Motives for the Internationalization of Private Small and Medium-sized Enterprises in Guangdong China

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Statement of Original Authorship

I, Wong Kwan hereby certify that the work embodied in this dissertation project is the result of original research and has not been submitted for a university degree or other similar qualification to any other University or Institution.

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Definitions

The major definitions as follows are adopted in this research.

In China, **Small and Medium-Sized Enterprises (SMEs)** are defined differently with up to 450 and 3,000 employees compared with definition of 99 and 499 employees by Organization for Economic Co-operation and Development (OECD), 1998 (cited in Li & Ogunmokun, 2003). In this research the Chinese definition is adopted.

**Internationalization** is defined as the process by which firms both increase their awareness of the direct and indirect influence of international transaction on their future, and establish and conduct transactions with other countries (Beamish, 1990, p.77).

**Motives** are defined as having a connotation of action - people are seen as being motivated to do something usually to achieve a goal that is satisfaction of the need through behavior (Baker, 2001).
Socialist Market-Oriented Economy is defined as the economy under a socialist system, in which the allocation of resources is basically adjusted through the market mechanism. The market mechanism and socialist system are interacted and correlated (Li, 2004, p.93).
Abbreviations

ADKAR – Awareness, Desire, Knowledge, Ability, Reinforcement

CEE – Central and Eastern Europe

CEO – Chief Executive Officer

CEOs – Chief Executive Officers

COEs – Collection-owned Enterprises

FDI – Foreign Direct Investment

HKSAR – Hong Kong Special Administration Region

INV – International New Venture

IO – Industrial Organization-based Theory

LCAG – The Learned, Christensen, Andrews and Guth Framework

LPEs – Large Private Enterprises

MNCs – Multinational Companies

MSAR – Macau Special Administration Region

NIS – Newly Independent States

NSOEs – Non-state Owned Enterprises

OBE – Ownership-based Entry

OECD – Organization for Economic Co-operation and Development
OEM - Original equipment manufacturing

OLI – Ownership, Location and Internalization

PEs – Private Enterprises

PSMEs – Private Small and Medium-sized Enterprises

RBV – Resource-based View

RMB – Ren Min Bi (Chinese currency)

SAIC- The Shanghai Automotive Industry Corporation

SBU - Strategic Business Units

SCP – Structure-Conduct-Performance

SMEs – Small and Medium-sized Enterprises

SOEs – State-owned Enterprises

TCE – Transaction Cost Entry

TVW - Township and village enterprise

WTO – The World Trade Organization
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Synopsis

Chinese private small and medium-sized enterprises (PSMEs) have become one of the important drivers of the Chinese economy. The purpose of this thesis is to explore the motives for the internationalization of PSMEs in Guangdong China to understand and explain why and how these PSMEs were internationalized to adapt to change in the current political and economic environments after more than 20 years of reform in China especially after China entered the WTO. The literatures concerning transition economies, the history of evolution of Chinese private economy, China’s socialist market-oriented economy, and theories of international business, internationalization and entrepreneurship are reviewed to describe a theoretical framework of the motives for internationalization of SMEs. The literature review lays a foundation for understanding and explaining how the motives for internationalization were created and what influenced the decision-making of the leaders of SMEs in terms of strategy and entry mode in the process of internationalization. Based on this foundation, the research questions were developed and around these questions a qualitative research methodology was adopted. Four interviews with CEOs of the selected companies by judgment sampling were conducted to collect data. The conclusion of the research is based on the findings from the interviews in the context of the extant theories of
internationalization. The key contribution of this thesis is that through exploring the motives of Guangdong PSMEs to internationalize, it will narrow the identified gaps and will arouse the interest of the academic and business researchers to further study Chinese PSMEs and to build and enrich the theories of internationalization in the context of China. This thesis also attempted to build a practical business model indicating how the motives influenced and reinforced the action of internationalization of Guangdong PSMEs in managing organizational change to adapt to the ever changing business environment under the current political and economic system of China. It is also suggested that the findings of the thesis assist the foreign managers to understand the behavior of the Chinese counterparties in process of internationalization.
Chapter One

Introduction

1.1 Background of the Research

1.2 Research Questions, Propositions and Contributions

1.3 Justification of the Research

1.4 Research Methodology

1.5 Method of Analysis

1.6 Outline of the Thesis

1.7 Limitations of the Thesis

1.8 Conclusion
1.1 Background of the Research

After more than 20 years of reform since 1978, Chinese private enterprises (PEs) have become one of the driving forces and the most dynamic sector of the rapidly changing and developing Chinese economy (Brandt and Li, 2003). Among the Chinese private sector small and medium-sized enterprises are one of the most active and strong drivers of economic growth especially after China entered the World Trade Organization (WTO) in November 2001 (Wu, 2003, p.304), competing with state-owned enterprises (SOEs), multinational companies (MNCs), collective-owned enterprises (COEs), large private enterprises (LPEs) and among themselves in domestic and overseas markets.

The Chinese economy has experienced a process of development from ‘isolation’ (1949-1971) to ‘import substitution’ (1972-1978) and from the combination of ‘import substitution’ and ‘export oriented’ (1978-2001) to ‘open-economy’ (2001-now) (Wu, 2003, pp. 274-283). The ‘Import substitution’ strategy is that by identifying the products which have big domestic market demand according to the statistics of annual import and by over-evaluating the local currency and setting-up tariff or non-tariff barriers, the government helps local investors make use of the overseas
technology or the technology, management skill and knowledge and capital provided by foreign investors to make products so that to lower the entrepreneurial costs and make profits (Wu, 2003, p.277). The ‘Export-oriented’ strategy is that under the protection by the government, whereby the country encourages those products with comparative advantages to export (Wu, 2003, p.278). From this background the barriers of international trade and foreign direct investment (FDI) have been dismantled under the WTO regulations as committed to by the Chinese government when it gained access to the WTO. This dramatic change in China enables foreign enterprises to access the Chinese market directly, competing with the local enterprises including SOEs, COEs and PEs. Increasingly Chinese private small and medium-sized enterprises (PSMEs) have become ‘internationalized’ to meet the new challenge of adapting to the change of political and economic environments after China entered the WTO. This new phenomenon has drawn much attention and has aroused the interest of many business researchers seeking to study the effectiveness of Chinese PSMEs operating in this new environment.

Although there is a vast literature about internationalization for western small and medium-sized enterprises (SMEs) (Calof, 1993; Cafferata & Mensi, 1995; Heli, Reijo & Lawrene, 1996; Reuber & Fischer, 1997; Dave & Shiv, 1997; Coviello & McAuley,
The extant research on this topic for Chinese PSMEs is very limited. This thesis attempts to study the motives for internationalization of PSMEs in Guangdong, China to explore why and how they are internationalized under the current political and economic environments and through this study to contribute findings that may confirm the extant theories of internationalization as well as build a tailored theory for Chinese and foreign managers to understand how internationalization motives influence the strategy-making and the choice of entry mode to the international markets for Guangdong PSMEs. Furthermore, from the managerial perspective this research aims to provide findings that are valuable to Chinese practicing managers to understand how Guangdong PSMEs survive competition and achieve growth and development and will also assist their peers in western countries to understand the behavior of their Chinese counterparts. Additionally this research may be regarded as an entry point for further academic and business studies to build and enrich the managerial and strategic theories of internationalization of Chinese PSMEs for
Chinese managers.

The Research Location

Guangdong is one of the earliest open provinces for the Chinese economy since 1978. It is geographically near to Hong Kong and Macao which were the gateways to the world when China opened its doors and played an important role in the development of the Chinese economy. Guangdong PSMEs learned from their peers in Hong Kong and Macao, and are the pioneers of the private economy in China (You, 2006). Choosing Guangdong PSMEs as the sample population in this research is for the purpose of being geographically convenient and because this cohort represents the PSMEs in the affluent eastern and coastal areas in China albeit the vast population of PSMEs in China spreading in different areas with different features and with differing living standards.

This chapter is organized into eight sections. Section 1.2 briefly discusses the research issues which will be further discussed in Chapter Two. Section 1.3 justifies the research questions in which the relative literature will be briefly reviewed to explain the importance of this research. Section 1.4 will justify the methodology employed in this research while section 1.5 explains the method of analysis. Section
1.6 provides an outline of the thesis. Finally sections 1.7 and 1.8 discuss the limitation of the research and conclude this chapter.

1.2 Research Questions, Propositions and Contributions

There are six questions which are to be investigated and answered in this research as follows:

Research question 1

What are the motives for private small and medium-sized enterprises (PSMEs) in Guangdong, China to internationalize?

‘Internationalization’ is defined by Beamish (1990) as indicated in Definition’s section and is the operative definition adopted in this research. Specifically, internationalization of Guangdong PSMEs is the process where firms seek international markets for export of their commodities, products and services, establish the relationship with overseas partners for cooperation and search for opportunities in the international market for direct investment in manufacturing, processing, production, real estates and stocks by effectively and efficiently using firms’ resources.
and foreign endowments and factors.

The proposition in this question is aimed at ascertaining what factors lead to the motives for internationalization of Guangdong PSMEs under the current political and economic environments in China and how these motives cause internationalization. This research proposition is the main goal for this thesis to compare with the existing theories of the motives for internationalization for SMEs including the strategy to manage change and entry mode into the international markets and to draw a suitable model to explain what factors create the motives and how they influence the decision-making for internationalization.

Research question 2

Can western internationalization theories for SMEs adequately explain the process of internationalization of Guangdong PSMEs?

This question is designed to explore whether widely used western theories of internationalization for SMEs can adequately explain the behavior of internationalization of Guangdong PSMEs and to address the application of these theories to the Chinese context. If the answer to this is yes, the thesis will
investigate how these theories influence the making of international decisions by the
leaders of Guangdong PSMEs.

Research question 3

What are the characteristics of the internationalization of Guangdong PSMEs in
the context of China as a socialist market-oriented economy?

The proposition in this question indicates that the characteristics of China’s Socialist
Market-oriented Economy which will be discussed in section 2.4, Chapter Two show
the differences between the western market-based economy and the Chinese socialist
economy. These differences between the economic systems will greatly affect the
business environment of Guangdong PSMEs that will influence the process of
internationalization of them as well. This question is designed to seek answers as to
the characteristics of the internationalization of Guangdong PSMEs and how they will
deviate from the way doing business with international rules of games in terms of the
international business laws, trading and industry practices and conventions.

Research question 4

What are the obstacles to the internationalization of Guangdong PSMEs?
This question is aimed at identifying the obstacles to and difficulties in the process of internationalization of Guangdong PSMEs and ascertains whether these obstacles and difficulties can be overcome with the continuous improvement in the rapidly changing and developing economy of China.

Research question 5

How do the motives for internationalization influence the decision-making in strategy, entry mode and performance of Guangdong PSMEs?

The proposition in this question is aimed at explaining how the motives to internationalize are created and reinforced by some factors in and outside of the enterprise which influence the strategy-making and selection of entry modes into the international market as well as on the evaluation of the strategic performance of the firm. Entry modes as defined in subsection 2.5.1 are normally referred to exporting, setting up of foreign sales subsidiary, foreign direct investment (FDI) and setting up of network of subsidiaries.

Research question 6
How do the objectives of PSMEs vary as the initial goals of internationalization are achieved?

The proposition in this question is designed to obtain the opinion of Chinese managers in a proactive nature whether the goals of internationalization of the enterprises will change after the initial goals of it are achieved especially when the enterprise grows and the profitability and business opportunities in the domestic market are better and more plentiful than those in the international markets as China is regarded as one of the biggest potential market in the world.

1.3 Justification of the Research

PSMEs are a new emerging driver of the Chinese economy after 1978. The status and important function of the private sector was only affirmed positively in 2003 (Hutzler, 2003, p.19) as it will be discussed in section 2.3, Chapter Two that the private sector in China during 1949 – 1978 was regarded as the capitalists who exploited workers and was not allowed to exist under the socialist system. PSMEs were born, grew and developed in a certain historical and political background. It is important to understand this background to realize the difficulties of the private sector
when it appeared again in China after 1978 and how PSMEs overcame these difficulties to become one of the important driving forces to Chinese economy to date.

This research will review the literature of the transition economy in newly emerging countries to discuss the different strategies and policies for reform among most Central and Eastern Europe (CEE), Newly Independent States (NIS) countries and Asian countries such as China and Vietnam. The literature of the historical development of Chinese private enterprises (PEs) will be reviewed to understand how Chinese PEs existed, were reformed, survived, grew and developed in different periods. The definition and the characteristics of China’s socialist market-oriented economy will be discussed in the literature review to understand the differences between the western market-based economy and the Chinese socialist economy. The theories of international business will be reviewed to understand the international rules of games and managing experiences and knowledge. The research problem indicates that the internationalization of SMEs and entrepreneurship and international new venture (INV) theories are the important theories to be reviewed and discussed in order to understand how they can apply to the context of China. The literature of Chinese private entrepreneurship will be reviewed to realize the real situation how it evolves.
The literature review indicates that although there is a large published research on the large private enterprises in China such as TCL, the TV manufacturer (Chen, Zao & Zao, 2004), Huawei, telecommunication equipment provider (Chen & Liu, 2004; Chen, et al., 2004; Jiang, 2003), Hair, white home appliances manufacturer (Hu, 2003; Jiang, 2003; Zou & Wang, 2004; Chen, et al., 2004) and Lenovo, the biggest PC maker (Chen, et al., 2004; Jiang, 2003), there is only a very small literature on the internationalization of Chinese PSMEs. These gaps therefore need to be narrowed. Through studying the motives for internationalization of Guangdong PSMEs which is taken as a breaking point to this area, it will arouse the interests of academic and business researchers to conduct more studies in-depth to enrich the theory of internationalization in the context of China. At the same time a practical business model to indicate how the motives for internationalization are created, reinforced and able to influence the action of internationalization of Guangdong PSMEs will help foreign managers to understand the behavior of the Chinese when they do business or cooperate with them in international business.

1.4 Research Methodology
The main task in this research is to explore and describe the motives of the decision-makers of Guangdong PSMEs for internationalization intending to build the theories of internationalization for SMEs in Chinese context. It is appropriate to employ a qualitative approach in this research and the reasons for this decision are more fully explicated in Chapter Three (Methodology).

All PSMEs registered with the Administration of Industry and Commerce, Guangdong, China are chosen as the population. Four firms were selected from this population through ‘judgment sampling’ which is the method of non-probability sampling to choose the subjects that are in the best position to provide the information required (Cavana, Delahaye & Sekaran, 2001). Because the generalizability of the results to the whole business sector is not as important as the findings in the motives behind the phenomenon of internationalization of Guangdong PSMEs, non-probability sampling is appropriate in this research. Four respondents from each of the four study companies were recruited giving a total of 16 interviewees. Finally a Chief Executive Officer (CEO) from each study company was recruited giving a total of four CEO interviewees.

Four in-depth interviews were conducted with the CEOs of the study companies in a
face to face manner using a semi-structured interview protocol. Each interview took about one and a half hours at the interviewee’s office in Guangdong, China in Chinese language which will be further discussed in Chapter Three.

1.5 Method of Analysis

The approach of overlapping data analysis was adopted for data collection in this research to select categories or dimensions while looking for within-group similarities and inter-group differences (Eisenhardt, 1989). Content analysis was used as the major analysis instrument in this research to identify, code and categorize the primary patterns in the data (Patton, 1990) to answer the research questions.

1.6 Outline of the Thesis

The structure of this thesis is organized as per the outline developed by Perry (1998) and presented in five chapters.

Chapter One introduces the background of the research and outlines of the research questions, proposition and justification of the research.
Chapter Two examines the transition economy in newly emerging countries to understand the macro political and economic environments under which the different types of reform have taken place. The review in this field will help understand how the private economy existed, survived and developed in these former socialist blocs under the command economy and the different characteristics of the reforms undertaken by most Central and Eastern Europe (CEE), Newly Independent States (NIS) countries and China and Vietnam. The review of the historical development of Chinese PSMEs will help understand the emergence and development of the Chinese private economy in a different period. The discussion of China’s socialist market-oriented economy will help realize the characteristics of this system and the differences from the western market-based economy which influence the performance and development of Chinese private enterprises especially those PSMEs. The theories of international business, theoretical framework of internationalization of SMEs and entrepreneurship including international new venture (INV) and Chinese private entrepreneurship are reviewed in this chapter. The research gaps are found after the literature review and six research questions as indicated in Section 1.2 are developed. The answers to these questions will make some contribution to narrowing the gaps and inviting more research in this field.
Chapter Three evaluates the efficiency and effectiveness of the methodology for this research. After examination of the research philosophy and paradigms, a qualitative research method is adopted because it is considered most appropriate in this study. Face to face in-depth interviews in semi-structured protocol are conducted with the CEOs of four enterprises selected by the non-probability sampling from a population of the PSMEs with business registration in Guangdong, China. Overlapping data analysis approach is used to collect the data in the interviews and to obtain the findings. The content analysis is adopted as the major instrument to examine and analyze the findings and draw the conclusions. The limitation of the research method and ethical issues are also discussed in this chapter.

Chapter Four presents and briefly analyzes the results obtained from the transcripts of the four interviews with the CEOs. The data of the four interviews are analyzed and divided into several categories and common themes under each category. The results from the interview transcripts are presented in the form of categories and themes relating to the research questions for further analysis in Chapter Five.

Chapter Five provides the conclusion to this research. It examines the key findings
drawn from the themes based on the interview transcripts presented in Chapter Four and the existing theories and answers the six research questions. It discusses the implications of the research for theory and the limitation of the theory, to the contribution to the knowledge. Some recommendations for internationalization of Guangdong PSMEs are made in this chapter. An inductive conclusion is drawn at the end of this thesis.

1.7 Limitations of the Thesis

As the explicit boundary of the research questions is described in Section 1.2, the motives for internationalization of Guangdong PSMEs under the current political and economic environments are to be explored. Because the levels of development in political and economic environments are different among the provinces and regions in China, these motives will only reflect the behavior of the managers of PSMEs in Guangdong province at the level of the development in this province and will not be generalized to the managers of PSMEs in other provinces or autonomous regions including the Hong Kong Special Administration Region (HKSAR) and the Macau Special Administration Region (MSAR) in China at different development levels. Four interviews are limited to be conducted with the CEOs of the PSMEs selected
through non-probability sampling from a population of PSMEs registered with the Administration of Industry and Commerce, Guangdong, China. Generalizability of the results of research is limited to the whole population if non-probability sampling is used to select the subjects. However as this qualitative research is to explore why the Guangdong PSMEs to internationalize, generalizability is not as important as the motives for internationalization that are to be investigated.

As English is not the first language for the common researcher and the interviewees and the interviews are conducted in Chinese in this research, it is likely that some mistakes in translation from Chinese to English or English to Chinese are made. To ensure the reliability and validity of the data collected from the interviews the open-ended and the content questions are designed to cross check the accuracy of the meanings and the audio-taping is used to complement the note-taking. Back translation as suggested by (Brislin, 1970) is used in translating the open-ended and content questions and the data from English to Chinese and from Chinese to English to make sure that all items in the questions and data are meaningful and correct in the Chinese and English contexts.

The aim of this research is to explore the motives as to why Guangdong PSMEs go
international so how Guangdong PSMEs internationalize is in a secondary issue and it needs further research in-depth in future. Through this research it is hoped that more and more studies in Chinese PSMEs will be conducted in stream to enrich the theories of internationalization of SMEs under different social, political and economic systems.

1.8 Conclusion

This chapter has laid the foundation for the thesis. It introduced the research issues and the research questions and justified the need of this research. The research methodology and the analysis method were briefly described and justified. The thesis was outlined and limitations of the thesis were indicated. Based on this foundation, this thesis will proceed with a detailed description of the research in the following chapters.
Chapter Two

Literature Review

2.1 Introduction

2.2 Transition Economy in Newly Emerging Countries

2.3 Historical Development of Chinese Private Enterprises

2.4 China’s Socialist Market-oriented Economy

2.5 International Business

2.6 The Theoretical Framework of Internationalization of the Small and Medium-sized Enterprises

2.7 Entrepreneurship

2.8 Conclusion
2.1 Introduction

Chinese private enterprises (PEs) are the newly emerging economic force and considered the most dynamic organizations of the Chinese economy since the early 1990s (Brandt & Li, 2003). From 1992 to 2002, the registered number of PEs has increased from 140,000 to 2,435,300 which is 17.4 times the registered number in 1992 with an average growth rate 33.10% per year (Statistics of Industry and Commerce of China, 2002, cited in Lan & Hu, 2004). The registered capital of PEs from 1992 to 2002 has increased from RMB2.21 billion to RMB2,475.622 billion which is 112 times of that of 1992 and indicates an average growth rate 60.30% per year (Statistics of Industry and Commerce of China, 2002, cited in Lan & Hu, 2004, pp.3-7).

In 2003, the Chinese Communist Party elite endorsed a constitutional amendment that “property rights are a core and important content of ownership” (Hutzler, 2003, p.19) which was said to legitimize and encourage PEs. Among the broad cohort of Chinese PEs, the small and medium-sized enterprises are one of the most active and dynamic drivers of Chinese economy. However, Chinese private small and medium-sized enterprises (PSMEs) are facing enormous political and economic
pressures and competition from state-owned enterprises (SOEs), collective-owned enterprises (COEs) and Multinational Corporations (MNCs) as well as the competition among themselves.

Increasingly Chinese PSMEs are being engaged in international business especially after China entered the World Trade Organization (WTO) in November 2001 (Wu, 2003, p.304). In order to study the motives for the internationalization of Chinese PSMEs, the literature is reviewed from the perspectives of the transition economy, historical, political and economic environments for Chinese PSMEs, international business, the internationalization theories for SMEs and entrepreneurship.

This chapter is organized into eight sections. Section 2.2 examines the transition economy literature in newly emerging market economies to understand the macro political and economic environments in these countries which are undergoing reform. Section 2.3 reviews the history and evolution of Chinese private enterprises to discover how the Chinese private economy existed, survived, diminished, emerged, developed and grew under the political and economic environments in different phases after 1949. Section 2.4 examines the definition and characteristic of China’s Socialist Market-oriented Economy. Section 2.5 examines international business
literature in order to understand the major theories of international business adopted by most of MNCs and big, small and medium-sized enterprises in the world. Section 2.6 specifically examines the research problem theories and motives for internationalization for SMEs in western countries. Section 2.7 discusses the entrepreneurship literature to understand how Chinese PSMEs with the disadvantage and limited support of the government under past and current political and economic environments established their business, survived, developed and grew. The last section 2.8 presents the conclusions and research questions.

