Small and Medium-Sized Enterprises

	Employees	Sales	Total Assets
Industry	2,000	3,000	4,000
Construction	3,000	3,000	4,000
Wholesale	200	3,000	
Retail	500	1,000	
Transportation	3,000	3,000	
Postal Service	1,000	3,000	
Accommodation & Restaurant	800	3,000	

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

Table 3: Definition of Variables

Scale Variables Using a 5-Point Likert-Type Scale			
Finance	The company does not have access to the necessary financial resources to fund an export-oriented plan	Payment	Payment collections make export activities more difficult
Distribution	The company finds the distribution channels complex to serve international markets	Assistance	The government does not offer adequate assistance and incentives to carry out export activities
DistAccess	It is complex and costly to access the distribution channels to export the company's products	DomRegulations	The regulations in place make it more difficult to capitalise on opportunities in international markets
Transport	The company considers that the transport and insurance costs related to exports are excessive	EconEnvironment	The deterioration of the countries' economic environment is an additional barrier to exports
		ExchRate	Exchange rate variations represent an important risk for the company's exports
Ordinal Variables			
Personal	Own Savings, Family, Second Mortgage, Credit Card, Loans from Friends, Inheritance, and Pension	Industry	Manufacture, Hotel/Rest, Retailer, Wholesaler, Professional Ss, IT, Construction, Transportation, Real estate, Finance/insurance, Health/Education/Social SS, Others.
State	Overdrafts, Subsidies, Leasing, Loans from Banks, and Subsidised Loans.	Private	Venture Capital, Suppliers, Other Business, Previous Years' Profits, Private Investors, and Depreciation.
Family	% of the company owned by the company.	FinancialInstitutions	% of the company owned by financial institutions.
SpecialPartnerships	% of the company owned by other partners, including JVs, OEM, and other international partners.	Wholesale	% of the company's sales to Wholesalers.
Manufacture	% of the company's sales to Manufacturing companies	NoManufacture	% of the company's sales to Non Manufacturing companies.
LocalGov	% of the company's sales to the Local Government.	NatGov	% of the company's sales to the National Government.
Retail	% of the company's sales to Retailers.	Others	% of the company's sales to Other customers.

Limited access to financial resources (H1)

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

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

Inefficiencies in logistics and distribution (H2)

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

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

Liability of Foreignness (H3)

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

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

Appropriate government assistance (H4)

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

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

Adverse regulatory frameworks (H5)

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

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

State Participation (H6)

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

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

Public Procurement (H7)

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

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

Robustness Checks

The models were checked for regression assumptions. The first check was specification, the omission or inclusion of irrelevant variables and the selection of an incorrect functional form; all the variables in the models are based on the review of the relevant literature that frames this research. This process was carried out to test the robustness of the model, to avoid losses in the accuracy of the relevant coefficients' estimates, and to avoid a biased coefficient by estimating a linear function when the relationship between variables was nonlinear (Schroeder, Sjoquist, & Stephan, 1986). Secondly, different measures were put in place to avoid measurement errors, such as back translations and pilot testing of the questionnaire, data collected in similar contexts (as explained above) and the use of reliable sources to obtain second-hand data. Thirdly, t-statistics were adjusted by a heteroskedasticity correction in the regressions (White, 1980)[16] to test if error terms depend on factors included in the analysis. Finally, autocorrelation was checked by calculating the Durbin-Watson coefficient, and multicollinearity was tested

[16] White proposed to analyse the R^2 of a regression equation that includes the squared residuals from a regression model with the cross-product of the regressors and squared regressors.

through an analysis of the correlation coefficients between the variables in the model and the calculation of the Variance Inflation Factor (VIF).