Most of the published research on Chinese internationalization focuses on the large Chinese enterprises such as TCL that is one of the biggest TV manufacturers in China (Chen, Zao & Zao, 2004), Huawei, the equipment provider for telecommunications infrastructure (Chen & Liu, 2004; Chen, et al., 2004; Jiang, 2003), Hair, one of the biggest white home appliances manufacturers in China and the world (Hu, 2003; Jiang, 2003; Zou & Wang, 2004; Chen, et al., 2004) and Lenovo (Legend), China’s biggest PC maker (Chen, et al., 2004; Jiang, 2003). The recently research conducted by Child and Rodrigues (2005) examines the patterns of and motives for internationalization of some bigger Chinese firms and indicates that these firms are seeking technological and brand assets to create a competitive position in the global
market. While mainstream theory tends to assume that firms go international to exploit competitive advantages, these Chinese firms are making investments in order to address competitive disadvantages. They adopt ‘inward’ internationalization by means of original equipment manufacturing (OEM) with Galanz as an example, which has become the world’s largest manufacturer of microwave ovens and joint venture partnership with Huawei, Ningbo Bird, a leading mobile phone producer and The Shanghai Automotive Industry Corporation (SAIC), the biggest car-maker in China as examples. They are also engaging in ‘outward’ internationalization by means of acquisition with the Holly Group which grown from a rural township and village enterprise (TVE) specializes in the production of energy-meter equipment and instruments and SAIC taking over UK’s MG Rover Group and Lenovo buying IBM’s PC division as examples and organic expansion abroad with a pioneer Hair as an example. The research concludes that the Chinese case offers an opportunity to extend present theories in four primary areas concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the government role, the relations between entrepreneurs and institutions and the liability of foreignness (Child & Rodrigues, 2005). Liability of foreignness is defined as ‘the costs of doing business abroad that result in a competitive disadvantage for a multinational enterprise (MNC) subunit’ (Zaheer, 1995, p. 342). The latest study by (Li, 2006) on
patterns of economic internationalization and the strategic options for the internationalization for the Chinese large enterprises finds that entrepot processing as the present mode of internationalization adopted by most Chinese enterprises is a “rootless flower”. The “enclave economy” may bring about a serious dual development situation between the Chinese domestic economy and foreign-founded economy, and will curb to some extent the actual take-off and opportunities to achieve internationalization for Chinese enterprises, thus making them marginalized. The study suggests that Chinese enterprises should take the orientation toward strategic escalation along with internationalization to develop processing trade through transnational enterprises outsourcing and to encourage vigorously internationalization by giving priority to merging and acquiring foreign resources (Li, 2006). By contrast, this research seeks to understand the motives for the PSMEs in Guangdong, China to internationalize. The literature review from the above sections will enable the researcher to understand the internationalization of MNCs and SMEs in the world and apply this to the Chinese context. The practical and theoretical questions arising from the gaps identified in the literature review are identified.

The following section is to review the transition economy in the former socialist bloc of Eastern Europe and China and Vietnam in Asia and to examine how reform in these
countries influenced the development of the private economy.

2.2 Transition Economies in Newly Emerging Countries

Newly emerging countries are defined in this thesis as those in a transition from a command economy to a market-based economy. This section examines the literature which has observed these transitions and draws parallels with the Chinese context. Two distinct paths of reforms and transition have emerged in the past two decades.

Adopted by most Central and Eastern Europe (CEE) and Newly Independent States (NIS) countries, the approach described as “Shock therapy” adopted by Russia aimed to replace central planning with the rudiments of a market economy in a single burst of reform by launching a rapid, all-out program (Adams & Brock, 1993; Lipton & Sachs, 1990; Sachs, 1993). Experience in CEE and the NIS showed that some changes such as central planning being abolished, market liberalization and restriction on private ownership lifted, could indeed happen overnight. However, many other reforms were inherently slow (Peng, 2000).

In the Communist government of China and Vietnam, party hierarchies have survived
largely unchanged while directing market reform. The “gradualist” approach characterized by incremental, partial reforms deepening over time started with localized experiments. First through decollectivization of agriculture and then moving on to open doors to foreign investment, liberalized prices, and phased out central planning (Jefferson & Rawski, 1994; Perkins, 1994). The steps of reform were first taken at the margins and then gradually moved and spread (Naughton, 1994). The privatization in China, Vietnam and some former Soviet Republics was delayed or slow (Walder, 2003). Instead of undertaking massive privatization of SOEs, the state allowed other forms of ownership such as “collective” enterprises, foreign-investment firms and private firms to emerge and develop that enabled entrepreneurship to flourish (Peng, 2000).

In the process of reform in the former Soviet Union and CEE countries, some governments attempted to introduce the private economy without changing the leading status of the state-owned enterprises that were not successful. These countries had to fundamentally change the political system while conducting market reform and privatization of state-owned enterprises (Wu, 2003). Sachs and Woo (1994a cited in Wu, 2003) argued in 1994 that China could successfully introduce the private economy into the system in which the state-owned economy remained in a
leading position because China was still in a less developed period with large human resources available for private enterprises. However, the comparatively advanced former Soviet Union and CEE had no such luxury and had to conduct “Shock therapy”. Xu and Qian (1993 cited in Wu, 2003) argued that the rise of “Township enterprises” which was one of the components of Chinese non-state-owned enterprises was caused by the great difference between the Chinese planning system and the united system of the Soviet Union. The decentralization of power promoted by Mao Ze Dong (the late chairman of China) transformed the Chinese societal structure into an “M” model of an “enterprise” consisting of many “strategic business units” (SBU). The market could develop in and between regions.

To better understand the motives for internationalization of PSMEs, it is necessary to review the evolution of Chinese private enterprises in the following section.

2.3 Historical Development of Chinese Private Enterprises

This section firstly reviews the evolution of Chinese private enterprises in different phases after 1949 and then moves on to defining Chinese private enterprises and discusses how the compromised definition of it is developed under certain
circumstances. The Chinese government’s policy on the status of Chinese private enterprises had a great influence on the private economy and the motives for internationalization of PSMEs as well.

2.3.1 The Evolution of Chinese Private Enterprises

According to Chinese scholars the evolution of Chinese non-state-owned enterprises can be divided into four phases (He, 1995; Li, He & Yu, 1998; Lan & Hu, 2004; Qian, 2004; Wu, 2003) which include: recovery of the national economy (1949-1952), socialist reform period (1953-1956), socialist public ownership period (1958-1978) and opening and reform period (1979 – now).

Recovery of the national economy (1949-1952)

To achieve Mao Ze Dong’s “New Democracy” theory (Mao, 1940 cited in Wu, 2003), after the victory of the revolution, it was proposed that China should first establish a new democratic society and based on this system should build a “new democratic economy”. After establishment of the People’s Republic of China in 1949, the Chinese communist party conducted land reform in the rural areas while in the cities government confiscated the capital and assets of the former National party
government (Guo Ming Dan government) and took over the “imperialistic assets” (foreign-owned capital and assets) in China. The private enterprises especially those “national capitalists” that were categorized as native capitalists in the native industries were protected and allowed to grow. Because the state-owned enterprises were still weak then, the private enterprises could be used as the supplement in the recovery of the Chinese economy. By the end of 1952, the state-owned economy had been raised to be in the leading position while coexisting with the collective, the individual (Geti), the national capitalist and the joint state-private ownership (state capitalism) economies. This was a golden period for the development of the national capitalist economy (private economy) (He, 1995).

Socialist reform period (1953-1956)

With completion of the socialist reforms (land and cooperative) in rural areas and light industry and national capitalism in cities, state-owned enterprises dominated the Chinese economy. The state-owned economy enjoyed an absolute advantage while the non-state owned economy was restrained. The Chinese communist party implemented its policies of using, restraining and reforming national capitalism through its agents to enlarge the scope of processing and placing orders and to establish and control distribution channels and the agency system which collected the
products and commodities produced and made by the non-state-owned enterprises and sold them at the prices stipulated by the government (non-market price) to the designated end-users or buyers. On the other hand, the national capitalist and state capitalism enterprises conducted the allocation of profit. The profit was shared among the State through collecting profit tax; the Enterprise through establishing enterprise fund; the Employees by setting up employees’ welfare funds and the profit (including dividend and bonus) belonging to the Capitalist (Owner of the enterprise) by approximately one fourth (1/4) each, that was described as “shared by four horses” (He, 1995). The workers’ union and employee-owner consulting commission were established to collaborate and supervise the management of national capital. During the socialist reform in cities, although the ownership of the enterprises nominally belonged to the Capitalist, the employees through employee-owner consulting commission participated in the management of the enterprises to expedite transition from private ownership to state capitalism or public ownership (He, 1995; Wu, 2003). The Chinese communist party carried out a policy of redemption to further transform the national capitalist enterprises. With the rise of cooperative transformation of agriculture and the joint state-private ownership in all industries as the party’s policy was carried out widely in China, the socialist economic system had pervaded all the non-state-owned enterprises. The state through its agents not only controlled the
supply of raw materials and sale of products but also merged the production process
of the non-state-owned enterprises into the state economic plan. By the end of 1956,
the joint state-private ownership in all industries was regarded as the high point of
state capitalism (Lin & Du, 1997).

Socialist public ownership period (1958 – 1978)

The Chinese communist party strongly implemented its policy of empowering the
state-owned economy while weakening the collective economy and trying to
eliminate the individual (Geti) and private economy with a view to establishing a
single socialist public ownership economy based on the socialist theory from Lenin
and Stalin of the Soviet Union. The underlying theory stated that the socialist
economy was only based on the state ownership (Wu, 2003, pp. 165-168). The
single public ownership policy totally denied the existence of the market-based
economy, strangled the private sector and prevented the enhancement of productivity.

According to the National Bureau of Statistics of China, 1996 (cited in Li, He & Yau,
1998, p.180; cited in Wu, 2003, p.61) the percentage of total industry output made by
state-owned enterprises increased to 77.63% in 1978 with 78.32% of total employees
in China as the employment in state-owned enterprises. During 1966-1978,
employment in the individual households and private economy was decreasing by
average 7.53% annually while the employment in the collective economy was only increasing by average 5.19% annually (National Bureau of Statistics of China, 1993 cited in Li, 2002, p.18). During this period, the Chinese economy almost collapsed especially by the end of the 1970’s and the collective economy was regarded as the “tail of capitalism” which should be cut off. The private sector was almost eliminated and public ownership became the only form of ownership especially in the 10 years of the “Great Cultural Revolution” (Wu, 2003).

Opening and reform period (1979 – now)

Introducing the market mechanism into the rigid Chinese political and economic system was an enormous difficulty but a fundamental task. In the early stage of economic reform any theory or suggestion which might shake the dominating position of the state-owned economy would suffer from strong objections from those who held on to traditional ideology (Wu, 2003). The major non-state-owned enterprises were collective enterprises then. The private business mainly including collective enterprises and individual households (Geti Hu) was originally planned by the government as supplementary to the state sector and thus played a marginal role in the socialist economy. The government’s initial objectives for encouraging the development of the private sector were limited to solving the serious unemployment
problem created by the return of the intellectuals to the cities from rural areas, and to relieving the chronic shortage of goods and services in cities (Chow & Tsang, 1994; Tsang, 1994a). However, the private sector had been booming and the capability of individual households was found insufficient to make use of the discovered market opportunities. In the early 1980s, employing workers was regarded as the “exploitation of workers” which was strictly prohibited. It was therefore necessary to break this ‘forbidden zone’ before the space for the development of the private economy could be expanded. The calculation of the number of workers was adopted by some communist elite to decide whether an enterprise was an individual household (Geti Hu) or a private enterprise. According to Karl Max’s “Das Kapital” in the context of England at that time, those who employed less than 8 workers were not considered “Capitalists” (Max, 1867, cited in Wu, 2003, p.169). At the early stage of reform, employing more than 8 workers was regarded as “Capitalism” and carried the stigma of “exploiting workers”. It was a very significant and great breakthrough in the evolution of the private economy when the Chinese government allowed an individual household (Geti Hu) to employ more than 8 workers to work in a business organization which meant that the “Capitalist” (the private enterprise) was allowed to exist. The “Provisional Regulation for Private Enterprises of the People’s Republic of China” which will be discussed in the following sub-section was thus made and
issued (Zhang & Ming, 1998; Wu, 2003). This interesting but significant calculation of employed workers changed the status quo and enabled the private sector to further develop legally.

With many disputes over the new emerging private economy, the central committee of the Chinese communist party decided not to discuss definitions of “Capitalist” or “Socialist” for the private economy for three years in order to improve the poor economic environment (Wu, 2003). With the increase and development of township enterprises, further reform of rural areas such as “independent farming” and “contract land”, foreign direct investment in China and the legitimacy of the private economy, the elites in the 13th Assembly of Chinese Communist Party, 1987 passed a resolution to encourage the development of individual and private economy (Wu, 2003). In April 1988, the first amendment to the constitution affirmed that “the state allows the private economy to exist and grow within the stipulation of the laws. The private economy is the supplement to the socialist public-ownership. The state protects the legal rights and interests of the private economy and will guide, supervise and manage the private economy” (Wu, 2003, p.171). On 14th March 2004 the second amendment to the constitution was made by the deputies in the 2nd session of the 10th People’s Congress that declared that “the state protects the legal rights and interests of
individual, private and other non-state-owned economies. The State encourages, supports and guides the development of non-state-owned economies and will supervise and manage the non-state-owned economies according to the laws” (Qian, 2004, p.3). Thus the Chinese economy has moved into a new era of the so called “socialist market-oriented economy” the definition of which is to be discussed in the following section. In this new political and economic environment the private economy again will have a golden period to develop aggressively.

From this brief history, it is evident that a long journey was undertaken before the Chinese communist party acknowledged the important function of the private economy in developing the state economy. The history indicates the difficulties for Chinese private enterprises to develop and to rapidly become one of the driving forces of the Chinese expanding economy today. In the development of private enterprises in the past and now, the policy of the Chinese communist party always has been a fundamental influence. The political and economic environments significantly affected the internationalization of Chinese PSMEs which is one of the issues this research attempts to investigate.

2.3.2 Defining Chinese Private Enterprises
Non-state-owned enterprises are defined as all the enterprises other than those which belong to and are controlled by the state. It includes collective enterprises, individual households (Geti Hu) and individual enterprises, township enterprises and private enterprises (Qian, 2004). According to some Chinese scholars, this is a clear definition with overlapping classification. Some “hanging” enterprises were actually privately-owned enterprises while they were nominally entitled “collective or state-owned enterprises” for a political risk-avoidance purpose. Some state-owned enterprises had been privatized, rented or contracted but they were still named as state-owned enterprises (Li, He, & Yu, 1998, p205).

According to the “Provisional Regulation for Private Enterprises of the People’s Republic of China” promulgated on 25th June 1988, the private enterprises (PEs) are defined as those economic entities with privately-owned capital, and a minimum of 8 employees for the purpose of profit-making (Kelley and Luo, 1999, p.28; Qian, 2004, p4). Qian (2004, p5) explained that the above-mentioned definition of PEs that included “non-state owned enterprises (NSOE)s and “privately-owned enterprises” was a historical product of the certain political environment in 1980s and a compromised concept. Privately-owned enterprises herein include all
non-state-owned enterprises. However different names are used in different historical periods. At the early stage of reform, “non-state-owned enterprise” was the relative name together with “state-owned enterprise”. With reform going further, especially when the ownership separated from management of the state-owned-enterprises, “state-held-enterprise” was used to replace “state-owned enterprise”. “Held” means “controlled” here. Relatively “privately-held enterprise” was used to indicate the type of ownership of the private enterprise. It is difficult to define a very clear and exact legal concept of privately owned or held enterprises under extant ideology which was why “private enterprise” as a compromised concept was adopted (Qian, 2004).

China is in a new era of reform with a rapidly growing economy. The political reform is necessary to parallel the economic reform. The decision to establish the socialist market-oriented economy in China was made in the 14th Assembly of Chinese Communist Party on 14 November 1993 (Li, 2004). To understand the definition and characteristics of the concept of the socialist market-oriented economy in the next section will help to flesh-out the explanation for this new social, political and economic system and explore the motives for internationalization of Guangdong PSMEs
2.4 China’s Socialist Market-oriented Economy

The Socialist Market-Oriented Economy is defined as the economy under a socialist system, in which the allocation of resources is basically adjusted through the market mechanism. The market mechanism and socialist system are interacted and correlated (Li, 2004, p93). It has the following characteristics:

1. The allocation of resources is basically adjusted through the market mechanism rather than through administrative means;

2. The market mechanism and public ownership are the major components of the entity co-existing with multi-economic ownership. It is not a private ownership-based economy;

3. It is an economy under government macro-economic control rather than a fully free market-based economy (Laissez-faire);

4. This economy seeks social and economic efficiency and fairness to achieve mutual wealth rather than absolute egalitarianism or going to extremes;

5. It is the credit and rule-by-law economy rather than the one rule-by the authority and official willingness;
6. It is an open and free competition economy rather than the one protected by the regional authority, administration through monopoly and a closed-door policy.

The Chinese government affirmed in 1997 that the private economy was one of the important components of Chinese socialist market-oriented economy which laid a political foundation for the development of private economy (Wu, 2003, pp.180-196).

Since 1998, Chinese government has taken measures to support PSMEs consistent with this affirmation which include:

1. In 1998, the bureau of small and medium-sized enterprises under State Economic and Trade Commission was established, specializing in solving the problems of PSMEs in development.

2. All the commercial banks established a credit department for PSMEs for the purpose of improving the service for PSMEs.

3. The Ministry of Finance and Inland Revenue General Bureau reduced the value-added tax from 6% to 4%.

4. Legislators passed “the small and medium-sized enterprises law of People’s Republic of China” effective from 1st January 2003. The purpose was to
improve the business environment and enhance the healthy development of PSMEs and employment of urban and rural areas.

5. The government and community offered the service to PSMEs to adapt the demand of the socialist market-oriented economy (Wu, 2003, pp195-196).

This explanation of the definition of the Chinese Socialist Market-oriented Economy will enable the researcher to distinguish between the different features of the political, economic and societal system of China from those of most of western countries.

The next sections will examine the literature from the relevant fields identified above which provide insight into the central research question.

2.5 *International Business*

This section is to examine the major theories of international business which are used to explain the behavior of MNCs and SMEs in western countries. To understand the entry modes and theories of international business will help identify the similarity and difference in realizing and using the strategies in such modes and, between theories of Chinese enterprises and those of the West. It will additionally help investigate
whether these theories are applicable to Chinese PSMEs.

2.5.1 Outline of International Business

The field of international business theory consists of research on international trade, foreign investment, multinational corporations and globalization. The mainstream perspective in international business assumes that firms internationalize on the basis of a definable competitive advantage that allows them to secure enough return to cover the additional costs and risks in relation to operating abroad (Buckley & Ghauri, 1999; Cave, 1971). Implementation of the international market diversification strategy involves the development of a comprehensive product and market plan that includes choosing a foreign market entry mode (Root, 1987). Foreign market entry mode is defined as institutional arrangements that allow firms to use their products or service in a country exchange (Calof, 1993). Firms entering new foreign markets normally choose from different forms of entry, ranging from licensing and franchising, through exporting, setting up of foreign sales subsidiary, to foreign direct investment (FDI) (joint ventures, acquisitions, mergers, and wholly owned new ventures) and setting up of network of subsidiaries (Rasheed, 2005). Within the theory of international business, there are two choices for entering a new market which are
described as transaction cost entry (TCE) and ownership-based entry modes (OBE).

TCE assumes that external and internal uncertainties surrounding a transaction will influence entry choice. The firms must select a flexible entry mode when they are confronted with a volatile environment. TCE also suggests that higher control modes are more efficient where the potential for “free-riding” is high (Anderson & Gatignon, 1986). “Free-riding” is defined as the probability that a firm’s reputation or image overseas is tempted by misconduct, unilateral pursuit or wanton behavior by the firm’s local partner (Zhao, Luo & Suh, 2004).

Ownership-based entry modes (OBE) suggest that resource allocation in international business should not only consider minimizing transaction costs but also explore resources in promising locations. Different natures and types of knowledge in relation to the OBE choice may aim at increasing or decreasing the internal uncertainty. The different institutional distances will change the preference of the firm’s choice in OBE (Zhao, et al., 2004). International experience and cultural distance are not only the major correlates influencing the liability of foreignness but also capture the firm’s internal uncertainty. This evidence together with the importance of country risk and asset specificity moderated by the country of origin,
further verifies the robustness of the evolutionary view of international expansion (Zhao, et al., 2004).

After China entered the WTO, domestic economic and financial systems were fully integrated with international systems so as to confront the new challenge (Zhao, Tong & Qiao, 2002). PSMEs needed to strengthen themselves and to seek the new developing place, facing the competition from MNCs, SMEs, and large PEs and among themselves in domestic market. Going international becomes one of their strategic choices to explore the new market and resources. Chinese PSMEs, therefore, need to learn and make the appropriate choice of the entry modes as per the rules of game in international business.

2.5.2 Theories of International Business

The following strands of theories try to explain the phenomena and behavior of companies in international expansion. These theories are relevant to the thesis because by learning these theories it will help understand why and how the MNCs and some SMEs in western countries adopt these theories in international business and whether these theories are applicable to the Chinese context especially for PSMEs.
Monopolistic Advantage Theory

Monopolistic advantage theory holds that multinational companies (MNCs) exist because the firms have unique sources of superiority which are not easily imitated or acquired over foreign firms in the foreign markets (Hymer, 1976). Such superiority includes superior knowledge, superior manufacturing processes, reputable brands, differentiated products, organizational talents and patented technology. Once the firms have developed their superiority they can exploit this advantage overseas at little or no additional cost (Caves 1971, 1982). The local entrepreneurs are unable to compete with MNCs despite their advantage in a local market because they have to pay the full cost of developing such knowledge and ability that MNCs own (Caves, 1982).

Product Cycle Theory

The product cycle theory argues that firms exist because of the cycle of product development and firms internationalize by directly investing in the foreign country for the purpose of protecting their existing market of mature products. The firms make direct foreign investments in low-cost-of production countries to protect their markets where they originally export their mature products (Vernon, 1966).
The Stage Theory of Internationalization

The stage theory argues that firms progress in a gradual manner from local firms by exporting to the foreign markets that they are not familiar with to the fully-fledged MNCs as they increase their activities and obtain knowledge and experience in the international business (McDougall, Shane & Oviatt, 1994). Under this model firms by exporting, gradually acquire, integrate and use the knowledge about foreign markets, language, culture of the customers and operations and incrementally reduce the uncertainties and increase commitment to foreign markets (Johanson & Vahlne, 1977). This theory is widely adopted by SMEs which is to be discussed further in the following section of the three schools of internationalization for SMEs.

Oligopolistic Reaction Theory

The Oligopolistic reaction theory suggests that firms become multinational to imitate the actions of their competitors to reduce the risk of being different. The firms that internationalize as their competitors do at the same time will equally benefit when the decision for internationalization proves to be beneficial or will not benefit when the decision for internationalization proves to be detrimental (Knickerbocker, 1973).
Internalization Theory

Internalization theory argues that the firm internalizes within itself because market imperfections create the opportunities for the firm to earn higher economic rents and to reduce costs by transferring the goods and services across the national boundaries where the costs are lower within a single firm (Buckley & Casson, 1976). This model holds that the decision to engage in international transactions aims at reducing costs. The firms therefore, choose the lowest cost location for each activity they perform and grow by internationalizing markets up to the point where the benefits of further internalization are less than the costs (Buckley, 1988).

The Eclectic Paradigm of International Production

The eclectic paradigm conveys the idea that a full explanation of the transnational activities of enterprises needs to draw upon several strands of economic theory; and that foreign direct investment is just one of a number of possible channels of international economic involvement, each of which is determined by a number of common factors (Dunning, 1988, p.1).

The eclectic theory argues that without international market failure, the raison d’être
for international production will disappear. However if it does exist, the explanations of trade and production may be thought of as a part of a general paradigm based on the international disposition of factor endowments and the costs of alternative modalities for transacting intermediate products across the countries (Dunning, 1988, p.2). This paradigm attempts to integrate the theory of internationalization with location-specific elements of international economies. As the gist of the eclectic paradigm of international production, ownership, location and internalization (OLI) parameters will influence individual MNCs in any particular production decision that will vary according to the motives underlying such production (Dunning, 1988).

Dunning (1988) argues that any holistic theory of international production must draw upon two inter-related strands of economic analysis. The first is the neoclassical theory of factor endowments, extended to embrace intermediate products and allow some endowments to move freely across national boundaries. Other things being equal, the more uneven the geographical distribution of factor endowments the more international production is likely to happen. The second is the theory of market failure, which is relevant to explaining not only the location of some kinds of economic activity across national boundaries, but also the division of that activity
between multinational and uninational firms. All else being equal, the higher the transaction costs of using the market as a transactional model, and the greater the efficiency of MNCs as coordinators of geographically dispersed activities, the more international production is likely to take place (Dunning & Norman, 1985).

In the context of China, some PSMEs including some joint venture companies between Hong Kong and China in textile and light product industries have learnt and adopted this theory to enter some neighboring markets in Asia to take advantage of low labor costs and other factor endowments as some market failures such as high labor and material costs in southern part of China, foreign exchange control and political risks still prevail in China.

**Strategic Choice Theory**

Strategic choice theory suggests that firms facing strategic complexities will respond opportunistically to changing market chances by carefully evaluating the risks by the managers. The managers who make strategic choice actively determine the features of the firms’ internationalization (O’Farrell, Wood & Zhang, 1998b).

Within the theory of strategic management, two main schools – Industrial
Organization-based Theory (IO) and Resource-based View (RBV) are identified to understand why and how firms formulate and choose the appropriate strategy before entering a new business or market. RBV will be discussed in the next sub-section.

In Industrial Organization-based Theory (IO), Bai’s (1951; 1956) paradigm of structure-conduct-performance (SCP) offers strategic management a systematic model for assessing competition within an industry (Porter, 1981). IO is based on two assumptions: first, firms within an industry were identical in the strategic resources they controlled (Porter, 1981; Rumelt, 1984). Second, if there were some resources heterogeneity that could develop in an industry through new entry, it should be very short-lived and quickly diminish because the firms’ resources were highly mobile and easily imitated (Barney, 1986; 1991). The SCP paradigm of Bai (1951; 1956) depicts that industry structure determines firm’s conduct (strategy), which in turn determines the firm’s performance (Scherer & Ross, 1990). However Porter (1981) criticized Bain’s view and recognized there were feedback effects of firm conduct (strategy) on market structure. Some studies demonstrated how firms could affect or even deter entry into their industries by carefully choosing firm’s strategies (Porter, 1980; Salop, 1979).
The Learned, Christensen, Andrews and Guth (LCAG) framework defines strategy as how a firm attempts to compete in its environment, encompassing key choices about goals, products, markets, marketing, manufacturing and so on (Andrew, 1971; Porter, 1981).

In the IO-based model, competitive advantage is viewed as a position of superior performance that a business attains through offering undifferentiated products at lower prices or differentiated products for that the customers are willing to pay a premium (Collis, 1991; Porter, 1980; 1985). Strategy is conceived as a firm’s active response to the industry or market imperatives, whereas the competitive advantage can be sustained by choosing the appropriate strategy.

Porter (1985; 1991) argues that in a given industry structure, a successful firm is one with an attractive relative position. The positioning arises from three sources: variety-based positioning, needs-based positioning and access-based positioning (Porter, 1998). The competitive advantage can be sustained from a firm’s superior positioning.

In international competition theory, Porter (1990) claims that a nation’s
competitiveness depends on the capacity of its industry to innovate and upgrade. Firms obtain advantage against the world’s best competitors because of pressure and challenge. They benefit from having strong domestic rivals, aggressive home-based suppliers, and demanding local customers.

After China entered the WTO the domestic market was internationalized, PSMEs were under pressure facing fierce international competition. Local enterprises including PSMEs have become important players in international trade and have directly competed with foreign companies for overseas markets so their production and service quality have improved sufficiently (Zhao, Tong and Qiao, 2002).

Under the current political and economic environment in China, PSMEs are mostly in the competitive, low monopoly and service industries as well as innovation industries due to some biased policies and out of date management by the government. PSMEs with limited financing means, facing such biased policies have to evaluate carefully their business uncertainty, capability and entry mode into an appropriate industry. In most cases Chinese PSMEs have to compete in the industries where the entry barriers are low (Gu, 2004).
The Resource-based View (RBV)

The resource-based view is used to identify the range of factors that encourage some owner-managed firms to export goods or services to foreign market (Westhead, Wright & Ucbasaran, 2001).

Barney (1991) defines internal organization resources as all assets, capabilities, organizational processes, business attributes, information, knowledge and so forth, controlled by a firm. They are classified into three categories: physical capital, human capital and organizational capital.

The RBV is grounded in two fundamental assumptions: first, firms within an industry might be heterogeneous in the strategic resources they controlled. Second, since these resources might not be perfectly mobile across firms, heterogeneity could be long lasting (Barney, 1991). The RBV (Barney, 1989, 1991; Peteraf, 1993) argues that industry structure is not the sole determinant of competitive strategy and performance, whereas the firms’ internal differential endowment of strategic resources is the ultimate determinant of strategy and performance. Peteraf (1993) depicts four conditions to sustain the firm’s competitive advantage: Ricardian or monopoly rents are obtained from resource heterogeneity. Ex post limits to
competition are necessary to sustain the rents. Imperfect resource mobility ensures that the rents belong to the firm. Ex ante limits to competition prevent costs from offsetting the rents. Competitive advantage resides in the inherent heterogeneity of the immobile strategic resources (Barney, 1991; Lado, Boyd & Wright, 1992).

The RBV contends that the differentiated products or low costs are tied directly to distinctiveness of the inputs used to make the product (Commer, 1991) and that it is the firm’s imperfectly inimitable resources rather than monopoly power or market position that bring persistent, above-normal earnings to the firm. Moreover the distinctiveness of those resources results from the firm’s acumen or luck in acquiring, combining and deploying them not from the forces related to industry structure (Barney, 1986; Collis, 1991).

With the limitation of capital and biased policies deterring Chinese PSMEs from entering monopoly industries, many of them are using the firm’s acumen and talent to position competitively in the service, innovation and high-tech industries (Gu, 2004; Wu, 2003).

The Network Theory of Internationalization
The network theory of internationalization suggests that many knowledge-based business or service firms achieve their competitive advantage by developing mutually supportive interactions with other services firms (O’Farrell et al., 1998c). This theory is to be discussed further in the following section concerning the three schools of internationalization of SMEs.

2.6 The Theoretical Framework of Internationalization of Small and Medium-sized Enterprises

This section reviews the specific theories of internationalization of SMEs. Sub-section 2.6.1 discusses the definition of internationalization which is to be adopted in this thesis. Sub-section 2.6.2 reviews three schools of internationalization normally adopted by most western SMEs. Sub-section 2.6.3 examines the motives for internationalization of SMEs in western countries which will facilitate the investigation of the cases in the context of China for the empirical research of this thesis.

2.6.1 Defining Internationalization
Welch and Luostarinen (1988, p.36) define internationalization as “the process of increasing involvement in international operations”. Whereas Calof and Beamish (1995, p.116) define internationalization as “the process of adapting firms’ operations (strategy, structure, resources, etc.) to international environments”. Buckley and Ghauri (1999, p. ix) define internationalization as “the crossing of national boundaries in process of growth” which explains why China is currently the most active internationalizing economy among the developing countries (Child & Rodrigues, 2005).

In the more specific literature of the internationalization of the small and medium-sized enterprises (SMEs), internationalization is defined as “the process by which firms both increase their awareness of the direct and indirect influence of international transaction on their future, and establish and conduct transactions with other countries” (Beamish, 1990, p.77). This widely accepted definition is to be adopted in this research.

2.6.2 Three Schools of Internationalization of SMEs

This sub-section discusses three schools of the internationalization of SMEs including
the economic school of foreign direct investment (FDI) theory; the behavioral school of the establishment chain (stage) model and the relationship school of the network perspective.

The Economic School of Foreign Direct Investment (FDI) Theory

Developed from neoclassical and industrial trade theory and supporting firm’s activities in international expansion, the general theory of FDI claims that firms choose their optimal structure for each stage of production by evaluating the cost of economic transactions. Firms therefore choose the organizational form and location for which the overall transaction costs are minimized. (Coviello & McAuley, 1999).

Critics argue that FDI theory is used primarily to explain a pattern of investment but not a long-term process of international expansion (Johanson & Mattsson, 1987; Melin, 1992).

The Behavioral School of the Establishment Chain (Stage) Model

The Establishment Chain (Stage) models draw on organizational growth, behavior and learning theory to capture internationalization. (Young 1987; Johanson & Vahlne, 1990; Melin, 1992). It is referred to as the Uppsala model after the name of Uppsala
School of Inte-nationalization (Etemad, 2004) where scholars - Johanson and Wiedersheim-Paul (1975), Johanson and Vahlne (1977, 1990, 1992) and Cavusgil, 1980, 1982) initially developed this model. This model suggests that internationalization of business activities occur incrementally and are influenced by increasing market knowledge and commitment.

Although the eclectic paradigm of FDI and the Uppsala model are criticized as ‘inconsistent as the basic assumptions are so different” (Johanson & Vahlne, 1990, p.18), the Uppsala model reflects the essence of FDI. The firm is ultimately expected to internalize its activities through different stages. In the first stage the firm operates locally and exports its products or services to foreign countries. In the second stage the firm establishes production in the host country, based on a process of managerial learning. Other behavioral models also argue that internationalization is incremental with various stages reflecting changes in the attitudinal and behavioral commitment of managers and the firm’s international orientation (Bilkey & Tesar, 1997; Cavusgil, 1984; Czinkota, 1982; Reid, 1981).

The Relationship School of the Network Perspective

The Network perspective draws on the theories of social exchange and resource
dependency and focuses on firm behavior in the context of a network of inter-organizational and interpersonal relationships (Axelsson & Easton, 1992), rather than a firm-specific advantage. Therefore, externalization rather than internalization occurs.

The Network perspective offers a complementary view to FDI theory (Granovetter, 1985) and introduces a “more multilateral element” to internationalization (Johanson & Vahlne, 1997, p.12). Johanson and Mattsson (1987) claim that the successful entry to new international markets depends more on a firm’s relationships with current markets than on market and cultural characteristics.

2.6.3 Motives for the Internationalization for SMEs

Motives are defined as having a connotation of action - people are seen as being motivated to do something usually to achieve a goal that is satisfaction of the need through behavior (Baker, 2001).

The increase in competition, integration and liberalization in international markets and globalization push the SMEs to engage in exporting and foreign business
involvement. (Dave & Shiv, 1997; Kirby & Kaiser, 2003).

Katsikeas and Piercy (1993) categorize motives for exporting into several broad areas: decision-maker’s characteristics; firm-specific factors; environmental factors; firm characteristics and ongoing export motives.

“Change agents” (Bilkey, 1978) is the term used to categorize the internal and external factors to the firm in nature (Wiedersheim-Paul, Olson & Welch, 1978) and to be proactive or reactive in nature (Czinkota, 1982; Johnston & Czinkota, 1982; Pavord & Bogart, 1975). Change agent is anyone who possesses enough knowledge and power to guide and facilitate the change effort (Kotter & Cohen, 1998). According to Lewin (1952), change is a process of unfreezing, change and refreezing. “Unfreezing” in this model means to unfreeze the current undesired strategy and situation. “Change” here means the change agents make the new strategy and present the new solution when most of people embrace and support the change. “Refreezing” here means when the change comes to a desired status it should be refrozen at this status to keep the goals and change in place. Change is caused by the environmental factor such as economic and competition pressure, the change of legislation, commercial relationship factor such as new union, takeover, collaboration
and other important development, technical factors such as the level of technology of the firm and human factors (Tichy, 1983) and it is also caused by the environmental factors as per Tichy (1983), organizational life circle and the power change in the organization (Kanter, Stein & Jick, 1992). An ADKAR model developed by Hiatt and Creasey (2003) presents five stages to describe how individuals go through to make a change that are: 1. Awareness of the need to change; 2. Desire to participate and support the change; 3. Knowledge about how to change; 4. Ability to implement new skills and behaviors; 5. Reinforcement to keep the change in place (Hiatt & Creasey, 2003, p.46).

Studies show that short-term profit is not a motive for exporting, instead firms were motivated to export and invest by long-term profitability secured through market diversification and long-term growth (Barnhart, 1968; Hunt, Frogett & Hovell, 1967; Tookey, 1964). Despite the perceptions of exporting by the key executive, the decision to maintain export activities may change with the departure of the key decision-maker in SMEs (Dave & Shiv, 1997).

In SMEs the character of the decision-maker such as knowledge, attitudes and motivation plays a key role in the internationalization decision of the firm (Reid, 1981;
There are two important internal determinants propelling the firm towards internationalization (Cavusgil & Nevin, 1981; Calof & Beamish, 1995). The first is the management’s expectation of a significant impact on the growth of the firm and the second, a high degree of commitment. Intention to internationalize is influenced by managerial beliefs about the firm’s competitive advantage, readiness to export, the risk and the perceived internal and external barriers towards internationalization. One of the greatest barriers to the initial internationalization decision is the lack of knowledge of foreign markets (Chetty & Campbell-hunt, 2003).

Katsikeas and Piercy (1993) summarize the internal factors leading to internationalization as including differential firm advantages (Wiedersheim-Paul et al., 1978; Cavusgil & Nevin, 1981; Cavusgil, 1984; Bikey & Tesar, 1997); available production capacity (Wiedersheim-Paul et al., 1978; Johnston & Czinkota, 1982; Diamantopoulos, Schlegelmilch & Allpress, 1990); accumulated unsold inventory (Johnston & Czinkota, 1982; Sullivan & Bauerschmidt, 1988); and, economies resulting from additional orders (Kaynak & Kothari, 1984; Sullivan & Bauerschmidt, 1988).
It has been found that fortuitous orders, the effect of government stimulation and the consequences of economic integration have a positive effect on export behavior (Olson & Wiedersheim-Paul, 1978).


Facing competitive challenges, SMEs have advantages in terms of flexibility, reaction time and innovation capacity that enable them to elaborate the policies, programs and services to adapt to the new economy. By enabling detection of trends in the environment and formulating the strategies reflecting such trends, business
intelligence can play its critical role in the survival, growth and performance (Raymond, 2003).

A combination of both internal and external stimuli and certain proactive and reactive factors are considered important. However the attractive export incentives and national export promotion programs are considered unimportant. The motives for exporting and investment are likely to change as firms gain experience as they move through the process of internationalization (Dave & Shiv, 1997).

It has been argued that the driving forces of globalization have influenced the internationalization of SMEs. Increasing competition has reduced the ability of SMEs to control their own developmental paths (Etemad, Wright & Dana, 2001; Nummela, Saarenketo & Puimalaine, 2004).

It is claimed that size is not necessarily a barrier to internationalization (Calof, 1994). However SMEs face internal constraints to international growth such as limited capital, management, time, experience and information resources (Cafferata & Mensi, 1995). Furthermore, external barriers may be encountered in the form of entrenched firms or the government (Coviello & McAuley, 1999).
An Integrative framework (Etemad, 2004) is suggested to explain how the pushing and pulling forces intermediate and interact with the process of the internationalization of SMEs. The framework consists of three constructs in addition to the institution of the firm, which are termed the “Pushing Forces of Internationalization (the push factors), the “Attractive Pulling Incentives of Internationalization (the pull factors), and the “Mediating Forces of Internationalization” (the interactive factors). The combined impact of these forces is intermediated by the firm’s assessment of (a) the external environment, (b) firm’s own competitive position, objectives and aspirations, (c) internal resources and capabilities relating to the exerted influences and market requirements, (d) the potential impact of exerted forces on a range of strategic options available to the firm, and (e) the ease of formulation and implementation of the consequent strategies (Etemad, 2004). The push factors are usually internal to the firm and exert pressure on the firm from inside to internationalize that are entrepreneurial in nature for creating opportunities. The pull factors usually in the environment and external to the firm, which enhance the firm’s competitiveness or provide attractive incentives for it to internationalize. The interactive factors are those forces that result from the interaction between the active components of the pull and push forces influencing on
the firm. These interactions magnify conditions that further stimulate or deter internationalization (Etemad, 2004).

Like some SMEs in western countries, most Chinese PSMEs are confronted with internal and external constraints in setting-up of their business and were pushed and pulled by the forces coming from inside and outside of the enterprises to internationalize so they normally establish their new business through entrepreneurship which is to be discussed in the next section.

2.7 Entrepreneurship

Chinese PSMEs emerged from the particular political and economic environments in China as mentioned in the brief history of the development of the private economy in Section 2.3. Owing to historical political reasons and policy bias, most Chinese PSMEs were unable to obtain economic and financial aid from the government and financial institutions. Most PSMEs were run by families and had to collect and accumulate their funds through private placement, personal relationship (Guang-Xi) with state-owned financial institutions and local government and founded their business through entrepreneurship (Qian, 2004). The entrepreneur was the owner of
the enterprise so his motive was the most influential in decision-making for internationalization. This section is to examine the definition of entrepreneurship then to review the international new venture and finally the Chinese private entrepreneurship. Through reviewing the theory of entrepreneurship, it will help to further understand the relationship between the entrepreneurial activities of Chinese PSMEs and their motives for internationalization under the current political and economic environments in China.

2.7.1 Defining Entrepreneurship

Entrepreneurship is defined as the creation of new enterprise (Gartner, 1985; Low and MacMillan, 1988). More specifically, entrepreneurship can be defined as “the process brought about by individuals of identifying new opportunities and converting them into marketable products or services” (Schaper & Volery, 2004, p. 6).

Entrepreneurs tending to establish their new business and firms are motivated by three perspectives which are: the psychological perspective (McClelland, 1967), the social-cultural perspective (Fukuyama, 1996) and the network perspective (Pfeffer and Salancik, 1978; Aldrich and Zimmer, 1986; Burt, 1992).
2.7.2 International New Venture (INV)

INV is a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries (Oviatt & McDougall, 1994). The advantage of starting internationally (“born global” of the firm) is that the firm establishes an international spirit from the very beginning” (Mamis, 1989).

It is argued that the formation process of INVs can not be explained by generally accepted theories from the field of international business (McDougall, Shane & Oviatt, 1994).

Monopolistic advantage theory could not explain why entrepreneurs could perceive the opportunities of taking their monopolistic advantage to internationalize at beginning when business was established, why others could not, and why those “born global” firms made their foreign investment before obtaining the knowledge by developing and exploiting the monopolistic advantage in the domestic market; The product cycle theory could not explain why many INVs engaged in foreign
investment and purchasing foreign assets before the competition became standardized and cost-based, and before exporting; The stage theory of internationalization failed to explain why INVs competed internationally rather than just in home markets; Oligopolistic reaction theory could not explain why the INV always was the first firm in industry to invest internationally and why many entrepreneurs formed INVs to avoid direct competition with established firms instead of imitating each other; As cost reduction was not the key, internationalization theory failed to provide an appropriate explanation for why INVs were international (McDougall, Shane & Oviatt, 1994).

The founders of INVs saw the opportunities for earning high returns by setting up business internationally with their unique competencies (networks, knowledge, and background) to create international business competencies and to avoid path-dependence on domestic competencies alone. The founders of INVs tended to use hybrid governance structure to preserve their limited resources for their international activities (McDougall, Shane & Oviatt, 1994).

2.7.3 Chinese Private Entrepreneurship
As discussed in the history of Chinese private enterprises, entrepreneurial activities and private businesses had long been suppressed by the Chinese government before the economic reform in 1978. Since the reform, however the private sector has been booming and contributing significantly to the Chinese economy (Chow & Tsang, 1994). To encourage the further development of the private sector, the government removed the negative social stigma attached to entrepreneurs as the exploiters of the working class through the proper legislation of private businesses (Zhang, 1995). Although “enterprising culture” and “entrepreneurial spirit” were new to the Chinese under the socialist system, they were adopted and were developing very quickly first in urban areas and now spreading in all of Chinese cities and countryside (Chow, 1995).

The development of the private sector in China was relatively gradual and determined by the overall “evolutionary” economic reform program. Unlike state-owned and collective-owned enterprises, private businesses did not enjoy any institutional privilege or special assistance from the government albeit the government had worked hard to enact many new laws and regulations to improve the business environment for private enterprises. As China moved away from a rigid centrally planned economy through market reform, the current political and economic environment provided the
opportunity to Chinese private entrepreneurs to establish their new ventures and rapidly developed to be a new and important economic driving force (Lau, Ngo & Chow, 1999).

China’s entry to the WTO offered China a more stable international trading environment while other WTO members were guaranteed increased access to the Chinese market. China would attract more FDI together with capital, market information, technological know-how, management skills and worldwide production and distribution networks. Because of the trade and investment liberalization under the WTO, the competition between Chinese and foreign firms at home and abroad would become much more intense (Zhao, Tong & Qiao, 2002). The pace of economic reform and integration of Chinese economy into the world has been going on much faster than before (Steinfeld, 2004).

The findings of research indicated that Chinese firms were integrating extensively with the global economy, but they remained concentrated on primarily low-end commodity manufacturing (Steinfeld, 2004). They had few other options but to compete on the basis of intense discounting. They were churning out goods roughly 80% of whose value was created elsewhere (Rosen, 2003, p.23 cited in Steinfeld,
The research concluded that in global economic terms, China was integrating extensively, but “shallowly” (Steinfeld, 2004, pp.1971-1987). However these problems have drawn much attention of the scholars at home and abroad and the Chinese government. They have become the new issues for Chinese PSMEs to learn and master.

Research also indicated that internationalization, firm size and age, and market orientation all impact on the practice of the entrepreneurship, which in turn contributed to the superior performance of the firm in the transition economy of China (Luo, Zhou & Liu, 2003).

2.8 Conclusion

The literature review has provided an understanding of issues directly relevant to the central question of this thesis. In particular, the chapter has reviewed literature related to the nature of the transition economy, the evolution of Chinese private enterprises, the definition and the characteristics of China’s socialist market-oriented economy, the theories for internationalization, the theoretical framework of internationalization for SMEs and entrepreneurship.
A large volume of research on the motives for internationalization of both Western large firms and SMEs and how to apply western theories of internationalization to Chinese enterprises was identified. Most of the research focuses on the large Chinese firms and their successful experiences and lessons. However, this literature review has also revealed significant gaps in the knowledge base. What are the motives to drive Chinese PSMEs to go international in the context of the current political and economic environment? How do Chinese PSMEs internationalize? What are the merits for Chinese PSMEs to go international? These gaps need to be filled to enrich the theories of internationalization in different social systems.

Based on the above literature review and the gaps found, this research attempts to answer the following questions:

**Question 1.** What are the motives for the private small and medium-sized enterprises (PSMEs) in Guangdong, China to internationalize?

**Question 2.** Can western internationalization theories for SMEs adequately explain the process of internationalization of Guangdong PSMEs?

**Question 3.** What are the characteristics of the internationalization of Guangdong
PSMEs in the context of China as a socialist market-oriented economy?

Question 4. What are the obstacles to the internationalization of Guangdong PSMEs?