RESULTS

Tables 4, 5, 6, 7, 8, 9 and 10 present the correlations matrices for the seven models respectively. Tables 4, 9 and 10 present the Pearson's ρ coefficient and Tables 5, 6, 7 and 8 show the Kendall's τ coefficient as the equi-distance in the Likert scales cannot be justified. As can be seen, in general, there are no signs of large correlation between the variables; the very few that show a relatively large correlation are, to a certain extent, expected owing to the apparent closeness of the concepts measured and the nature of the variables. The Durbin Watson coefficients of the different models do not show autocorrelation[17]. The VIFs in Table 10 present potential signs of multicollinearity; for this reason *Retail* was drop from the analysis, the subsequent matrix shows no signs of multicollinearity. In summary, all the original variables (with the exception of *Retail* in H7 due to the high VIF) were kept in the models as it was considered that, even factoring in the closeness of the concepts, the variables do not depart from their independence mainly owing to the different contexts and purposes of the original data.

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

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

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

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

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

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

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

Table 6: Correlation Matrix for the Liability of Foreignness Model - Kendall's τ Coefficient

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Table 11: Results from Regressions

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

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

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

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

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

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

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

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

DISCUSSION AND CONCLUSIONS

In this paper we have studied how the perception of several institutional factors such as state ownership, access to financing and regulatory and legal frameworks affect the internationalization of Chinese SMEs. The data analyses confirm that there is a statistically significant relationship between restricted access to financial resources and internationalization. In effect, as has been argued previously by several authors (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Mathews, 2006; Sutherland & Ning, 2011) for Chinese MNCs and also for new ventures (Yamakawa et al., 2008), Chinese latecomer SMEs from Jiangsu tend to internationalize their business activities in order to overcome the competitive disadvantages associated with limited access to financial resources in the home markets. Cardoza and Fornes (2009) also found that restricted access to finance is not a barrier to the internationalization of SMEs from China's Ningxia Hui Autonomous Region.

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

Contrary to what was expected, the empirical evidence does not show a relation between: a- the government assistance; b- the domestic regulation in place; c- the state participation in the firms’ capital; d- the economic environment, and e- procurement contracts, and the internationalization outcomes of Jiangsu SMEs. Similar findings were presented by Ge and Ding (2008) in their analysis of Galanz. In effect, the lack of appropriate government assistance and the regulation frameworks seem not to affect the process of internationalization of firms regardless of the type of industry and years since start-up. Similarly, SMEs with state participation in their capital and benefiting from procurement contracts do not show any propensity to internationalize either. Neither did SMEs from Ningxia show any relation between state ownership and internationalization (Cardoza & Fornes, 2009).

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

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

Finally, the results presented in this work aim to contribute to the literature on the international expansion of companies, especially SMEs from emerging economies and specifically from China. In this context, from what has been found in this work, it seems that the existing literature based on Western SMEs does not seem to accommodate adequately the specificity of the Chinese SMEs' outward internationalisation process (a similar conclusion has been reached in previous papers (Boisot & Meyer, 2008; Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Child & Rodrigues, 2005; Child & Tse, 2001; Rui & Yip, 2008; Yamakawa et al., 2008). Nevertheless, although the research approach adopted in this paper allows for the validation of existing western theories in a transition economy, it is important to mention that its application to a different cultural, social and political reality, as argue by Tsui (2009) necessarily incurs in oversimplification and can be unde-contextualized.

Summing up, in order to accelerate the transition from central planned to market economy, local and central governments in China should deepen the market reforms and adopt new institutional settings with clear regulatory and legal frameworks that replace the state direct intervention in the markets and progressively eliminate the existing distortions and level the playing field between state and private companies. Also, supporting government policies to SMEs financing are required in order to provide a more enabling environment to the SME´s expansion. In particular, it is required a better credit guarantee system for SMEs Loans. Finally, as suggested by Tsui (2009) future studies on internationalization of Chinese companies should make efforts to better contextualize the existing theories in order better understand the relationship between culture, social and economic development.

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As According to Wang et al (2007) at the end of 2003, SOEs still represented 76% of Chinese listed firms, and for 72% of the SOEs, the largest shareholder (a government entity) owned more than 20% of the firm's stock.