Question 5. How do the motives for internationalization influence the decision-making in strategy, entry mode and performance of Guangdong PSMEs?

Question 6. How do the objectives of PSMEs vary as the initial goals of internationalization are achieved?

This research seeks answers to the above questions to understand in depth the motives for the internationalization of Guangdong PSMEs and to make some contributions to the extant related theories in the case of China for both Chinese and Western practicing managers. Through this research it is also hoped to invite more academic and business research on the phenomenon of development and internationalization of Chinese PSMEs.
Chapter Three

Methodology

3.1 Introduction

3.2 Research Philosophy and Paradigms

3.3 Ethics

3.4 Conclusion
3.1 Introduction

In Chapter Two, the relevant literature of internationalization was reviewed and the research gaps were identified. Six questions arising from the gaps were raised. To answer these questions will help to understand in-depth what the motives are for private small and medium-sized enterprises (PSMEs) in Guangdong, China to internationalize.

This chapter discusses the research methodology developed in this thesis and is organized into four sections. Section 3.2 examines the philosophy of the methods and the paradigms including three schools of paradigms, methodologies, research design, data gathering techniques, administration methods, sampling and data analysis method. The limitations of these methods will be discussed at the end of Section 3.2. Section 3.3 discusses ethical issues in this research. Section 3.4 concludes the chapter. Through discussion of the research paradigms and methodology, the qualitative method is justified. Non-probability purposive sampling is used to select the subjects from a population of PSMEs in Guangdong, China. The in-depth face to face interview in semi-structured manner is used in this research for data collection.
3.2 Research Philosophy and Paradigms

3.2.1 Three Schools of Paradigm

According to Cavana, Delahaye & Sekaran (2001), there are three schools of paradigms in business research - positivist, interpretivist and critical research.

Positivist research

Positivist research uses precise, objective measures, associated with quantitative data by using a linear strategy of formulating a hypothesis (Cavana, et al., 2001). By using deductive reasoning, the positivist researcher assumes that there is a set of universal laws out there waiting to be discovered and remains aloof and separate from the research subject to ensure total objectivity (Cavana et al., 2001). It is based on testing a theory composed of variables, measured with numbers and statistically analyzed in order to prove the predictive generalizations true (Creswell, 1994). Quantitative methods of research are employed to search for causal explanations and fundamental laws (Cavana et al., 2001; Creswell, 1994). “Quantitative research values objective observation, precise measurements, statistical analysis and verifiable
truths. The hallmarks of good quantitative research are reliability and validity” (Cavana et al., 2001, p.186).

Interpretivist research

Interpretivist (phenomenological) research believes that people experience physical and social reality in different ways and assumes that the world is largely what people perceive it to be (Cavana et al., 2001; Creswell, 1994). It uses a qualitative approach to discover how humans construct meanings in contextual settings so that people’s values, interpretative schemes, belief systems and rule of living are revealed and inductively and holistically understood (Cavana et al., 2001). Qualitative research emphasizes careful and detailed descriptions of social practices, aiming to understand the participants’ rich experiences (Cavana et al., 2001).

Critical research

Critical research empowers people to create a better world for themselves by uncovering myths and revealing hidden meanings as the basic aim. It presents the research findings in the way of becoming a catalyst that leads to transformation (Cavana et al., 2001).
As this research will seek to explore and explain the behavior of the managers of PSMEs, Guangdong, China in the process of internationalization the discussion on the research methods in this thesis is confined to positivist and interpretivist paradigms.

3.2.2 Methodologies

The key criteria differentiating the two paradigms are that:

“. in positivism the researcher is independent but in interpretivist research the researcher is involved;

. in positivism a large sample may be used whereas interpretivist research uses small numbers;

. in positivism, testing theories pervades whereas interpretivist-type research focuses on generating theories or ‘theory building’.” (Carson, Gilmore, Perry & Gronhaug, 2001, p.9)

The complimentary methodology school of thought has given rise to a mixed methods approach to research – triangulation that is based on the assumption that any bias inherent in methodology would be neutralized when it was used with other methodologies (Creswell, 1994). The logic of triangulation is that
“no single method ever adequately solves the problem of rival causal factors….

Because each method reveals different aspects of empirical reality, multiple methods of observations must be employed. This is termed triangulation” (Patton, 1990, p.187).

However the triangulation approach becomes complex and difficult to manage when opportunism begins to drive the research program. Replication across different sectors and cultures becomes difficult and the interpretation and analysis of data become a challenge when the group of researchers contributing to the pool of knowledge expands. Pragmatic considerations such as time and cost constrain the scope of triangulated study (Coviello & McAuley, 1999).

Three kinds of studies are identified that are exploratory, descriptive and hypothesis testing. Exploratory study is undertaken when little is known about the situation at hand, or when no information is available on how similar problems or research issues have been resolved in the past. In essence, exploratory studies are undertaken to better comprehend the nature of the problem that has been the subject of very few studies and are normally used in qualitative research (Cavana et al., 2001). Descriptive study is undertaken to ascertain and describe the characteristics of the
variables of interest in a situation. A combination of qualitative data and quantitative data in terms of frequencies, or mean and standard deviations, becomes necessary for descriptive studies. Hypothesis testing explains the nature of certain relationships, or establishes the differences among groups or the independent of two or more factors in a situation, which is usually adopted in quantitative research (Cavana et al., 2001).

3.2.3 Research Design

The motives for internationalization of Western SMEs were reviewed and discussed in Chapter two. To explain these motives, three schools of internationalization of SMEs were identified that are: 1) the economic school of Foreign Direct Investment (FDI) theory; 2) the behavioral school of the Establishment Chain (Stage) models; 3) the relationship school of the Network perspective (Coviello & McAuley, 1999). As a reflection of these schools, the literature encompasses general research on the behaviors and strategies associated with SME internationalization (Baird, Lyles & Orris, 1994; Bonaccorsi, 1993; Dalli, 1995, Douglas, 1996) and more specific research streams. Methodologically, the SME internationalization literature was dominated by positivist research (Coviello and McAuley, 1999). There appeared to
be a move towards more relativist (interpretivist) investigations by using qualitative and inductive research to provide rich, context specific description and explanation (Carson, et al., 2001, pp.4-5). The challenge thus became one of collecting data that were rich in depth and understanding, but “hard” to test theory because “it might be argued that if researchers accept the integrative conceptual modal, then methodological approaches should follow suit (Coviello & McAuley, 1999, p19)”. 

As the scope of this research is concerned with exploring the motives for internationalization of Guangdong PSMEs in association with the perspective and character of the managers, intending to build the theories of internationalization for SMEs in Chinese context, the qualitative approach is appropriate to be employed in this research. The qualitative approach adopted in this research is due to its ability to obtain first-hand and description of some specified domain of experience (Grace & O’Cass, 2002), especially the motives for internationalization of Guangdong PSMEs are the main issues that this research attempts to explore.

3.2.4 Data Gathering Techniques
There are several modes of data collection with advantages and disadvantages that are face-to-face interviews; telephone interviews; personally administered questionnaires; mail questionnaires, electronic questionnaires and observational studies (Cavana et al., 2001).

Face to face interviews provide rich data, offer the opportunity to establish rapport with interviewees and help explore and understand complex issues that are best used at the exploratory stages of research when the researcher seeks an understanding of the concepts or situational factors (Cavana et al., 2001, p.243). However convergent (in-depth) interviewing has some limitations. Firstly, it is essentially a theory building/framing technique and is best used relating to or building on frameworks or conceptual models from prior literature and with other techniques. Secondly, the costs in time in each interview can be large. Finally, the data collected in the interview may lead to bias (Carson, et al. 2001, pp.89-90).

Gaining insight into phenomena is not easily understood through quantitative measures. A full understanding of the complexities is therefore better sought through a personal interview because the data can be collected by delving into the respondent’s memory via individually adapted probing (Zaltman, 1997).
Because the discovery-oriented nature of this research demands a primary phenomenological approach to data collecting, the in-depth face to face interview is the most appropriate means of data collection.

In the continuum of interviews, there are structured interviews, semi-structured interviews and unstructured interviews. The interviewer in an unstructured interview does not enter into the interview setting with a planned sequence of questions for the respondent. Whereas in a structured interview the interviewer knows at the outset what information he/she needs. In the middle of the continuum model for interview, it is a semi-structured interview. There are two strategies used in a semi-structured interview. The first is to commence the interaction as an unstructured interview to present the primary questions to elicit information and when the information has been elicited well, the interviewer switches to the questions based on content. The second is to use a pre-planned, logical approach to managing the interview process (Cavana et al., 2001). The Semi-structured interview is appropriate for in-depth interviews, survey interviews and group interviews (O’Cass, 2004).
In this research, the managers of the selected PSMEs in Guangdong, China were interviewed as they were playing the important role in the process of internationalization as identified in Chapter Two. Taking into account time and cost available for this research and the advantages and disadvantages of several methods of data collection, the in-depth interviews were conducted in a face to face manner using a semi-structured interview protocol with the first strategy as per the above-mentioned.

3.2.5 Administration Methods

There are no precise guides to the number of cases (interviews) to be included (Perry, 1998). It is recommended that cases (interviews) should be added until “theoretical saturation” is reached and sampling selection is made “to the point of redundancy” (Eisenhardt, 1989; Lincoln & Guba, 1985, p.204 cited in Perry, 1998). In this research, four subjects from the sampling population were eventually selected for interviews which would be further discussed in the sub-section 3.2.6. Before interviews were conducted the consent forms with the information statement were sent to the interviewees for their agreement and signature. The authorized letters from the interviewees’ organization were received before the recruiting jobs were finally completed.
Before interview, the interview guide was designed as suggested by John Lofland (1971) (cited in Gilbert, 1993) and then written as a memory jogger for the researcher during the interview (Carson, Gilmore, Perry & Gronhaug, 2001). The initial questions in the interview guide were drafted in English and then translated into Chinese with back translation to assure that all items in the questions were meaningful, adequate and appropriate in the Chinese context (Brislin, 1970).

The in-depth interviews were conducted with semi-structured protocol that was used to commence the interaction as unstructured interview. When the information had been elicited sufficiently, the interviewer switched to the content questions to verify the validity and reliability of the data collected. Face to face in-depth interviews were conducted with the CEOs at the decision-making level of the selected Guangdong PSMEs. Each interview took about one and a half hours at the interviewee’s office in Guangdong, China in Chinese language. The interviews were conducted by the researcher of this thesis who understood English and Chinese and was a DBA student of University of Newcastle with Chinese background and working experiences in international trade for more than 20 years in Hong Kong. The interviews continued until convergence was achieved and there was zero sum gain
from conducting the interview anymore (Hastings & Perry, 2000; Grace & O’Cass, 2002). With the consent of the interviewees audio-taping was used during the interviews because it was time-consuming if verbatim transcription was used only (Gilbert, 1993). Audio-taping is more accurate and complements the note taking.

A pilot interview with one of the four selected companies was conducted. The experience obtained from the pilot interview informed the interview protocol used for data collection in all the main interviews (Perry, 1998). After the pilot interview, the questions were reviewed and refined to fit the following three organizations.

The data collected in the interviews were transcribed, translated from Chinese to English, properly kept for further analysis and handled following business research ethics as per Human Research Ethics Handbooks (http://www.health.gov.au/nhmrc/issues/researchethics.htm). The ethics issues are to be discussed in Section 3.3.

3.2.6 Sampling

“Sampling is the process of selecting a sufficient number of elements from the population so that by studying the sample, and understanding the properties or
characteristics of the sample subjects, it would be possible to generalize the properties or characteristics to the population elements” (Cavana et al., 2001, p.253).

There are two sampling designs: 1) probability sampling, in which “the elements in the population have some known chance or probability of being selected as sample subjects” (Cavana et al., 2001, p.257), includes simple random sampling and complex probability sampling; 2) non-probability sampling, in which “the elements in the population have no probabilities attached to their being chosen as sample subjects” (Cavana et al., 2001, p.262) includes convenience sampling, purposive sampling. Probability sampling designs are used when the representativeness of the sample is important in the interests of generalizability. The findings from the study of the sample taken in the method of non-probability sampling can not be confidently generalized to the population. However when time or other factors rather than generalizability are critical, non-probability sampling is generally used (Cavana et al., 2001, pp.257-265).

It is difficult to collect large sample, firm-level data in China by probability sampling due to the lack of accurate sampling frames and non-response being the environment where many regard data collection with suspicion (Shenkar & Glinow, 1994). However the conditions for data collection have been improving and analyses based
on surveys have begun to emerge, allowing the research agenda to progress from theory development to theory testing (Lukas, Tan & Hult, 2001; Peng & Luo, 2000; Tan & Litschert, 1994; White, 2000; Xin & Pearce, 1996).

The non-probability sampling is to be adopted in this research and the purposive sampling is to be employed to select the executives and managers who have a strong or long-term association with international business for in-depth interview (Grace & O’Cass, 2002). Purposive sampling is confined to specific types of people who can provide the desired information (Cavana at al., 2001, p.263).

The interviewees of the firms were selected by judgment sampling that was the method of choosing “the subjects who were in the best position to provide the information required” (Cavana, et al., 2001, p.263). All of the PSMEs registered with the Administration of Industry and Commerce, Guangdong, China were included in the population. Guangdong province was one of the earliest opening provinces in China with the strong awareness of internationalization and rapid development in economy and was near to Hong Kong where it facilitated business research and convenient transportation. Most of the PSMEs selected from the population were export-oriented enterprises or those involved in international business to some extent.
A minimum four firms were selected from the population by the judgment sampling. Four potential respondents from each of the four study companies were invited giving a total of 16 potential interviewees. They included one Chief Executive Officer (CEO), two department managers and one assistant manager from each study company. Finally the CEO from each study company was recruited giving a total of four interviewees for this research because the CEO was regarded as the most qualified interviewee to respond to the research questions in relation to motives for the internationalization of his/her company. 12 potential respondents including 8 department managers and 4 assistant managers were dismissed. Because the generalizability of findings to the whole business sector is not as important as the findings in the motives behind the phenomenon of internationalization of Guangdong PSMEs, non-probability sampling is appropriate in this research. The limitation of using non-probability sampling is to be discussed in the sub-section 3.2.8. With the extant internationalization theories for SMEs this research intends to explore why and how Guangdong PSMEs internationalize. The developed theory does not only facilitate the data collection phase of the ensuing case study (interview) but it is also the level at which the generalization of the case study (interview) result will occur which has been characterized as “analytic generalization” (“theoretical generalization”) and has been contrasted with “statistical generalization” (Yin, 2003,
In statistical generalization, an inference is made about a population (or universe) on the basis of empirical data collected about a sample which is normally used in quantitative research. In analytic generalization a previous developed theory is used as a template with which to compare the empirical results of the case study. If two or more cases are shown to support the same theory, replication may be claimed (Yin, 2003). Analytic generalization will be employed throughout this research.

3.2.7 Data Analysis Method

The in-depth face to face interview in qualitative approach used in this research is to obtain managers’ perspectives of internationalization and the insight into key motives, behavior and attitudes towards the problems and requirements arising from the international business (Dave & Shiv, 1997).

The terms, qualitative and case study are often used interchangeably (Yin, 1981). The approach of overlapping data analysis was adopted in this research during and after the interviews. Overlapping data analysis with data collection not only gives the researcher a head start in analysis but also allows the researcher to benefit from
flexibility in data collecting (Eisenhardt, 1989). Additional adjustments can be
made to data collection instruments and allow the researcher to probe emergent
themes or take advantage of special opportunities arising from a given situation. It is
legitimate to alter and even add a data collection method during a study (Eisenhardt,
1989). By adopting within-case (interview) analysis and searching cross-case
(interview) patterns, the tactic in this research was to select categories or dimensions
while looking for within-group similarities and inter-group differences (Eisenhardt,
1989). The data collected from the interviews were coded, transcribed and edited
into categories and dimensions for analysis.

Content analysis was adopted as a major analysis instrument in this research.
Content analysis is the process of identifying, coding and categorizing the primary
patterns in the data (Patton 1990). Content analysis allows the themes to emerge
from the raw data (Cavana, et al., 2001). The data were categorized into several
groups and were summarized to obtain the findings to answer the questions arising
from the literature review in Chapter Two. The shared value, common knowledge
and the features or differentiation of internationalization of Chinese PSMEs were
found by comparing the motive theory of internationalization and the findings from
the data analysis which will be further examined in Chapter Four and Five.
3.2.8 Limitation

This research that used non-probability sampling including judgment sampling to select the elements in the population of PSMEs registered with the Administration of Industry and Commerce, Guangdong, China for interview was likely to limit the generalization of findings to the whole population of PSMEs in Guangdong and in other parts of China. However the probability sampling is obviously time-consuming and non-cost-effective in this study because the purpose of this research intends to explore the motives for internationalization of Guangdong PSMEs with a view to confirming the application of the extant theories of internationalization to Chinese PSMEs and building the tailored theories appropriate for the case of China. The trade-off has to be made taking into consideration the very big size of population in Guangdong province and low response rate in Chinese context.

The findings from the in-depth interview with the executives and managers of the companies selected by judgment sampling were likely biased “as subjects may refer the researcher on to additional subjects who hold similar views to themselves” (Cavana et al., 2001, p.264). This bias could be avoided by conducting the
interviews with the selected companies in different industries. In this research four companies were selected including one in the textile and garment industry which was established in 1986 with 1300 employees for making and exporting garments to USA and EU markets, one in shipping and forwarding industry, established in 1988 with 150 employees, engaged in sea transportation and forwarding services between China and South Asian countries, South Korea and Japan, one in international trading, established in 1995 with 43 employees, engaged in trading Chemicals and by-products for EU market and one in cosmetics and skin care product manufacturing, established in 1993 with 950 employees mainly for domestic market as well as exporting some products to Hong Kong, Macao and South Asian Countries.

Guangdong province was chosen as the location and the population for sampling was only confined to the PSMEs with business registrations in Guangdong. The PSMEs in Guangdong could not represent the whole population of Chinese PSMEs. Through the findings from this research, it intends to invite more intensive academic and managerial studies in such behavior and phenomenon and to build or extend the theories for business practices.

3.3 Ethics
In-depth face to face interviews were used to collect the data in this research. The participants were invited to take part in the study. In compliance with the *National Statement on Ethical Conduct in Research Involving Humans, 1999*, the Consent Forms together with the Information Statement were sent to the selected participants for their approval and signature. The Consent Form and the Information Statement were made under the title of the University of Newcastle, Australia in English and were translated into Chinese by the researcher, verified by Mr. Frank W.T. Yau who was proficient both in Chinese and English to make sure the translation was true and accurate in case the interviewees were not able to read and understand English. The Information Statement about the research was provided together with the Consent Form to enable the participants to understand what topic in the research was about and most importantly, to stress that participation was voluntary and the decision not to participate would not adversely impact their relationship with their employer or the University. The Consent Form under the title and as per the format of University of Newcastle contained the willingness to participate in the interview, the agreement of using the data for analysis and publication of the analysis result if necessary. The consent to using audio-taping during the whole interview by the researcher, the withdrawal clause and right of the participants were included in the Consent Form and
Information Statement. The interviews were conducted after the Application of Ethics was approved by the BusLAW Ethics Committee and the Consent Form and written authorization from the participating organizations were received.

The data collected from the interview were appropriately stored, managed and were only used by the researcher and his supervisor. The names of the interviewees and their organizations were kept anonymous and confidential and were not disclosed to anyone other than the University’s Human Research Ethics Committee, the researcher and his supervisor and the person who verifies the translated versions from English to Chinese. The data were carefully dealt with and would be properly destroyed after being used and/or after the required keeping time expired. Without permission by the participant, the data collected were not allowed to release whatsoever to anyone rather than the researcher, his supervisor and the examiners.

No potential risks of physical, emotional, social or legal harm were posed to the researcher, interviewees and anyone relating to this research. There were not any potential conflicts of interest for the researcher or participants. No payments, rewards, and inducements whatsoever were offered to the participants who were involved in this research.
All the activities and manner in association with this research followed the ethical conduct for business research.

### 3.4 Conclusion

In this chapter, the research philosophy and paradigms were discussed. The methodology and research design employed in this research intended to investigate and answer the research questions raised in Chapter Two. The qualitative research method with in-depth interview in semi-structured protocol as the data collection method was the most appropriate approach to exploring the motives for the internationalization of PSMEs in Guangdong, China. The overlapping and content analysis as the data collection and analysis instruments were employed in this thesis. The limitation of the research and the ethical issues in this research were identified and justified.
Chapter Four

Results of Interview

4.1 Introduction

4.2 Concept of Internationalization

4.3 Motives for the Internationalization of PSMEs Guangdong, China

4.4 Application of Western Theories of Internationalization to the Chinese Context

4.5 The Characteristic of the Internationalization of PSMEs, Guangdong, China

4.6 Obstacles and Difficulties of the Internationalization of PSMEs, Guangdong, China

4.7 Motives for Internationalization influencing Decision-making for Strategy, Entry Modes and Performance of PSMEs, Guangdong, China

4.8 Conclusion
4.1 Introduction

In Chapter Three, the qualitative research method developed in this thesis was discussed. The in-depth interviews selected by the purposeful sampling were conducted to collect the data. According to Eisenhardt (1989, p.545) there was no ideal number of interviews (cases), a number between 4 and 10 interviews (cases) usually worked well. This thesis attempted to engage in theory-building for the motives for internationalization of PSMEs in Guangdong, China. It was important to reach closure when theoretical saturation was reached (Eisenhardt, 1989). Theoretical saturation is the point at which incremental learning is minimal because the researchers are observing phenomena seen before (Glaser & Strauss, 1967). This chapter is to present and briefly analyze and summarize the results obtained from four interviews as discussed in Chapter Three.

The four case study organizations were selected from the PSMEs as per the Chinese definition indicated in Definitions registered with the Industry and Commerce Administration, Guangdong, China. In compliance with the ethical issues discussed in Chapter Three, the names of the interviewees and their organizations shall be kept anonymous and confidential. The names of interviewees and their organizations
therefore will not be disclosed in the following discussion. However the industry and location these enterprises are in will be mentioned. Four interviews were respectively conducted with the Chief Executive Officer (CEO) of the Garment-making company in Panyu, Guangdong (herein after is referred to as “A”), with the CEO of the Shipping & Forwarding Enterprise in Guangzhou, Guangdong (herein after is referred to as “B”), with the CEO of the Chemicals Import & Export Company Ltd. in Guangzhou, Guangdong (herein after is referred to as “C”) and with the CEO of the Cosmetic Co., Ltd. in Zhuhai, Guangdong (herein after is referred to as “D”). The transcripts of interviews are provided in the Appendix 1,2,3,4. The names of the CEO in the interviews relating to the ethics issues were removed and replaced by the English alphabet for confidential purpose.

The data of the four interviews were analyzed with the content analysis method and were divided into several categories and common themes under each category. This chapter is to present and briefly analyze and summarize the interview transcripts which are relevant to the categories and themes. The findings related to the research questions developed in Chapter 2 and some recommendations will be discussed in Chapter 5.
This chapter is organized into eight sections. Section 4.2 presents the understanding of the concept of internationalization by the interviewees based on the definition of Beamish (1990, p.77). Section 4.3 discusses the motives for internationalization of PSMEs in Guangdong, China which includes eight themes and is the main research problem of this thesis to investigate. Section 4.4 discusses the application of Western theories of internationalization for SMEs to the Chinese context. Section 4.5 describes the characteristic of internationalization of PSMEs in Guangdong, China. Section 4.6 identifies the obstacles to and difficulties of the internationalization of PSMEs in Guangdong, China. Section 4.7 discusses how the motives for internationalization influence the decision-making for strategy, entry modes and performance of the enterprises. Section 4.2, 4.4, 4.6, 4.7 are relevant to Section 4.3 and are to compliment and support Section 4.3 in analysis of the transcript of the four interviews. Section 4.8 concludes the general results.

4.2 Concept of Internationalization

The definition of internationalization by Beamish (1990) was accepted by four interviewees when presented in the content questions by the interviewer. The following excerpts from the transcripts of the interviews further explained their
A: “…Internationalization means it does not only develop in one place but many places across the boarders. For example the business is expanded over the location in China to other places in other countries. I meant the local firm went to other place overseas to establish its branches or factories or do business”.

B: “…Internationalization includes: 1. we enter the international market selling or buying our products or services; 2. we entice and invite the foreign investors, buyers or sellers in the international market to invest or cooperate with us in our market including that we purchase their products or services, make joint venture or cooperate with them and do two-way business. … I think when we are talking about internationalization I mean we should do business with at least two countries or regions.”

C: “…Internationalization is that first of all we communicate with abroad (companies). Not only in internal market but later on, we also need to have our business deeply rooted in the foreign markets. That means we will not only do business with foreign companies but also root our business deeply in foreign market so that our
business can be carried on in a long term”.

D: “… the concept of the internationalization is that an enterprise, like us engaging in making cosmetics, operates mainly in domestic market while handling our products in overseas market …. When survival and development are facing great challenge we will consider making our products in the lower cost countries … and some less developed countries to reduce the labor and resource costs”.

From the above excerpts it is shown that all of four interviewees had a highly developed understanding of the concept of internationalization and connected it to their business practices.

4.3 Motives for the Internationalization of PSMEs, Guangdong, China

This section includes seven themes drawn from the transcripts of four interviews to present the interviewees’ opinions and comments about the motives for internationalization.
4.3.1 Given the current political and economic environment in China, it is important for PSMEs, Guangdong, China to be internationalized.

A: “Our firm is in the textile and garment industry. The competition in this industry is very keen. It is a labor intensive industry in Guangdong. It is not possible to grow bigger and fast if the firm is not able to overcome the obstacles and to break the rigid frame (that is) the competition in labor and material costs. … No one is sure that the whole political environment is very secure and stable in the coming several decades in China. Spreading your investments in different countries means diversifying your investments to reduce the risks by internationalizing your business. … On the other hand, in consideration of economic environment, the firm only developing its business in one place would have the limitation. However if it could develop in many places it would enjoy the great potential. … Different from ten years ago, the labor cost was low in China then. Now all the costs including labor and materials are much higher. To overcome these difficulties, one of the ways is to develop in other places where the labor cost is lower. … In southern parts of China, shortage of labor has become a new problem. … With the development of the firm it is very important to train and reserve the talent and human resources. … There are three respects of motive: firstly, the firm needs to grow and develop.
Secondly, the firm needs to make profit. Thirdly, the firm needs to reduce the risks of investment to avoid ‘putting all the eggs in one basket’”.

B: “Though China is a huge market, if the Chinese enterprises only operate in domestic market, they can not make progress or upgrade themselves. Only conducting internationalization, these enterprises are able to learn and understand the rules of game in international market and to accept the international practices. On the other hand, through internationalization, PSMEs are able to do business not only in one market but also in many markets to avoid political and economic risks. … In China, it is not an open political society. … Some enterprises even transferred their assets or fund to overseas through the process of internationalization for political risk-avoidance. As to our firm, we consider it more how to develop. … Through internationalization the PSMEs can conduct some political risk-avoidance”.

C: “… Because the Chinese market is getting open and open due to China being one of the members of the WTO, competition is getting severer and severer. … As a SME, if we wanted to develop we could not focus only on domestic market but on foreign market as well that was a part of our business being in. As Chinese say: “When the east is not bright the west will be”, that keeps our business vivid”.
D: “China’s open-door policy has been carried out for more than twenty years. The superior brand of the domestic cosmetics industry has not been established in competition in the Chinese market. To the contrary, some famous foreign brands such as P&G, Oliver, Shiseido, Max Factor and CD have entered the Chinese market. … The space for our survival is getting narrowed especially after China joined the WTO. We have to change such unfavorable situation under some conditions that is the need for competition as well as for survival. Internationalization is one of the ways we think that will help improve our situation”.

Table 4.3.1 is the summary of the above opinions of the importance of internationalization of PSMEs in Guangdong, China.

Table 4.3.1 Summary of the importance of internationalization of PSMEs, Guangdong

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Why it is important</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Compete in costs of labor and materials</td>
</tr>
<tr>
<td></td>
<td>Diversify the investment to reduce risks</td>
</tr>
<tr>
<td></td>
<td>Enlarge the space for survival, growth and development</td>
</tr>
<tr>
<td>B</td>
<td>Make progress and upgrade the firm itself</td>
</tr>
<tr>
<td></td>
<td>Learn and understand the rules of games and accept international practices</td>
</tr>
<tr>
<td></td>
<td>Conduct political risk-avoidance</td>
</tr>
<tr>
<td>C</td>
<td>Enhance ability in competition, survival and development</td>
</tr>
<tr>
<td>D</td>
<td>Enhance ability in competition, survival and establishing brand</td>
</tr>
</tbody>
</table>
4.3.2 The external and internal impacts push PSMEs, Guangdong, China to internationalize.

When asked what the drivers of pushing internationalization of PSMEs were, where they came from and which one played important role in decision-making for internationalization, most of the interviewees agreed that the impacts came from both inside and outside of the enterprise and the internal impact played an important role. The following excerpts support the inferences.

A: “Firstly, it (internationalization) has become the trend. Secondly, the needs to survive and to grow push the firm to go international. Thirdly with the development of information technology, China is well informed of what happened outside… especially the students studying overseas bring new things, ideas and knowledge from overseas to China. Fourthly, the rise in education is also the impact to push firms to be internationalized. … All these activities internalize the enterprises to raise the desires of internationalization. … China has become a more open world rather than a closed one as in the past that makes more and more domestic enterprises … dream of going international. … They (impacts) come from both inside and outside.
From inside the managers have the desires to see the world and to develop. The leader of the firm has the desire to expand the business of the firm. From outside, the firm is pushed by its customers and buyers to be internationalized. … The main impact comes from inside of the firm. Although the external impact could act as the catalyst it would not work without internal motive or desire for internationalization. … With the impact from outside acting as the catalytic promoter, the inside impact determined the action to carry out internationalization. It is doubtless that as one of the Chinese culture the important decision for internationalization is always made by the boss or chairman of the board in the oriental company”.

B: “The impact is coming from two respects. Internally, the enterprise seeks to expand the space of growth, seeks a bigger market and longer life of the firm. So internally the enterprise attempts to internationalize. Externally, with the Chinese market to further open, the whole momentum is that many enterprises wanted to go international and invite more investment or cooperation in China. … Under such environments our firm must follow suit that means to go international. … The impact coming from inside is bigger than that from outside. The internal desire for seeking the bigger space for development and new and sustained vitality of the
organization is very strong and pressing because the history of newly established private enterprises is short. The impact from external factors under the current political, economic and social environments also affects the motivation to go international. However, the demand for internationalization from the inside of the enterprise is much more imperative than that from outside. ... the impact from inside has the fundamental function in decision-making of internationalization while the external factors exert the supplementary function to make such decision”.

C: “... First of all we need to survive and develop that is the impact for my company to look for the future market. Such impact is from the inside of the enterprise because we need to survive and develop. Secondly it is the keen competition from foreign competitors. ... I can not say whether internal or external impact is (more) important. I must say both are important and they are closely related each other. ... The character of the decision maker is very important especially in the process of internationalization. ... Since China joined the WTO the market has become very open. We are facing the great economic challenge from MNCs as well as the foreign SMEs. ... Many (impacts) come from internal environment, because as an entrepreneur or a manager of the company you wanted to develop your enterprise that was one of the aims. Certainly the outside impact is also very
important… the world has been too open and has become so small. They (external and internal impacts) are closely related each other. … Inside impact such as the character of the decision maker, the motive for survival and development is essential. If you have no inside impact to push this (internationalization) it does not need to mention foreign impact or outside impact”.

D: “The biggest impact is the interest of the company for survival and development to seek the maximization of profits. … They (impacts) both came from inside and outside of the enterprise. In the internal management and operation including human resources training, the accumulation of managing and operating experiences, the manager and staffs’ demands to survive and further develop, all these form the internal impact. The impact also comes from the external environment such as the competition from outside, the environments of international market. The motivation from inside will push the enterprise to do so when it has grown to be capable to go international. When our products are able to compete with (those of) other foreign peers the pressure from the domestic market will also push us to be internationalized. Through internationalization to expand market share, the enterprise will enlarge the space for survival and development. … The impact from inside of the enterprise is bigger than that from outside. …So the key is the inside impact that plays the most
important role. The relationship between them is that the internal impact is decisive while the external one will push such idea (internationalization) to happen”.

Table 4.3.2 is the summary of the opinions of the interviewees about the impacts to internationalization of PSMEs in Guangdong, China. Four interviewees of four study companies unanimously identified the drivers of internationalization from outside and inside of the organizations and that the internal impact played the important role

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Internal</th>
<th>External</th>
<th>Internal</th>
<th>external</th>
<th>both</th>
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</thead>
<tbody>
<tr>
<td>A</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
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<tr>
<td>B</td>
<td>X</td>
<td>X</td>
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<td>X</td>
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<td>C</td>
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4.3.3 The internationalization of PSMEs, Guangdong, China is carried out in both a proactive and reactive nature.

When the interviewees were asked whether the motives for internationalization were prompted by the managers’ outlook for future development of the enterprise or the
reaction to the change in political and economic environment in China, two interviewees thought it was for future development, one for both future and reaction to the change and one for reaction to the change. The following extracts from the interview transcripts reflect the different opinions of the interviewees:

A: “Going international for a firm is not motivated by only a single factor but by many factors. It is for future development but it is not for internationalization itself because if it is not for the future development the firm can develop domestically in China. The current political and economic environment is appropriate to internationalization of PSMEs with the enhanced freedom in politics and economy. … As one part of the whole strategy for development of the firm, internationalization is promoted as one of the processes for the firm to develop and grow”.

B: “For a small and medium-sized enterprise, being internationalized is the desire for the development of the firm itself. The political and economic environments are changing all the time. The enterprise should grow and upgrade itself in such continuously changing environments. A firm normally operates its business under some political or economic environments. When the situation changes it may find
the vitality of the firm is challenged so it needs to change and to be internationalized as one of the choices. … We are in the shipping and forwarding industry. … The purpose for us to develop is to adjust the business in different markets as … the markets also change when overseas market situation is good for our business while domestic market may not be good for business or vise versa.

C: “…it is mainly for the future development of our enterprise that is the main reason. … The whole world becomes so small, everything is open so we are looking for future development and need internationalization as the way to develop our company.

D: “…the change in political and economic environment forces the enterprise to seek the better solution for its survival and creates the idea to go international. … Now China has entered the WTO. Under such circumstances many political factors including the system, policies enable you to meet some conditions that the internationalization needs. Once the enterprises met those conditions they could carry out their internationalization because the Chinese policies had allowed the qualified enterprises to do so. As to the change of economic environment, before 1980’s you hardly realized the real situation in the international market and you could
not do it because China had not opened its door. Now it is different the Chinese government encourages the enterprises to understand and enter the international market to compete directly with foreign counterparts as they do in domestic market.

If you wanted to go international you must investigate and study the international markets and the change of them so that you could succeed.

Table 4.3.3 is presented to summarize the opinions of the interviewees.

### Table 4.3.3 Internationalisation is carried out in nature

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Proactive</th>
<th>Reactive</th>
<th>Both</th>
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<tbody>
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<td>A</td>
<td>X</td>
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<td></td>
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<td>B</td>
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<tr>
<td>C</td>
<td>X</td>
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<tr>
<td>D</td>
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<td></td>
<td>X</td>
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4.3.4 The character of the decision-maker of PSMEs, Guangdong, China determines the strategy of internationalization.

Three of four interviewees agreed that the character of the decision-maker played the important role in the strategy-making for internationalization of the enterprise. One did not agree and related the formulation of the strategy to the conditions for the firm’s survival and adapting the firm to internationalization. The following excerpts
support this argument.

A: “… Yes, absolutely. … the boss of our company … is aggressive and in good health. Although he is more than 70 years old he works every day and makes business decisions. Educated very well in foreign country, his son is about 40 years old and has many ideas for development. They have done very good business in China and hope to further develop and grow. It is a very important decision whether to develop further in China or try new venture overseas after making profit in China. I thought this was a strategy of internationalization. Both bosses … may have come to their decision what and how they should do. They would take the risks… to set up the business in Cambodia”.

B: “Yes, surely. It is very difficult to describe the character of the decision-maker. However I may say that the minds of the decision-maker can be described as some one being open-minded or conservative-minded. Or I may say some one dares to try something new but some one does not. This mind will affect the decision-making of internationalization. If a business leader is conservative and afraid to try something new or unfamiliar with, his or her character of conservativeness will surely affect the firm’s decision to be internationalized as a new thing.
C: “That is true. The character of the decision-maker is essential for the enterprise. … So in my point of view, the character of the decision-maker is very essential in making the strategy for internationalization. … So decision-maker’s character is the most important for the company especially for the small company that the decision will affect everybody”.

D: “I don’t think the character (of the decision-maker) will play the decisive role. The existence of an enterprise depends on the conditions that enable an enterprise to survive and to make some change to adapt to internationalization. When asked whether the conditions for an enterprise to survive determined the internationalization strategy, the answer is “Yes that is correct”. … I also think the leader of the company is very important and relative to the decision of internationalization. Because where and how the enterprise should go is not a decision to be made in a short time, it is the perception of the leader of the enterprise and it needs a comprehensive and careful plan. …… It (the character of the manager relating to strategy-making) is very important but not decisive”.

Table 4.3.4 summarizes these views.
Table 4.3.4 The Character of the decision-maker determines the strategy

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Agree</th>
<th>Not Agree</th>
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</thead>
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<td>A</td>
<td>X</td>
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<td>B</td>
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<tr>
<td>D</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

4.3.5 The industry the enterprise is in influences the entry mode for internationalization.

The nature of the business affected the way of the enterprise entering the international market. The different entry modes were adopted by the different types of the enterprises. The discussion focused on whether the enterprise interviewed was entrepreneurship in nature that went international when it was established or that it developed and grew domestically first and went international later as per the leaning curve and whether it related to the character of the manager or internal resources of the enterprise. The following excerpts respond to the questions.

A: “… it is related to the internal resources. More than 10 years ago, the internal resources of the firm were limited. The firm might only survive, grow and develop in one place in China. The factory employed more than 100 workers and was
gradually enlarged to become a factory employing 5-6000 workers. ... it was a learning process. According to the situation of our firm, it was not dreaming of going global when it was established. It was not so aggressive but by setting up a firm in China first, it was engaged in textile business in the up stream e.g. establishing printing and drawnwork plants and later developed cotton processing plants and now has developed in the down stream businesses of garment making and selling. The industry model has been thus formed. At the very beginning the firm did not intend to invest and develop in other places (in overseas) but just did its job in an industry. Now we are discussing how we can enlarge our business in some foreign countries”.

B: “Our enterprise was internationalized when it was established. This is relevant to the industry we are in. We were in shipping and transportation industry. We were in the business for international shipping and forwarding agency when the firm was established. The business was done first mainly in domestic market while keeping contact with international shipping and forwarding agency peers in overseas market. ... I did not think this (born global) was too much concerned with manager’s character but with the industry the firm was in. Also it was related with the resource the firm had owned because at the time we established the firm we had the business and resources to do this business (ship, shipping, transportation and
forwarding agency and the knowledge of running the ship and seamen etc.). … The firm had to first take into consideration the industry it chose, the resource it owned or obtained and the business it was going to do when it was set up and then made its decision in the mode and way of doing business. … We did international business from inception through a Hong Kong based company. In contrast to domestic business, we started our business in Hong Kong which could be regarded as being internationalized. Based on it we developed in domestic market and invested in Singapore. … We bought a motor vessel registered in Singapore flying Singapore flag and bought one registered in Hong Kong flying HKSAR flag, acting as a Singapore or Hong Kong enterprise to operate between Singapore to China or China to Indonesia voyages. This is actually involved in internationalization. For forwarding and shipping business we are operating mainly in the Chinese market as well as overseas markets. However our major business was done to serve our domestic customers especially those import and export companies”.

C: “…we do not have to develop first in domestic market and to go international later. From the very beginning we have had the idea and value of internationalization. Certainly if I was very conservative after I came back to China, I might only develop in domestic market. I think I have reasonably open character so I will take both
domestic and foreign markets as important in the business development. (When asked whether the company is a born-global one the answer is) Yes, I think so. …

Yes, it depends on the nature of business of our company. … Even though we are so called “born global” company … we are still very careful to learn the things new to us so as to face the great challenge in international market. Meanwhile we also have to learn more how to practice and handle in domestic market”.

D: “We started our business in the domestic market first and step by step developed our business in international market. On one hand we have to consider the conditions and environments including the market situation, the language, culture and customers and their consumption habits. As a PSME we must seek to survive in domestic market first and train ourselves to learn the experiences of management, market and competition knowledge. We shall raise the level of our management and capability to some extent before we can go international. This is relevant to the industry we are in. … From some point of view, when your brand of products has been developed to become famous and popular to some extent in domestic market it (such brand) should be promoted to the international market. When it can position firmly and occupy some shares of international market this brand will return to the domestic market that can enhance the image of the brand as some consumers would
think this was an imported brand or the brand which was verified by the foreign consumers”.

Table 4.3.5 indicates the types of the enterprises interviewed and that the industries they are in and how this tends to influence the entry mode for internationalization.

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Industry</th>
<th>born global</th>
<th>(Stage) Learning Process</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Textile &amp; Garment</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>B</td>
<td>Shipping &amp; Forwarding</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>Int'l Trade</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>Cosmetics</td>
<td></td>
<td>X</td>
</tr>
</tbody>
</table>

4.3.6 The expectation of internationalization by PSMEs, Guangdong, China

The stages normally taken by Guangdong PSMEs before making their decision to internationalize the enterprises were: firstly, the assumption of internationalization including the advantages and disadvantages, the relationship between the degree of internationalization and strategic performance of the enterprise; secondly, the owned resources of the firm and the external and internal environments that influence the
A: “Regarding the advantages, firstly it (internationalization) is an obvious impulse to internal organization of the firm. This impulse pushes the employer and employees to perceive the world in a different way. Secondly it picks up the initiative of the staff. … Thirdly, internationalization enables the firm to establish the new image of the company. It gives people an impression of an international company. …It is doubtless that many businessmen think in this way. … It also influences the business. When negotiating business with your customers, they would like to pay premium if they found you were an international company because you would do business with international rules of game and they were more confident on your company. … When I thought about the disadvantage I would firstly think about the failure in investment in foreign countries. Such failure was caused by the unstable political and other factors which might increase the risks of investment in those places. Other disadvantage was the long distance in supplying the materials from home country to host countries that would increase the costs unless the localization can be carried out as did by many MNCs. … (When asked whether the degree of internationalization will influence the strategic performance of the enterprise, the
answer is) Yes, I think so. … At the early stage, internationalization is the input and commitment for a long term view. It will benefit from future and forever. (When asked whether the enterprise is carrying out the process of internationalization, the CEO said) … though we intended to establish the factories in Cambodia, Vietnam or Indonesia and did a lot of market surveys the plan was yet to implement. From those surveys we discovered that these ideas were viable and significant for the firm. … The goals of internationalization are: firstly, development that is fundamental one because the firm needs to grow continuously. Secondly, the firm needs to diversify the risks and thirdly the firm needs to lower the costs”.

B: “The advantages are that we could keep in touch with the outside world (markets) to learn and master the practices of doing business and rules of game. On the other hand as a Chinese enterprise you will do better than some one else because you was born, bred, educated and you grew in China. You knew China better than other companies. From this point of view, the advantage of internationalization are bigger to the firm (Chinese firm) than not (non-Chinese firm). The disadvantages are that some management method which may be suitable in overseas environment may not fit the Chinese context. You can not just copy it and force the Chinese company to adapt to it. Or you can not just use the experiences which are suitable for the
Chinese domestic company to put in your overseas company in the different context. … The degree of internationalization should influence positively the enterprise’s image, reputation and the capability of a firm’s operation in the market. But it is questionable that the higher degree of internationalization the higher the profit or economic return. Because the economic return or profit in different industries varies in the different economic environment then. …We keep carrying out internationalization of our enterprise. The result proves some advantages. However, as a whole such activities have not achieved our goals of the internationalization we earlier planned. … Our earlier plan was to internationalize our company by doing so to learn and see how the foreign listed company operated its business. The result had some “distance” (gap) away from the one we originally expected. … For this “distance” we reviewed our motive and activity and found it was due to lack of readiness and cognition. … it was related to the management knowledge, human talent and market opportunities. Our basic objective is to be in a good position in logistics with our professional business (liquid transportation) in Asian area”.

C: “For the advantages … if we have more markets as the option, when the Chinese market is not so good, we may lose some money in domestic market while earning
some money in overseas market and vise versa. So the enterprise to be internationalized gives us more options. ... we can train more employees with international view which is very helpful for the future of the enterprise. When we talk about the disadvantages we consider the much higher administration cost. So the operation costs as a whole will increase. ... If your enterprise is more internationalized your reputation and customer communication, customer network will be stronger in the long term and it (the enterprise) will be profitable. No matter the economic situation is good or bad, a more internationalized enterprise can reduce the risk in the storming economic environment. On the short term you may not see the obvious positive result because that much depends on the commodity you are dealing. But on the long term the international company should enjoy good performance. ... The truth already proved that the decision in early time to internationalize our company was very good. I hope on the long term we could become No.1 in supplying our commodity in the world on the condition that our enterprise is reasonably profitable.

D: “For the advantages I think the enterprise can expand its market and increase the scale of production so that the space for the enterprises to survive can be enlarged. The disadvantages are that the input of fund has to increase and the management will
become complicated and difficult in terms of corporate culture, languages and shared value. One of the biggest problems is the shortage of human capital for internationalization. … The higher the degree of internationalization the higher the goals when the strategies are made. The outcome of the performance will come late before the long term organizational goals are achieved. However if the degree of internationalization is lower the goals are lower and of short-term then the performance can be reflected shortly though it may be not as good as those for the long term plan. The risk is also lower. … Our enterprise has not really carried out the internationalization process … (because) the conditions for full internationalization have not achieved. We are still in the learning stage. Our short term objective is to set up a factory in the neighboring less developed countries or regions to take the advantage of lower labor cost and sell the product made there to other countries”.

The above excerpts present the opinions of the interviewees. Table 4.3.6 is the summary of these opinions.
### Table 4.3.6 Summary of the expectation of internationalization

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>- Perceive world in different way</td>
<td>- Failure in investment overseas</td>
</tr>
<tr>
<td></td>
<td>- Pick up initiative of staff</td>
<td>- Long distance for supply from home country</td>
</tr>
<tr>
<td></td>
<td>- Establish new image of the firm</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Enhance strategic performance</td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>- Learn practice and rules of game</td>
<td>- Complicate management that may causes conflict in home &amp; overseas subsidiaries</td>
</tr>
<tr>
<td></td>
<td>- Benefit from knowledge in home &amp; abroad</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Positive relation with strategic performance</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>- More options for markets</td>
<td>- Higher administration costs</td>
</tr>
<tr>
<td></td>
<td>- Train staffs with int'l view</td>
<td></td>
</tr>
<tr>
<td>D</td>
<td>- Expand market</td>
<td>- Increase input of fund</td>
</tr>
<tr>
<td></td>
<td>- Enhance scale of production</td>
<td>- Complicate management &amp; increase difficulty in it</td>
</tr>
<tr>
<td></td>
<td>- Enlarge space of survival</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Enhance strategic performance</td>
<td></td>
</tr>
</tbody>
</table>

4.3.7 Factors influence the decision-making for internationalization of PSMEs, Guangdong, China.

The external and internal factors influencing decision-makers were discussed under this theme. The external factors included the political, economic and social factors in China and the international market, natural resources and infrastructures. The internal factors included the human resources, organizational capital and resources for production, the quality and capability of management, the technical level and knowledge of the organization, the national and organizational culture and the
literature levels (education) (Porter, 1990). Most of the interviewees concerned the external factors including the political, economic and market environments and the internal factors such as the character of the decision-maker, human resources that influenced the decision-making for internationalization. The following excerpts support the inferences.

A: “All the factors … have influence on the decision of internationalization. The boss heard that his friend invested in Cambodia successfully making fortune. He might think why he should not go there for a try. The senior managers or employees might request the boss to try because other investors did it good there. The customers might advise their partners to invest there because they could buy the similar or better quality goods at lower prices in Cambodia, Vietnam and Indonesia. … All these are formed as one of impetus to push the decision-making of internationalization. … We will consider most the political and economic factors. Firstly we know there are risks. If the risks are too big we will not invest there. … Secondly, concerning security that is a political environmental factor, we dare not invest in some places that are too dangerous because we must be concerned for our expatriates’ security though there is a great potential of making money. Thirdly concerning the investing environment that is an economic environmental factor, we
tend to invest in the place where the government will protect the foreign investment”.

B: “More influence comes from external factors. Firstly one of the factors is competition. We are in the shipping and chartering industry and need more competition space. If we are not internationalized we will find a limited competition and survival space and will face big market pressure. … Secondly more Chinese private enterprises wishing to go international in the early years of reform in China were concerned about political and economic factors especially the unstable and easily changeable policies. Through internationalization the enterprise was able to keep its vitality and resource to avoid political and economic risks. … internal factors influenced the manager’s decision especially at the early stage of reform (of China) when the marginal profit in international market was high and you could achieve it with your capability. Now the situation is changed because keen international competition makes the marginal profit lower and lower while more and more chances are available in the domestic market in China. We paid too much attention to the international market while ignoring our domestic market that made us lose a lot of business opportunities. So from the internal factor it is a matter of judgment. … What I consider most is the human resource factor.
C: “…the character of the decision-maker is one of the important internal factors to influence us to do so (internationalization). Another factor is the market which has been internationalized, if you do not want to internationalize your enterprise you will be in a weak position in challenging your competitors from both markets (home and abroad markets). … The market factors influenced the strategy making of our company. Firstly we are professional in the business. Secondly we have got our good reputation in overseas market that makes us easily enter the international market. The most important factor is the character of the manager who has the experience communicating with foreign clients so that it might be a very important factor that helps the company to internationalize.

D: “The internal factors influence more on the decision-making. In our industry the competition is very keen. If everyone only competes in domestic market, you will find the space for it is getting smaller and smaller. If you can break out of this limit … going international you can expand your market and may find the competition is not as severe as that in domestic market. Reviewing the economic and political environments now in China they are quite well for business development. So the external factors influence less than the internal factors do on the decision making. The decision to internationalize the enterprise is made by the managers in
terms of survival and development of the enterprise”.

The summary of factors influencing the decision making for internationalization is presented in Table 4.3.7.

### Table 4.3.7 Factors influencing the decision-making for internationalization

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>External</th>
<th>Internal</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Political &amp; economic factors</td>
<td>Character of the boss</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Request and push by employees &amp; customers</td>
</tr>
<tr>
<td>B</td>
<td>Market competition</td>
<td>Judgment of the manager</td>
</tr>
<tr>
<td></td>
<td>Political &amp; economic factors</td>
<td>Human resources &amp; capital</td>
</tr>
<tr>
<td>C</td>
<td>Market factor</td>
<td>Character of the decision-maker</td>
</tr>
<tr>
<td>D</td>
<td>Political &amp; economic factors</td>
<td>Manager’s decision for survival &amp; development</td>
</tr>
</tbody>
</table>

### 4.4 Application of Western Theories of Internationalization to the Chinese Context

This section discusses the question of whether the western theory of internationalization for SMEs can be used to adequately explain or can apply to the case of PSMEs, Guangdong, China. During the interviews three schools of internationalization for SMEs reviewed in Chapter Two were briefly introduced. They are the economic school of foreign direct investment (FDI) theory, the
behavioral school of the establishment chain (stage) model and the relationship school of the network perspective. Although most interviewees claimed they had not read and studied the theories, their business practices could be explained by some theories. In the business practices of Company A and D, the behavioral school of the establishment chain model could explain how Company A and D went international through learning by stages. The theories of INV, FDI and the relationship school of the network perspective could explain the business practices of Company B and C. The following excerpts from the transcripts of interviews present the different opinions in this theme.

A: “In fact I did not really study intensively the theories for it (internationalization theories for SMEs). It is only the personal view and judgment. … In doing business, these three theories are appropriate. When choosing the most appropriate one for our firm to go international, the Stage Theory should be the most appropriate to our internationalization because our firm in textile industry survives the market by means of manufacturing (making clothes). We set up (a factory) in a place first doing one kind of business and expanded when it reached a certain stage to position ourselves. … We have done well in China and started to get to know countries nearby such as Cambodia and Indonesia. When we learnt more about the
environment of the countries close to China we would find it easier for us to enter those markets. (When asked whether the western theories can apply to the decision-making and in process of the internationalization of the firm, the answer is) … Yes, I think so. The businessmen are very flexible. Once they find something suitable and viable for their business they will adopt it”.

B: (When asked whether he has studied or read any Western theories of the internationalization for SMEs, the interviewee’s answer is) “No. … the third one (network perspective) reflects our situation. We first entrusted the reliable foreign firms in the same industry and were entrusted by some foreign firms as agents for each other’s business to learn some experiences and accumulated some knowledge. When we obtain some knowledge and experience we acted as the way of first theory (FDI) to invest directly in a foreign listed firm. In the industry of shipping we must invest in building and purchasing the ships as our business vehicle which can be regarded as fixed assets. We can regard the ship as the internationalized assets and such investment is direct investment. … I did not study these theories so it was difficult to say whether it could be applied to it or not. However in the process of the internationalization of our enterprise we conduct the way as “touching stones while crossing the river”… (Interviewer: In fact in your practice, you have
consciously or unconsciously adopted some of the theories.)

B: Yes, I think so”.

C: “Not really. … I am not familiar with the western theories so it is very difficult for me to say whether they are suitable for the practice of our enterprise. But when I had time to learn these theories and as you introduced I found some theory could be applicable in our business practice such like the second and third theories – Stage Theory and Network Theory. Though I did not know well about these theories I still make our strategy and decision with some thinking similar to these theories. So I should say I would refer to these theories and see whether they could be applied to our practice when I made decision for internationalization”.

D: “No, I have not (read or studied the western theory for internationalization for SMEs). (When asked if these theories could apply to his business practice, the answer is) … Yes, I think so. Especially the theory 2 – Stage Theory is more applicable to our context. We are the enterprise for making product. The production is done well but the market sale is weak so we have to sell our product through the local experienced agents who are good at marketing, management of the sale and have good distribution channels. We can make use of each other’s advantage to develop the market and expand our sales. Through the agents we can
also learn the market, management experiences and knowledge that will help us in future development and investment. … Currently the economic development levels of our neighboring developing countries are lower than that of ours so we can take the comparative advantage to do the transaction with them”.

Table 4.4 summarizes the opinions of the interviewees about this theme.

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Theories read &amp; studied</th>
<th>Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>No</td>
<td>Difficult to say but have adopted some theories in practice</td>
</tr>
<tr>
<td>C</td>
<td>No</td>
<td>Difficult to say but some can be applicable</td>
</tr>
<tr>
<td>D</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

4.5 The Characteristic of the Internationalization of PSMEs, Guangdong, China

In the context of the Chinese socialist market-oriented economy, more and more Guangdong PSMEs were internationalized to face the challenge from domestic and international competitors. The definition of the Chinese socialist market-oriented
economic system reviewed in Chapter Two has shown the characteristic of this system which is different from the western market-based economy. The research through the interviews intended to identify the characteristic of internationalization of Guangdong PSMEs to see whether there was any difference in internationalization between the Chinese PSMEs and Western SMEs. The theme is that given China as a socialist market-oriented economy there is characteristic of internationalization of PSMEs, Guangdong, China. The following excerpts drawn from the interviews express the different opinions.

A: "China is a socialist market-oriented system country which is not the same as before. Now Chinese can enjoy the freedom for what they wanted to do. There is no particular difference in internationalization between the Chinese PSMEs and other enterprises. When a private enterprise grows up to some extent it will naturally have the desire to go international. The manager of a firm perceives the world from point of business view. The business development overseas is one part of the whole strategy of a firm but it is not that it must do so if it wants to develop. … Under the current socialist market-oriented system in China, the enterprise can act freely without obstacles. … One of the differences is that the control and supervision by the government are stricter than those in Western countries. Especially in financial
management and foreign exchange control, you can not freely transfer your fund to overseas account. With the political and economic development in China the firms are required to take their social responsibility that was weak in past and it is better managed now. Chinese firms have to play with the rules of international game to manage well the employment, the social insurance, labor system and basic salaries. These respects have been much improved and have been done much better than other developing countries. … The awareness of playing with the rules of game such as ISO Compliance is getting stronger and stronger in the process of internationalization. Chinese government is gradually regulating the enterprises to follow the rules of game and integrate the control system with international standards. … I believe these phenomena such as bribery, corruption, violation of copy and intellectual rights are happening in many countries … but they are changing to be better in management and control.

B: “… the internationalization in the context of China is about its way which is not as formal as those of foreign SMEs. It showed the uncleanness in the government policies in foreign trade and investment. There are many limitations and restrictions in many respects when you wanted to invest in overseas market. You need to apply for approval if you want to invest overseas which is very difficult and complicated.
So most of the Chinese PSMEs used the evasive tactics to avoid red tapes and trouble to go international. It is not the direct but irregular method to carry out internationalization which is quite different from those in foreign countries. … (China is a foreign exchange control country) you must use the evasive method to achieve your plan. … If you wanted to cooperate with a foreign company or to merge your firm into it you had to establish a relationship of trust and conduct an auditing. When you present your firm’s accounts to your partner you will find the difference in accounting convention between China and overseas countries because the standard and regulations are different. I understand it will be better after the government agrees to integrate the Chinese accounting system into the international convention.

C: “… In mainland China, we have not got much support from the state-owned banks so we are not strong enough in our cash-flow. Secondly in terms of the public relationship, we also can not get the support from the government. The government pays much attention to the state-owned enterprises (SOEs) and large private enterprises when it makes its policies and regulations. … We have to survive in our own way with own fund and resources. But we are very flexible in running our enterprise because we are not interfered by the government. We are flexible,
efficient and effective so we can find many ways to survive. … I do think as a SME it would be easier for us to adapt to the international practices”.

D: “Simply say under such situation, PSMEs are small in scale but very flexible. Though PSMEs are small in scale they are more flexible in doing business. They have little influence on business practices and government policies but they can imitate other enterprises when they are successful. If an enterprise succeeds in its internationalization … a lot of enterprises will follow suit immediately. The characteristics are small in scales, very strong capability in imitation, weak influence, not famous and under many restrictions in entry to some certain industries, little access to fund financed by the state-owned banks and the shortage in human resources for example language obstacles and lack of knowledge about the management and market. All these characteristics prevent PSMEs from smoothly being internationalized. Some PSMEs first initiated some foreign products and technology to China through agency agreement, franchise and license, imitated the products selling in domestic market and later innovated and make their own brand product for export. By doing so, the enterprise can go international faster than others. In the past more than twenty years, many PSMEs adopted this method to speed up their internationalization and were very successful”.
Table 4.5 is the summary of the different opinions of the characteristics of the internationalization of PSMEs, Guangdong, China.

Table 4.5 The characteristic of internationalization of Guangdong PSMEs

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Characteristics of Internationalization</th>
<th>Characteristics deviate from the way by western SME</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Slight difference in internationalization between China PSME and Western SME, Financial restriction &amp; Foreign Exchange control</td>
<td>Yes</td>
</tr>
<tr>
<td>B</td>
<td>Unclear government policies Restrictions for investing overseas so evasive tactics used to avoid these restrictions, Foreign Exchange Control</td>
<td>Yes</td>
</tr>
<tr>
<td>C</td>
<td>No supports from government &amp; State-owned banks, Very flexible, efficient, effective</td>
<td>No</td>
</tr>
<tr>
<td>D</td>
<td>Small in scale but very flexible, strong in imitation, weak influence, shortage of fund, HR, many restrictions to enter some industries</td>
<td>Yes</td>
</tr>
</tbody>
</table>

4.6 Obstacles and Difficulties of the Internationalization of PSMEs, Guangdong, China
Given the current political and economic environment the obstacles to and difficulties in the process of internationalization affect the motives of Guangdong PSMEs to internationalize. The relative transcripts of the interviews showed that although these problems obstructed the smooth performance of the internationalization by Guangdong PSMEs, the obstacles and difficulties were decreasing with the continuous improvement of political and economic environment especially after China entered the WTO. The following excerpts from the interview transcripts support the inferences.

A: “… In this learning process, “people” (human resources) are the most important issue. In China the major problem is the lack of “international people”. Many universities in China have set up the master and postgraduate degrees for international business. However the human talent needs to be accumulated and the talented people need to merge into corporate culture. The Lack of the talented people (human resources) is the biggest obstacle and difficulty in the development of Chinese PSMEs. The other problem is of the understanding of environment. Different from Westerners, Chinese people are inclined to be introverted that forms another problem … You (Chinese) need to learn how to merge into other culture, community making friends with other people and become business partners that are
not easy. … If the firm wanted to develop overseas, I think the difficulty in fund was not the big problem. … It may invest on trial basis first and increase the investment step by step. … We can overcome these difficulties. … Talented people can be trained in a short period. This problem therefore is able to be solved. … Through time and contact you will know more people and rely on each other in your business.

There are joint venture enterprises (JVEs) in China that are the international enterprises. Through JVEs you can implement your internationalization. … Through such time and communication the obstacle and difficulty can be overcome. … The further market opening in China will create more opportunities for young people to study in Universities and the talented students are the future precious human capital. … More and more students graduate from universities that to great extent enhance the quality of human resources. In the textile and garment-making industry, many firms send their managers to run the new factories or branches in foreign countries. … In Malaysia and Cambodia you will find there are a lot of Chinese experts and experienced workers. These people worked in the foreign countries for two to three years and learn and obtain the knowledge and experiences overseas. They can teach the new managers and workers with their international perspectives and knowledge that are very useful for corporate development and will reduce and eventually eliminate the problem of lacking quality
human resources”.

B: “I think one of the major obstacles is corporate financing. From external factors, under current political and economic environments, the freedom of money flow is limited. From internal factors, there are many problems. One of the major ones is the human resources. When I think of the expatriate our firm wants to send to position in overseas subsidiary I have difficulty in selecting the competent one who is very difficult to be employed for the PSMEs like us. … There are the obstacles. … I think some obstacles can be overcome but some not. The difficulty in corporate financing is the one under current situation we are unable to overcome through official channel. We may be able to overcome such difficulty through some irregular and special way. This is why Chinese PSMEs are very difficult to develop well and grow bigger in overseas market under the current political and economic environments. However some internal difficulties such as human capital can be overcome by training and employing more qualified and competent persons by offering them higher salary, bonus, incentives and even corporate shares. The external environment such as government control is impossible to change by us. … it is sure these difficulties will decrease but it is too early to say they will disappear. … In my opinion, it is likely to decrease but impossible to disappear
under the Chinese political and economic system.

C: “… China is still a foreign exchange control country. Without the government support we can not get sufficient fund from the state-owned banks to carry out internationalization of the company. Another problem is the human resources. As a small company we are not easy to employ the qualified staff because we can not offer much higher salary as some big companies do. Without good salary and benefits as the premium some competent and talented people worry about the scale of the company and their future career, so they prefer to be employed by the big companies. … It is almost impossible to overcome the difficulties such as the foreign exchange control, political and economic bias in policies and regulations. But some difficult situation such like the human resources and fund from the banks may improve when the people’s ideas about the private companies change, the education and training are enhanced and more and more foreign and private commercial banks have emerged in China after China entered the WTO in 2001. … In coming years, I don’t expect they will change a lot, maybe a little bit is possible. … In China most of the banks are state-owned ones however there are still some newly established private or collective owned commercial banks, like Shengzhen Development Bank, Minseng Bank and so on. They are more flexible and willing to
supply us with small sum of fund to improve our cash flow. However they are still
new and very conservative and careful doing so. I think the difficulties could
decrease but could not be totally solved especially for those concerning the
government policies”.

D: “It is the foreign exchange control that is one of the most difficult obstacles. The
tax is also the problem. … Corporate financing is also one of the problems. In terms
of foreign exchange control, with the entry of the foreign banks to China handling
Ren Min Bi (RMB) (Chinese currency) business after China entered the WTO in 2001,
the problems of business financing for PSMEs are decreasing and being solved.
Except under the capital account, the foreign currencies can be freely exchanged
under current accounts. In taxation, in the past before China entered the WTO
foreign investment in China could enjoy profit-tax break for normally three years and
favorable tax rate after three years but the Chinese PSMEs did not. After China
joined the WTO, to follow the WTO regulations such inequality in taxation between
foreign direct investment enterprises and local Chinese enterprises are approaching to
the same levels. In the past the Chinese governments encourage the foreign
companies to invest in China to help the development of Chinese economy. Now the
Chinese governments encourage both the foreign and domestic enterprises to develop
so in taxation, the policies to adapt to the equal treatment have been issued that will help PSMEs improve their operation environment. … I am sure they (the obstacles and difficulties) should be decreased and eventually solved. After all the whole political and economic environments are continually improving and become better and better. China is integrating with international communities”.

Table 4.6 is the summary of opinions about the obstacles to and difficulties of internationalization of PSMEs, Guangdong, China under the current political and economic environment.

Table 4.6 Obstacles and difficulties of internationalization of Guangdong PSMEs

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Obstacles &amp; difficulties</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Lack of human capital; Lack of understanding environment;</td>
</tr>
<tr>
<td></td>
<td>Lack of communication with foreign partners, buyers;</td>
</tr>
<tr>
<td>B</td>
<td>Corporate financing; Limited freedom of money flow;</td>
</tr>
<tr>
<td></td>
<td>Human resources problems</td>
</tr>
<tr>
<td>C</td>
<td>No support from government &amp; banks; Weak cash flow;</td>
</tr>
<tr>
<td></td>
<td>Foreign exchange control; Lack of fund &amp; human resources</td>
</tr>
<tr>
<td>D</td>
<td>Foreign exchange control; taxation &amp; corporate financing</td>
</tr>
</tbody>
</table>

4.7 Motives for Internationalization influencing Decision-making for Strategy, Entry Modes and Performance of PSMEs, Guangdong, China
After presentation of the opinions of the interviewees about the motives for the internationalization of PSMEs, Guangdong, China and the views relevant to the motives, this section discusses the question of whether the motives will influence the decision-making for strategy, entry modes and performance for the practical process of internationalization of the enterprise. The following citations drawn from the interview transcripts express the similar views of the interviewees.

A: “… In the process of formulating strategies for corporate development and investment, these three respects (of need to grow and develop, need to make profit, need to reduce the risks) are taken into consideration. As to entry mode, we are the factory for making garment we regard making profits as our goal. For example, we establish a marketing office in USA for the purpose of serving and satisfying our clients and customers’ needs. We wanted to enter Indonesia and Cambodia for the purpose of reducing costs so we would think more the second and third theories (Stage and Network theories). That is what the motive most influences our decision of internationalization I referred to.

B: “The motive will influence the decision-making but how it influences is the matter
of time. The motive varies in different period and changes according to the different environments. … (When asked whether the motives were different in different period and the strategy, entry mode and performance influenced by the different motives were different in different period, the answer was) Yes, and the performance and profit are also different”.

C: “This is very certain. We only make our strategy according to what we have and our own character. For example, we are short in cash so we cannot invest a lot of money in foreign market. What we could do was first to try to establish a kind of network for communicating our customers so to establish our business first and later when our experiences and fund were accumulated we started to look for opportunities for investment. On the other hand, we established our network in international market and found a lot of opportunities of demand for our commodity, we returned to China to set up a factory for making the commodity or industry products (Gum rosin) to supply to our foreign clients. So it much depends on our capability”.

D: “In my opinion the important motive is the interests of the enterprise. These interests are of the competitiveness of the enterprise, the survival and development of the enterprise. When you make any decision you have to consider these interests.
If the Chinese market is really saturated you have no other choice but to go international because of the interests of the enterprise (competitiveness, survival and development of the enterprise).”

Table 4.7 summarizes the opinions of the interviewees about the theme that motives for the internationalization of PSMEs, Guangdong, China influence the decision-making in corporate strategy, entry mode and performance of the enterprise.

Table 4.7 The motives influencing decision-making in strategy, entry modes and performance of the enterprise

<table>
<thead>
<tr>
<th>Enterprise</th>
<th>Motives influence decision-making in strategy, entry modes &amp; performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Agree</td>
</tr>
<tr>
<td>B</td>
<td>Agree</td>
</tr>
<tr>
<td>C</td>
<td>Agree</td>
</tr>
<tr>
<td>D</td>
<td>Agree</td>
</tr>
</tbody>
</table>

4.8 Conclusion

The opinions from the interviewees of the case study organizations about the motives for internationalization of PSMEs, Guangdong, China have been presented in six sections of this chapter to respond to twelve themes. The content questions following the open-ended questions asked in the interviews were for the purpose of further verifying the validity and reliability of the opinions of the interviewees responding to the open-ended questions. The brief introduction and analysis about the interview transcripts were mentioned under each theme. All the relevant
conversations with similar attributes of four interviewees were quoted under the same theme for quick reference and comparison. A table of a summary for each theme followed the discussion to summarize the main opinions of the interviewees. To survive, grow and develop was the shared motive for internationalization of the four interviewed enterprises although there were some differences in point of view of interviewees in different industry. The overall results of interview transcripts are to be further analyzed and examined to induce the conclusions and findings from them to answer the research questions raised in Chapter Two. These will be discussed in Chapter Five.
Chapter Five

Discussion and Conclusions

5.1 Introduction

5.2 Discussion and Conclusions on Research Issues

5.3 Implications for Theory

5.4 Limitation of Theory

5.5 Contribution to the Theory and Recommendation
5.1 Introduction

Chapter One introduced the background of PSMEs in Guangdong, China to internationalize. Chapter Two reviewed the literature about the reform in emerging countries, history of evolution of Chinese private economy, definition of China’s socialist market-oriented economy, the parent theory of international business, the research problem theory of motives for internationalization for SMEs and entrepreneurship. The lack of research on the motives for internationalization and strategic management of Chinese PSMEs as the gap was identified. Six research questions arising from this gap were developed. Chapter Three identified and justified the qualitative approach as the appropriate method to conduct this empirical research. In Chapter Four the results of the four interviews in this research were presented under the themes relating to the research questions.

This chapter will discuss the key findings drawn from the themes based on the interview transcripts presented in Chapter Four and to address the research questions raised in Chapter Two. The extant theories of the motives for internationalization for SMEs reviewed in Chapter Two are to be used to compare with the findings from the
interviews to see what the similarities to the existing theories and differences from them are and to draw the inductive conclusion to the proposition each research question seeks to answer.

This chapter is organized into six sections. Section 5.2 examines the findings and the existing theories and to draw the conclusions to respond to the research issues. These issues consist of six propositions in the six research questions developed in Chapter Two. Section 5.3 discusses the implications for theory in the Chinese context which consists of implication for the extant theories in application to the Chinese practice and implication for theory of managing change for internationalization. Section 5.4 indicates the limitation of theory and Section 5.5 discusses the contribution that is based on the review of the existing theories and the empirical findings and the limitation of the research and will make some recommendations for internationalization of PSMEs in Guangdong, China and for further research on these issues. The four interviewees were represented by the English alphabet for ethical purpose as arranged in Chapter Four.

5.2 Discussion and Conclusions on Research Issues
This section is to answer the research questions based on the empirical findings and the extant theories reviewed in Chapter Two. The conclusion to each proposition in the question will follow at the end of each examination of the findings from the interviews and existing theories in the literature review. Finally the general inductive conclusion is to summarize all the conclusions drawn from the propositions in the six questions.

5.2.1 Research Question 1. “What are the motives for the private small and medium-sized enterprises in Guangdong, China to internationalize?”

5.2.1.1 Analysis and Examination of Findings

The existing theories of the motives for internationalization discussed in Chapter Two are represented by the theories of external and internal factors (Katsikeas & Piercy, 1993) in which the term “Change agents” (Bilkery, 1978) is used to categorize the factors that belong to internal or external factors of SMEs in proactive or reactive nature. “A change agent is anyone who possesses enough knowledge and power to guide and facilitate in change efforts” (Kotter & Cohen, 1998, p. 480). Transformational leaders are regarded as the effective change agents (Kotter & Cohen,
The Integrative Framework theory developed by Etemad (2004) indicates that SMEs are pushed by the forces coming from inside, pulled by the drivers from the environments external to the firm and interacted with these forces to internationalize the firm. The management’s expectation of a significant impact on the growth of the firm and a high degree of commitment as two important internal determinants propel the firm into internationalization (Cavusgil & Nevin, 1981; Calof & Beamish, 1995).

In examination of the motives for internationalization of PSMEs in Guangdong, China relating to the existing theories mentioned above, nine out of twenty five open-ended questions in the Appendix 5 were asked.

5.2.1.1.1 Under the current political and economic environment in China why is it important for Guangdong PSMEs to go international?

The first relative open-ended question is that “given the current political and economic environment in China, why do you think it is important for your enterprise to go international?” This question was designed to ascertain the response to a proposition in the existing theories by Katsikeas & Piercy (1993) that the change in
internal and external factors will push and pull the firms to internationalize. The awareness by the “Change agents” of the importance for the enterprise to internationalize will lead to the motives for internationalization. All the interviewees regarded the internationalization for the enterprises as being important. According to Interviewee A, it was important because it was motivated by the keen competition in the Chinese market so the enterprise was forced to seek lower costs of labor and materials overseas and to reduce the risks by diversifying the investments due to the unstable political and economic environments. It was much more important because through internationalization the enterprise was able to enlarge the space for survival, growth and development. According to B it enabled the enterprise to make progress and upgrade itself by learning and understanding the rules of games and international practices in the competitive environments. It was also very important to conduct political risk-avoidance. C and D expressed the same opinion as those of A that the enterprises would enhance ability in competition, survival and development. It is one of the important findings that internationalization of the enterprise will enhance the ability of the enterprise in developing its core competence and competitive advantage and enlarge the space of competition, survival and growth. Two interviewees mentioned the political and economic risk-avoidance that was the natural reaction from the lessons which happened before 1978. As discussed in Chapter
Two during socialist public ownership period (1958 – 1978), private business was regarded as the capitalist who exploited the workers so the properties, assets and capitals of the private business were confiscated by the government or reformed to be public ownership after the establishment of the People’s Republic of China. A large number of PSMEs especially those established in early period when China started carrying out open-door policies still feared the misfortune that would likely happen as before due to the lack of transparency of the political and economic policies and misconduct of the various levels of government officials and lawmakers who might abuse the authority or power to close the private business or forfeit the property belonging to the private enterprises. Since two amendments to the constitution about the encouragement of the development and management of private property (Qian, 2004, p.3) were made to raise the status of private enterprises no law for further protecting the right of private property has been legislated to date. To overcome such fear some PSMEs transferred their fortune and assets overseas in the process of internationalization of their enterprises such as keeping their profit in overseas accounts in export or import transactions or investing in overseas assets or property. The owners or their relatives of the PSMEs immigrated to another countries and regions such as Canada, Australia, New Zealand, Singapore, Hong Kong, Taiwan and Macau through investment immigration and come back to China with the money to
invest as foreign direct investment that in their opinions was much safer. The investment and business environments in China have been improving since later 1978. Having conducted reform for more than twenty years in China the fear of Guangdong PSMEs for the misfortune has been decreasing. One of the interviewees, C was confident that this improvement would continue.

The analysis of the above empirical findings verifies that the awareness of importance of internationalization of Guangdong PSMEs to adapt to the rapidly changing political and economic environments in China complies with the theory of Katsikeas & Piercy (1993) that the change in internal and external factors will push and pull the firm to internationalize. The motives for internationalization to enhance the ability in competition, survival and development are created in a proactive nature while exceptionally the political and economic risk-avoidance is created in a reactive nature to the ever change of political and economic environments which will be further examined in sub-section 5.2.1.3.

5.2.1.1.2 The impacts of motives and drivers push the internationalization of Guangdong PSMEs.
The second, third and fourth questions concern what the impacts are, where they stem from and which impact plays an important role in decision-making and what is the relationship between the impact from internal and external environments of the enterprise. These questions were designed to further ascertain the Integrative Framework theory suggested by Etemad (2004) that the push factors, pull factors and mediating forces of internationalization intermediated and interacted with the SMEs’ internationalization process. Four interviewees agreed that the impacts both came from outside and inside of the enterprises and the internal impacts played the important role in decision-making. According to A, the impacts came from both inside and outside of the enterprise. “From inside the managers have the desires to see the world and to develop … to expand the business of the firm. From outside the firm is pushed by its customers and buyers to be internationalized. The main impact comes from inside of the firm”. These findings comply with the theories of Cavusgil & Nevin (1981) and Calof & Beamish (1995) that the management’s expectation of the impact on the growth of the firm and a high degree of commitment are two important internal determinants propelling the firm into internationalization. This proposition will be further discussed in the following sub-section 5.2.1.4 about the character of the decision-maker of Guangdong PSMEs.
5.2.1.1.3 The internationalization of Guangdong PSMEs is carried out in proactive or reactive nature.

The fifth question asked the interviewees about their opinions whether the internationalization of PSMEs was carried out in a proactive nature for future development of the enterprise or in a reactive nature because of the change in political and economic environments. This question was designed to ascertain whether the decision for the enterprise to internationalize was made by the manager’s insight into future survival, development and growth or the enterprise’s reaction to the change in external environments. According to A, internationalization of the firm was motivated by many factors but it was for future development of the firm. B thought that the firm to internationalize was the desire to develop the firm itself because the political and economic environments were changing all the time. The enterprise should grow and upgrade itself in such ever changing environments. C said that it was for the future development of the enterprise. D was inclined to think that the change in political and economic environment forced the enterprise to seek the better solution for its survival and created the idea to go international.

Four interviewees regarded internationalization of the enterprise as one of the better
solutions for the enterprises now and future for survival and development albeit they took it either in proactive nature or reactive nature. This finding also complies with the theories of “Change agents” (Bilkey, 1978) and “push, pull and interactive factors” (Etemad, 2004).

After China entered the WTO the domestic market has been internationalized. More and more foreign direct investments by MNCs and foreign products have been entering the Chinese market facing low or no trade and non-trade entry barriers under the WTO’s regulations. The leaders of Guangdong PSMEs are confronted with a challenge they have never met before. Before China entered the WTO they had to compete with SOEs, Large private-owned enterprises (LPEs) and among themselves in the competitive (non-monopoly) industries. They could more easily survive the competition because the high entry barriers, lack of knowledge about the policies and regulations and restrictions of entering some certain industries in China prevented the MNCs from investing and competing in these industries while the inefficiency and ineffectiveness of a large number of SOEs caused by the old-day planning and commanding system made these SOEs unable to compete with private enterprises that enjoyed low costs, flexibility in decision-making, personal relation and networking (Guang-Xi) and strategy and sensitivity and quick reaction to the market. Now
PSMEs must compete with MNCs as well. In a proactive manner some leaders of Guangdong PSMEs have been trying to explore some new markets to enlarge their surviving space and to seek to grow and develop by making use of the comparative advantage of overseas factor endowments. In a reactive manner some PSMEs have been trying to upgrade themselves by enhancing the quality of the products and services and integrating their management with international practices and rules of the game in order to stand in the changing domestic market. Whether the character of the decision-maker plays a key role in the internationalization decision of the enterprise is the proposition in the sixth question that follows.

5.2.1.1.4 Characters of the decision-makers of Guangdong PSMEs determine the strategy for internationalization.

The sixth question asked the interviewees whether the character of the decision-maker of a Guangdong private small and medium-sized enterprise determines the strategy for internationalization of the enterprises. This question was designed to check with the Chinese managers as the important members of “Change agents” if their characters played the key roles in internationalization decision of the firm as argued in the extant theories (Reid, 1981; Cavusgil, 1984; Chetty, 1999). As reviewed in
Chapter Two, the character of the decision-maker includes the knowledge, attitudes and motivation which is influenced by the decision-maker’s level of education (Simpson & Kujawa, 1974), foreign market experience, ability to speak a foreign language (Langston & Teas, 1976), and whether they were born abroad (Simmonds & Smith, 1968). Managers who are already working in internationalized SMEs, are actively engaged in the enterprise’s international activities and have the access to the new knowledge of internationalization through learning by doing. They are able to integrate the new knowledge into the enterprises as a firm competence (Zahra, Ireland & Hitt, 2000).

Four interviewees in this research held a high level of education with two being able to speak English and one was living in England for more than 7 years. The knowledge of internationalization was regarded as new to the Chinese PSMEs. The character of the decision-maker who was open-minded or conservative would treat this new thing differently as described in the interviews. According to B the minds of the decision maker could be described as some one being open-minded or conservative-minded to try something new and this mind would affect the decision-making of internationalization. Three of the four interviewees who were the CEOs in the internationalized enterprises were actively involved in international
activities of the enterprises agreed that the character of the decision-maker determined the enterprise to go international. One did not agree that the character of the decision-maker would play the decisive role, but agreed it was very important in decision-making because where and how the enterprise should go was not a decision to be made in a short time, it was the perception of the leader of the enterprise and it needed a comprehensive and careful plan. This finding offers an explanation that not all PSMEs to internationalize are in a proactive manner to pursue growth as their key objective (Covin, Slevin & Covin, 1990; Porter, 1996). Some want to maintain control of the enterprise through internationalization in reactive manner in changing external environment because one of the limitations of growth through internationalization is a lack of resources (Welch & Luostarinen, 1988). The results of the interviews are found to be consistent with the existing theory as the abovementioned albeit there are slight differences in the opinions of four interviewees.

It is concluded that the character of decision-maker plays the key role in internationalization decision. Nevertheless the factors that influence the formulation of strategy for internationalization of Guangdong PSMEs will be examined in the next sub-section. Meanwhile the industry the enterprise is in also affects the enterprise’s
entry mode of internationalization which will be examined in sub-section 5.2.1.6.

5.2.1.1.5 The internal and external factors influence the decision of Guangdong PSMEs to internationalize.

The seventh and eighth questions were designed to ascertain whether there were any internal and/or external factors that influenced the enterprise’s decision to internationalize and which factor was considered most when formulating the strategy for internationalization by the decision-maker of the enterprise.

Most of the interviewees considered the political and economic factors and the market factors that included the competition, government policies and regulations, supply and demand as the external factors to the firm and the character of the decision-maker, request and push by the employees and customers, human resources and capital, organizational culture and level of technology of the firm as the internal factors to the firm influencing most the strategy-making for internationalization of the enterprise.

These findings are thought to be similar to the strategic management theories of Western SMEs that the character of the decision-maker plays the key role in formulation of strategy as discussed in the above sub-section 5.2.1.4. Among
The theories of strategic management encompass two main schools: Industrial Organization-based Theory (IO) (Bai, 1951; 1956; Porter, 1981) and Resource-based View (RBV) (Barney, 1991) represent the major theories that explain domestic and international business activities. The findings also further prove the fact that the higher the level of education of managers of Guangdong PSMEs, the more rational they are when they make their strategy for internationalization. However, it is difficult to identify that the process of formulating the strategy for internationalization is in proactive or reactive nature or both of natures.

Guangdong PSME managers’ practices in strategy-choice and strategy-making evidenced that the way of formulating the strategy for internationalization was quite consistent with the way adopted by Western SMEs, albeit that most of the interviewees claimed that they had not read or studied the western theories of internationalization for SMEs, which will be discussed in the later sub-section 5.2.2. Nevertheless, the western theories of strategic management are considered to be generalized to the practice in the context of China, other conditions being equal. With more and more managers of Guangdong PSMEs upgrading themselves by learning modern management theories, they are able to make the decision and strategy for internationalization of the firm taking into consideration the factors external and
internal to the firm as the way most of Western SMEs do.

5.2.1.1.6 The industries of Guangdong PSMEs determine the entry modes to international business.

One of the important findings from the interviews is that the industry the enterprise is in, typically influences the business nature and the process of internationalization. The ninth question relating to motives concerns how the industry the enterprise is in determines the entry mode of the firm to international business and market. It was designed to gauge when and how the interviewed enterprises went international and to ascertain whether the traditional three schools of internationalization for Western SMEs and the International New Venture theory in nature of entrepreneurship (Mamis, 1989; Oviatt & McDougall, 1994) could be applicable to the Chinese context. As reviewed in Chapter Two, three schools of internationalization are: Foreign Direct Investment (FDI) Theory (Coviello & McAuley, 1999), the Establishment Chain (Stage) Model (Young 1987; Johanson & Vahlne, 1990; Melin, 1992) and Relationship School of the Network Perspective (Axelsson & Easton, 1992).

Two out of four interviewed enterprises were internationalized gradually through
learning as per the stage theory and two were “born global” that meant the firms went international from inception. Quoted from the conversation in the interview, A mentioned “according to the situation of our firm, it was not dreaming of going global when it was established. …At the very beginning the firm did not intend to invest and develop in other places but just did its job in an industry. Now we are discussing how we can enlarge our business in some foreign countries”. D, whose enterprise was making cosmetics, said that he started his business in the domestic market first and step by step developed the business in international market. As a PSME they must seek to survive in domestic market first and trained themselves to acquire the experiences and knowledge and raised the level of their management and capability before going international. This was relevant to the industry they were in. B and C both were “born global” enterprises. B, whose enterprise was engaged in the shipping and forwarding industry, agreed that the choice of entry mode was relevant to the industry they were in but it was not too much concerned with manager’s character.

The findings indicate that the industry the firm is in strongly influences the time and how the enterprise enters its international business. In most service industries such as international trade, logistics, high-tech service and telecommunication the business
is established in the nature of international entrepreneurship and is internationalized at the very beginning of the set-up of the enterprise. In the manufacturing and traditional industries in most cases the Chinese enterprises go international by learning and accumulating the knowledge of management, international market and the regulations, culture and environment of foreign countries by stages and in a network manner. One of the reasons is that it takes time for these enterprises in these industries which normally know the domestic market well but know less foreign markets to learn before going international. The findings also accord with the existing theories of internationalization for SMEs and international entrepreneurship although the interviewees may not intentionally use these theories to guide their business direction which will be discussed in the following sub-section 5.2.2.

5.2.1.2 Conclusion

This sub-section analyzed and examined the relative findings from the transcript of four interviews and addressed the question of “What are the motives for the private small and medium-sized enterprises (PSMEs) in Guangdong, China to internationalize?” Awareness of the importance for the enterprise to go international creates the motives for internationalization of PSMEs in order to survive the keen
competition and reduce the political and economic risks, to upgrade the firm itself and
to grow and develop in the current political and economic environments in China.
The impacts of internationalization come both from inside and outside of Guangdong
PSMEs while the internal impacts play the important role in decision-making for it.
Internationalization of Guangdong PSMEs is motivated for future development to
explore the new market for seeking growth in proactive nature and to upgrade the
enterprise itself to enhance the quality of the human resources, products and services
and integrate the management into international practices in reactive nature against
the ever changing political and economic environments. The character of the
decision-maker as a change agent plays a very important role in the process of
internationalization of the enterprise. The political, economic and market factors are
most considered when formulating the strategy for internationalization of the
enterprises which are consistent with the way adopted by most of western SMEs.
The industry the enterprise is in plays the key part in deciding the time and entry
mode to international business and market. The industries that especially those
so-called “born global” enterprises are in overwhelm the characters of the
decision-makers in making entry mode and time choice. The extant theories of
motives for internationalization for SMEs and international new ventures are found
generalized to the practices in the Chinese context with some characteristics which are
to be analyzed and examined in the following sub-sections.

5.2.2 Research Question 2. “Can western internationalization theories for SMEs adequately explain the process of internationalization of Guangdong PSMEs?”

The findings from the interviews indicate that the existing theories of motives for internationalization and international new venture can explain and be generalized to some extent to the Chinese management practices. This sub-section is to further analyze and examine the response to the relative questions about the application of the western theories to the Chinese practice. Two open-ended questions were asked in four interviews to ascertain which theory of internationalization for SMEs most influenced the CEO in his/her decision in internationalization and performance of the enterprise and which theory he/she thought could adequately explain or was most applicable to the Chinese practices.

5.2.2.1 Analysis and Examination of Findings

The first question was designed to ascertain the understanding of the western theories of the interviewed CEOs and to obtain the opinions which theory influenced most the
CEOs’ insights into the internationalization of Guangdong PSMEs. All of the four CEOs admitted that they had not read or studied the relevant theories in this field. Therefore, it is not possible to evaluate which theory influences the CEOs’ perception of internationalization. However when introducing three schools of internationalization, the interviewed CEOs were able to check and match the practices of the firm with the extant schools that meant the decision-maker of Guangdong PSMEs had unintentionally adopted the western theories one or another to apply to the process of internationalization of the enterprises and continued to make the improvement to adapt the practices to the process through “learning by doing”. As per C, though he did not know well about the theories of internationalization for SMEs, he still made his strategy and decision with some ideas similar to these theories.

The second question was designed to obtain the opinions of the interviewees as to whether the western theories of internationalization for SMEs could apply to their decision-making and the process of the internationalization of their enterprises. A and D agreed that they would apply the western theories to their international practices. B and C thought it was difficult to say “Yes” or “No” but they had applied some theories in their international practices. The findings reflect the traditional
thought of the managers of some Guangdong PSMEs that the theories for internationalization for Western SMEs might not be suitable for application to the Chinese context due to the difference in the political and economic system, corporate culture and development levels between China and foreign countries. The external environments to the firm are the important factors the managers of Guangdong PSMEs will consider. On the different conditions of the external factors, the western theories for internationalization for SMEs are difficult to fit the Chinese context such as the lack of legitimate protection of property in China up till now, inequitable treatment to the private sector (Wu, 2006) and foreign exchange control. However the continuous improvement in business environment in China especially after China entered the WTO will encourage the Chinese managers to learn and study the relevant western management theories in order to integrate their business practices into international convention and upgrade themselves to face the keen competition from home and abroad in coming decade. The findings about the characteristics of internationalization of Guangdong PSMEs are to be analyzed and examined in the next sub-section to identify the differences and features between Guangdong PSMEs and western SMEs.

5.2.2.2 Conclusion
Although the interviewees admitted that they had not read and studied the western theories of internationalization for SMEs the theories could explain the business practices of Guangdong PSMEs and in fact they used the similar methods and strategies to the western theories in carrying on the internationalization of their enterprises. This also indicates that given the same conditions of political and economic systems the western theories of internationalization for SMEs can apply to the Chinese practices.

5.2.3 Research Question 3. “What are the characteristics of the internationalization of Guangdong PSMEs in the context of China as a socialist market-oriented economy?”

As discussed in Chapter Two socialist market-oriented economy is defined as the economy under a socialist system, in which the allocation of resources is basically adjusted through the market mechanism with two main characteristics as: 1. market mechanism and public ownership as the major components of the entity co-exist with multi-economic ownership; 2. it is not a private ownership-based economy, it is an economy under government macro-economic control rather than a fully free
market-based economy (Laissez-faire) (Li, 2004, p93). This sub-section analyzes the findings from the interviews and identifies the characteristics of internationalization of Guangdong PSMEs under such political and economic system in China. Two open-ended questions were asked to obtain the opinions of the interviewees.

5.2.3.1 Analysis and Examination of Findings

The first interview question was designed to identify what the characteristics of the internationalization of Guangdong PSMEs were in the context of China as a socialist market-oriented economy. The second question was designed to ascertain whether these characteristics would deviate from the internationalization of Guangdong PSMEs playing with the rules of game in the world.

Four interviewees of the study companies identified that unlike those of SMEs in western countries, Guangdong PSMEs were under strict control in overseas investment and foreign exchange by the Chinese government. Lack of the financial support from the state-owned banks and financial institutions forced Guangdong PSMEs to finance themselves through private placement or private funding that
increased the costs and risks. The policy bias and ambiguity in explaining the laws, regulations and the official red tapes and corruption in examining and approving investment or projects in international markets caused some PSMEs to conduct some evasive and irregular methods or tactics in their internationalization process. However Guangdong PSMEs were characterized as being small in scales, family business with the wide personal relations and networking (Guang-Xi), good at imitation, flexible in decision-making, quick reaction to the market change and under many restrictions in entry to some industries. All these characteristics and difficulties would deviate from the internationalization of Guangdong PSMEs playing games with international rules.

From the above discussion in the transcript, it is found that the policy bias and financial controls are the major obstacles preventing Guangdong PSMEs from smoothly implementing their strategies for internationalization. They must make use of their competitive advantages in flexibility and strong ability of imitation, information, innovation, effectiveness, efficiency, low costs and quick response to the market change to survive and grow in competitive industries. The improvement of Guangdong PSMEs’ business environments such as the limitation in financing, restrictions to enter certain industries (especially some monopoly industries) and
foreign exchange control largely depends on the change and improvement in the
government policies that are not easy and reflect the characteristics of the Chinese
socialist market-oriented economy.

5.2.3.2 Conclusion

Under the current political and economic environments Guangdong PSMEs have their
characteristics of internationalization. Apart from those similar to western SMEs
such as small in business scale, lack of fund and human capital but low costs, the
nature of the personal and family networking, flexibility, efficiency and effectiveness,
innovation and quick response to the market and environmental change Guangdong
PSMEs face inequitable treatment by the governments and the community in their
process of internationalization. The institutional change and improvements for the
business environments of private economy to large extent depend on the government
policies and state economic development strategy. It is difficult for Guangdong
PSMEs alone to influence such change by the government. Although the central
government has issued some regulations and laws to encourage the development of
private economy (Wu, 2003, pp195-196) these policies are far from being enough to
enable the Guangdong PSMEs to compete with foreign companies, SOEs at the same
level. Without integrating the Chinese practices and business convention with international rules of games the internationalization of Guangdong PSMEs will have many difficulties to implement.

The following sub-section 5.2.4 analyzes the obstacles to the internationalization of Guangdong PSMEs under the current political and economic environments.

5.2.4 Research Question 4. “What are the obstacles to the internationalization of Guangdong PSMEs?”

This sub-section further examines the findings from the interviews and analyzes the obstacles to the internationalization of Guangdong PSMEs from the point of view of the interviewees. Three open-ended questions were asked to obtain the response from the CEOs of four interviewed enterprises because they were the businessmen and managers in different business industries who were able to supply the first hand data.

5.2.4.1 Analysis and Examination of Findings
The first question was designed to identify what the obstacles to and difficulties of the internationalization of Guangdong PSMEs were. Second and third questions were designed to ascertain whether these obstacles and difficulties could be overcome and could decrease or disappear with the development of Chinese political and economic situation.

With more than 20 years of political and economic reform in China, great change has taken place in this biggest and most potential market. China’s entry into the WTO offers the Chinese enterprises including SOEs, LPEs and PSMEs the opportunities to incorporate their business activities into international business. Under the WTO regulation, more and more obstacles such as the restriction to some industries, trade barriers and non-trade barriers are being gradually dismantled to meet the commitment when China received access to the WTO. All these help Guangdong PSMEs to overcome or decrease the obstacles and difficulties in the process of internationalization. Three out of four interviewees thought shortage of human resources for internationalization was one of the internal obstacles that was caused by the demand over supply of the competent people when the pace for internationalization was faster than the availability of human resources and by the old day view of the community that the private enterprises were small in scale and
unstable to sustain its operation because most of the private enterprises were owned and run by the families. However since China entered the WTO this situation has been changing with more and more students graduating from business schools joining the private sector and the change of the view of the community regarding the private sector as one of the main drivers of the Chinese economy. The human capital can be accumulated with more and more employees being trained and university students graduated. Another obstacle was corporate financing. As a historical problem the state-owned banks did not actively support the private enterprises because the government policies required the banks should support the development of state-owned enterprises as the main economic component under the socialist market-oriented economy rather than the private ones in capitalism nature. The family-run private enterprises especially those PSMEs that have not established its business scale, reputation and credibility in modern management are very difficult to obtain the loans from the state-owned banks. Meanwhile unlike some foreign countries that the governments regard SMEs as one of the main driving forces of development of state economy, the Chinese government has not made favorable policies to support the PSMEs so that it disables them to get the loan from the state-owned banks as well. Nevertheless according to C, obstacles to the corporate financing could decrease sooner or later with more and more foreign banks entering
the Chinese market and collective or private-owned commercial banks emerging in China. Other obstacles and difficulties such as the inequality in taxation and unfair national-status treatment to the local private enterprises have been decreasing since China entered the WTO. In the opinions of all the interviewees these obstacles and difficulties in the process of internationalization of Guangdong PSMEs could decrease and be overcome eventually. However some obstacles such as foreign exchange control and the political and economic policy bias are very difficult for Guangdong PSMEs to change and overcome albeit some favorable changes in foreign exchange business have taken place recently such as free conversion and remittance of foreign currency under current account for international trade and managed float of the Chinese currency (RMB).

5.2.4.2 Conclusion

To summarize, the main obstacles and difficulties in human resources, corporate financing and taxation for internationalization of Guangdong PSMEs identified by the interviewees can decrease and be overcome with the development and continuous improvement of political and economic environments in China. Some institutional obstacles and difficulties concerning the government acts can only be cleared through
the change of the government policies which very much depends on the evolution of the Chinese political and economic situation and goals under the socialist market-oriented economy system. From this point of view the Chinese PSMEs cannot enjoy the same status as their foreign peers in international market that is one of their disadvantages.

5.2.5 Research Question 5. “How do the motives for internationalization influence the decision-making in strategy, entry mode and performance of Guangdong PSMEs?”

After analysis of the motives and the propositions relating to the motives for internationalization in the above sub-sections, this sub-section is to gauge how the motives influence the decision-making for strategy, entry modes of internationalization and the performance of the firm as well.

5.2.5.1 Analysis and Examination of Findings

An open-ended question was designed to obtain the interviewees’ opinion whether and how the motives for internationalization of Guangdong PSMEs influenced the
decision-making in corporate strategy, entry mode and performance of the enterprise.

The purpose of this question is to analyze how the awareness of the importance of internationalization of the enterprises leads to desire for it and how to acquire the knowledge about it and enhance the ability for it to reinforce the motives so to influence the formulation of the corporate strategy, making decision for entry mode and evaluating the strategic performance of the enterprise. The model of ADKAR (Awareness, Desire, Knowledge, Ability, Reinforcement) (Hiatt & Creasey, 2003) reviewed in Chapter Two is adopted to analyze and examine the findings.

All the interviewees agreed that the motives influenced the decision-making for the corporate strategy, entry mode and performance of the enterprises. According to A the motives for internationalization including the need to grow and develop, to make a profit and to reduce the risks were taken into consideration when making corporate strategy. By acquiring the knowledge and experiences of internationalization such as the Stage and Network theories and market the enterprise could make the choice of viable entry mode to international market and made the plans to evaluate the strategic performance of the firm if it decided to internationalize. B thought the motives varied in different periods and changed as per the different environments so the corporate strategy, entry mode and performance would vary as the motives varied.
C thought as the character of the decision-maker and the resources of the enterprise were very important factors to lead the motives for internationalization he only made his company's strategy according to what the company had and his character. D considered one of the motives was the interests of the enterprise that included the competitiveness of the enterprise, the survival and development of the enterprise so when he made any decision he had to consider these interests.

It proves that the awareness of the importance of the enterprise to internationalize leads to the motives and creates the desires to acquire the knowledge and to enhance the ability. The knowledge and the ability reinforce the motives for internationalization which influence the decision-making of corporate strategy, entry mode and the plan of evaluating the strategic performance of the enterprise for internationalization.

5.2.5.2 Conclusion

Although there are different opinions of the interviewees about how motives influence the decision-making, all the interviewees agree that the motives for internationalization influence the decision-making for corporate strategy, entry mode
and the goals of internationalization. The model of ADKAR (Hiatt & Creasey, 2003) is adopted to ascertain the findings which will be further discussed in the section 5.3 of Implications for Theory.

5.2.6 Research Question 6. “How do the objectives of PSMEs vary as the initial goals of internationalization are achieved?”

This sub-section seeks the answers from the interviewees to the last question whether the Guangdong PSMEs with achievement of their objectives after their initial steps in internationalization will change their perception of corporate goals and strategies for internationalization.

5.2.6.1 Analysis and Examination of Findings

Three open-ended questions were asked to obtain the opinions of the interviewees. The first one was designed to verify that by conducting the internationalization the enterprise would not only be able to survive but also to grow in the keen competition in foreign and domestic markets. All the interviewees gave positive answers. According to C, on the short term the firm might not see the obvious positive result
that much depended on the commodity and market the company was dealing. But on the long term an international company should enjoy good performance. When an enterprise operates well in domestic market and wants to develop or expand its business, internationalization is one of the choices it may first consider. This case can apply to Guangdong PSMEs especially when the awareness of the importance of internationalization creates the motives for survival of the firm in competition, growth and development of the enterprise.

The second question was to obtain the ideas of the interviewees about the objectives of internationalization. According to A, the goals of internationalization were: firstly, development that was fundamental one because the firm needed to grow continuously. Secondly, the firm needed to diversify the risks and thirdly the firm needed to lower the costs. B said his company’s objective was to be in a good position in logistics with the professional business (liquid transportation) in Asian area. C hoped that on the long term his company could become No.1 in supplying their commodity in the world. D mentioned his company’s short term objective was to set up a factory in the neighboring less developed countries or regions to take the advantage of lower labor cost and to sell the product made there to other countries. Examining the above citations from the transcripts of the interviews it is found that the objectives are
all made in a proactive nature that means the motives for internationalization are the
driver of the future development of the enterprises.

The third question was designed to ascertain whether the interviewees would change
their perception of internationalization when the initial goals of their enterprises were
achieved. The answers were mixed with two giving “No”, one “difficult to say” and
one “possibly yes”. By the content analysis of the interview transcripts it is found
that for the two who gave “No” the insight for the enterprises to internationalize
would not change despite the enterprises’ growth and success in their initial
internationalization activities because it was a long term trend and it was the
optimization of the organizational resources. Although B said it was difficult to say
if he would change when the time passed by, he thought internationalization was a
trend for PSMEs. B emphasized that for the shipping and forwarding industry his
enterprise was in, the more international, the better performance. He would not give
up internationalization. From these citations of B, he was inclined to be categorized
to those two who gave “No”. For C who said: “possibly yes”, he was more
concerned with the change of strategy and tactics how to take over or merge the
companies to grow bigger internationally.
It is evidenced that although different opinions are expressed by the interviewees about the change of perception of internationalization when the enterprises grow the goals to internationalize the enterprises do not change. When China fully integrates its regulations, conventions and practices of business into the world there will be no big difference in most areas between international and domestic markets. All the firms in China sooner or later will be involved into the trend of internationalization and even globalization after China entered the WTO.

5.2.6.2 Conclusion

Four interviewees agreed that internationalization of the enterprise would enable them to survive, develop and grow. The findings prove that although there are mixed answers about the change of the perception of internationalization, it is the trend of the world after all.

5.2.7 Concluding remarks

The above conclusions addressing the six research questions have drawn the implications of the existing theories of internationalization for SMEs which can
explain adequately and apply to the practices in the Chinese context given certain
conditions and the new theory of managing change in the process of
internationalization for Guangdong PSMEs. The motives for internationalization of
Guangdong PSMEs to survive the competition and seek growth and further
development will create the desire to acquire the knowledge and enhance the ability
and will influence decision-making in strategy and entry mode into the international
market in different periods. The successful experiences in the process of
internationalization will reinforce the motives to keep internationalization as a long
term goal for the enterprise. These are the main themes to be discussed in the next
section 5.3.

5.3 Implications for Theory

The six research questions raised in Chapter Two have been addressed in the above
sections. This section is to indicate and explain the theory inducted from the
conclusion on the research issues based on the transcripts of the interviews and extant
theories reviewed in Chapter Two. It is organized into three sub-sections. Sub-section 5.3.1 is the implication of the existing theories for motives and
internationalization for SMEs in application to the Chinese practices. Sub-section
5.3.2 is the implication of theory of change management which is evaluated with ADKAR model (Hiatt & Creasey, 2003) and sub-section 5.3.3 conclusion.

5.3.1 Implication for the extant theories in application to the Chinese practices

The major existing theories for the motives for internationalization for SMEs used to analyze and explain the behaviors of the Chinese managers are the three perspectives of the internationalization for SMEs as discussed in sub-section 2.6.2, the theories of “Change agents” (Bilkey, 1978) and the “Integrative Framework” (Etemad, 2004). The three schools of internationalization for SMEs indicate the perception that most western SMEs behave in process of internationalization. “Change agent” is the term used to categorize the internal and external factors to the enterprise in proactive or reactive nature. The Integrative Framework describes the push factors, the pull factors and the interactive factors which mediate push and pull factors to motivate the internationalization.

The motives for internationalization of Guangdong PSMEs influence the formulation of the strategy and decision in choosing the entry mode to the international markets. Three schools of internationalization for SMEs including the Economic School of
Foreign Direct Investment (FDI) Theory, the Behavioral School of the Establishment Chain (Stage) Model and the Relationship School of the Network Perspective as well as International New Venture (INV) are employed to analyze and explain the strategy-making and selection of entry modes for internationalization of Guangdong PSMEs. Although most interviewees in this research have not intensively studied the above-mentioned theories due to limited time and lack of such theories in the early period of open-door policy implemented in China, the interviewed enterprises have unintentionally adopted one or two of these theories or similar theories in their business practices through “learning by doing”. The western management theories were only introduced to China in 1980’s (Xu, 1998). Three schools of theories explained how the established Guangdong PSMEs conducted their process of internationalization. INV theory in entrepreneurial nature explained that some Guangdong PSMEs went international when they were set up even before they accumulated sufficient managerial and international experiences which were determined by the industries the enterprises were in.

Unlike most large Chinese firms which internationalize with strongly institutional supports seeking technological and brand assets to create a competitive position in international market (Child & Rodriques, 2005; Li, 2006), Guangdong PSMEs,
though they are weak in relationship (“Guang-Xi”) with the government and lack financial support, human resources, managerial and international experiences, go international by choosing the routes of exporting, setting up subsidiaries step by step, seeking joint venture and setting networks to find the opportunity of FDI in neighboring countries first and expend business and FDI gradually to distant nations. These phenomena can be adequately explained by the three perspectives of internationalization for SMEs though under different economic systems these extant theories should be extended to fit the Chinese context.

Facing the rapid change in political and economic environments after China entered the WTO the leaders of Guangdong PSMEs as the change agents are aware of the need to change in order to adapt to the new era. Meanwhile the push forces from inside of the enterprise exert pressure on the enterprise to internationalize and the pull forces from outside of the enterprise form the impact to the enterprise to enhance its competitiveness and provide the attractive incentives for it to internationalize in response to the opportunities.

The push factors for Guangdong PSMEs are the twin desires to seek bigger surviving and competition space and look for the new opportunities in international markets for
growth and further development. The pull factors are the change in nature of the Chinese market which is much more internationalized after China entered the WTO and the stakeholders who require the PSMEs to upgrade themselves to meet the new challenges. The push and pull factors are intermediated by the enterprise’s own internal dynamics, comprising the enterprise’s propensity of internationalization in terms of its entrepreneurial orientation or the management’s mindset and its administrative heritage and routine processes (Lieberman & Montgomery, 1998). The interaction between these forces together with the leader of the PSMEs stimulates the motives for internationalization.

5.3.2 Implication for theory of change management for internationalization

It is evidenced from the findings in the interviews that the characters of the decision-makers of Guangdong PSMEs exert great influence on processes of internationalization. ADKAR model for individual change management (Hiatt & Creasey, 2003) reviewed in Chapter Two is adopted to analyze and explain the behavior of Guangdong PSMEs in change to internationalize their firms.

The ADKAR model presents five stages that individuals go through when making a
change that are: 1. Awareness of the need to change; 2. Desire to participate and support the change; 3. Knowledge about how to change; 4. Ability to implement new skills and behaviors; 5. Reinforcement to keep the change in place (Hiatt & Creasey, 2003, p.46).

The change in political and economic environments in China and the push, pull and intermediate factors inside and outside of the enterprises enhance the awareness of the decision-makers of Guangdong PSMEs of the importance of internationalization of firms to adapt to the new situation and meet the new challenge. This awareness leads to the motives. The motives to internationalize the enterprises create the desire to acquire the knowledge of the international management and markets and enhance the ability with the enterprise’s resources and endowments to implement internationalization. The successes or the experiences in internationalization reinforce the motives for it to keep the goals of internationalization in place.

The ADKAR model can apply to managing change of Guangdong PSMEs in the process of internationalization no matter they are “born global” firms or “learning organizations”.
5.3.3 Conclusion

The political and economic environments have been rapidly changed since China entered the WTO. The Chinese market has been transforming from a comparatively closed domestic market to an internationalized market with the business practices and conventions integrating with international trading rules. The awareness of the need to internationalize the enterprise by the change agents especially the leader of Guangdong PSMEs leads to the motives for it to meet the challenge and survive the competition from MNCs, SOEs, LPEs and among themselves. The desire is created to acquire the knowledge of the international management and markets and to enhance the ability with the enterprise’s resources to carry on internationalization by setting up goals, formulating the strategies and choosing the entry modes for internationalization. The success and experiences in initial internationalization of the firm reinforce the motives and keep the goals for internationalization of the enterprise as a long term view. (See fig.5.3).

In this section the application of three schools of internationalization, International New Venture, the theories of “Chang agent” and “Integrative Framework” (Etemad, 2004) to the Chinese practices have been analyzed and examined. ADKAR model
has been adopted to explain the behavior of Guangdong PSMEs in the motives for the change in China. As discussed in Chapter Two concerning the definition and characteristics of the Chinese socialist market-oriented economy, Guangdong PSMEs have their characteristics in proceeding internationalization adapting to the given political and economic environments in China which are different from those of western SMEs. The theories implicated in this section therefore have limitations which will be discussed in the next section 5.4.

5.4 Limitation of Theory
The theory indicated in section 5.3 will function well if China is a fully market-based economy country. However the characteristics of the Chinese socialist market-oriented economy discussed in Chapter Two indicate that the reforms designed to create the framework for a market economy under the rule of law will not lead the country to crony capitalism (Wu, 2006). The traditional political ideology and public ownership as the leading component of the Chinese economy still influence the making of government policies and regulations to a great extent though the trend to release the tight control on the Chinese private economy and the policies promoting the development of the private sector are strengthened. For Guangdong PSMEs the theory of motives for internationalization can function well for international trade but it is limited in FDI and equity investment in overseas market under current political and economic environments in China. It is not likely in the foreseeable future that China will change some policies and regulations such as foreign exchange control, non-free conversion and transferring under the capital account, the restriction into some special industries and lack of financial support from the state-owned banks or financial institutions. Guangdong PSMEs are still finding it very difficult to obtain the necessary loans and funds from the state-owned banks and financial institutions to finance their direct investment overseas or their business expansion in the domestic market in order to compete with SOEs and MNCs. All
these limit the application of the theory to the practices albeit the leaders of the PSMEs have created and reinforced the motives for internationalization. These limitations mainly caused by the political and economic policy bias and inequitable treatment force the leaders of Guangdong PSMEs to conduct risk-avoidances and irregular evasion of red-tapes to achieve internationalization.

This theory based on the western theories of three perspectives of internationalization for SMEs and change management inferred from the findings of the interviews of Guangdong PSMEs may not be generalized to all Chinese PSMEs which will be discussed in the following section 5.5 and needs further research.

5.5 Contribution to the Theory and Recommendation

This section will focus on the contribution of the theory to the knowledge and the limitation of the research. Some recommendations are made to improve the Chinese PSMEs’ business environments so that to benefit their internationalization and political and economical development of the country.

5.5.1 Contribution to the theory and limitation of the research
Having undergone more than 20 years of economic reform, China has established its socialist market-oriented economic system creating the framework for a market economy under the rule of law. China’s entry into the WTO offers the Guangdong PSMEs new opportunities as well as the threats. The Chinese market has been internationalized with continuously integrating its business conventions and practices into international rules and regulations as it is committed to the WTO requirements. Guangdong PSMEs like their peers and other collective and state-owned sectors are facing direct competition from MNCs and foreign companies and among themselves. The awareness of meeting the challenges in the rapidly changing environments outside and inside of Guangdong PSMEs and seeking opportunities for survival in competition, growth and development of the enterprises leads to the motives for internationalization as one of the solutions under the current political and economic environments in China. However China’s problems including a stagnant rural economy, poor rural people and a backward rural society, the incomplete restructuring of the state sector and of state-owned enterprises, serious urban unemployment, a fragile financial system, polarization between the rich and the poor, social disorder, and widespread corruption (Wu, 2006) are the obstacles on the way to the responsible and committed political and economic giant in the world. The internationalization of
Guangdong PSMEs makes a contribution to solving the problems they are facing.

This thesis is the first research to study using a qualitative approach the motives for internationalization of Guangdong PSMEs. Guangdong is one of the first provinces enjoying the benefits of particular and flexible economic policies when China opened its doors in early 1980s. It is near to Hong Kong and Macau which are the gateways to the world and play the important roles in the Chinese economic reform. Guangdong PSMEs learnt the knowledge and experiences from the enterprises, especially SMEs in these regions and carried out their internationalization.

Guangdong PSMEs were regarded as the pioneers of the Chinese private economy and one of the important driving forces to the Chinese rapidly changing and developing economy. To study the motives for internationalization of Guangdong PSMEs lays the entry point to the interesting but undiscovered area for the purpose to open up more academic and business research on the private economy in China so that to understand and extend the existing theories and build the new theory of internationalization for Chinese PSMEs and further for the whole private sector in China. Meanwhile further research will provide the theory for the foreign managers to understand the behavior of the Chinese peers in the business transactions and investments.
The semi-structured interviews were adopted in this research with the open-ended questions to elicit the opinions of the interviewees and with the content questions to verify the validity and reliability of the data collected from the open-ended questions. However this research was not without its limitations. Generalization to the whole population of the private sector in China is not possible because of the purposive sampling method discussed in Chapter Three limited the generalizability of the conclusion and might create bias as well. The Chinese private economy is getting larger and larger with an increasing number of new entrants with different quality in leadership, human resources, management, entering this sector. This research for the purpose of exploring the motives for internationalization of Guangdong PSMEs is unable to apply its findings and conclusions to such a big population. This research is an initiative to entice more research on this area.

5.5.2 Recommendation

This research has also discovered the obstacles and difficulties in the way for Guangdong PSMEs to internationalize. As China is facing many problems as mentioned above, the obstacles and difficulties mentioned in the former sections are
the parts of them. To improve the business environments of Guangdong PSMEs the following recommendations are made for reference and further study

Firstly the constitution and the law should declare to protect the legally gained property with equitable treatment to all the economic sectors, without discrimination. By doing so it is able to change the passive factor of political and economic risk-avoidance to positive factor to enhance the initiative for development, increase investment in domestic market and alleviate the tightness of the cash flow of the PSMEs. The laws and regulations should enable the elimination of differences in the treatment of various economic sectors in terms of pricing, taxation, financing, market entry and legal and social status. Great efforts should be made to create a suitable environment for fair competition and free entry to the industries and markets.

Secondly, all the policies encouraging the development of private economy must be implemented seriously. All rules and regulations that discriminate against the private sector should be abolished to help private enterprises develop. The policies and regulations should be transparent and the implementation of them should be under public supervision in order to prevent from the abuse of power and corruption.
Thirdly, the further and continuously integration of the Chinese conventions and practices into international rules and regulations will benefit the development of the PSMEs and in return the development of PSMEs will benefit the further development of the Chinese economy.

Fourthly, Guangdong PSMEs should continuously improve their management and corporate governance to upgrade and form their sustained competitive advantage to meet the new change in and out of the enterprises. The internationalized Chinese market will enable those PSMEs to strengthen themselves not only to compete with the strong MNCs, SOEs and LPEs in domestic market but in international market as well.

To achieve the above recommendations further research on these issues by the governmental organizations and the academic and business researchers is required that will benefit the development of the private sector in China and the economy of the country as well.
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