Factors that Influence the Internationalisation of Australian SMEs to China

by

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This thesis is submitted to the Faculty of Business and Law, Deakin University, in fulfilment of the requirements for the degree of Doctor of Business Administration

Faculty of Business and Law, Deakin University
6 August 2018
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This thesis is dedicated to the memory of my Mother and Father.
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
</tr>
<tr>
<td>ACBC</td>
<td>Australia China Business Council</td>
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<td>AIBS</td>
<td>Australian International Business Survey</td>
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<tr>
<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>BGs</td>
<td>Born Global</td>
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<tr>
<td>BIC</td>
<td>Born-in-China</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
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<tr>
<td>Co</td>
<td>Company</td>
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<td>DBA</td>
<td>Doctor of Business Administration</td>
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<td>EO</td>
<td>Entrepreneurial Orientation</td>
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<td>EU</td>
<td>European Union</td>
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<td>FDI</td>
<td>Foreign Direct Investments</td>
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<td>FTA</td>
<td>Free Trade Act Agreement</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>HR</td>
<td>Human Resources</td>
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<td>ICT</td>
<td>Information and Communication Technology</td>
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<td>INV</td>
<td>International New Ventures</td>
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<td>LoF</td>
<td>Liability of Foreignness</td>
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<td>MNEs</td>
<td>Multinational Enterprises</td>
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<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
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<tr>
<td>RBV</td>
<td>Resource-Based View</td>
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<tr>
<td>R &amp; D</td>
<td>Research and Development</td>
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<td>SMEs</td>
<td>Small to Medium Enterprises</td>
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<tr>
<td>USD</td>
<td>United States Dollars</td>
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<tr>
<td>VRIN</td>
<td>Valuable Rare Inimitable Non-substitutable</td>
</tr>
<tr>
<td>WOFE</td>
<td>Wholly-Owned Foreign Entities</td>
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Abstract

An increasing number of foreign businesses have been doing business in China, as a result of China’s recent spectacular economic growth. Simultaneously, the number of small to medium enterprises (SMEs) internationalising from Australia has also been increasing. However, it is well known that internationalisation can be a difficult and formidable task, made even more difficult for SMEs who face the liabilities of foreignness, smallness, outsidership and resource scarcity. These points make it important to examine the internationalisation of Australian SMEs to the Chinese market. As a result, the aim of this thesis is to understand the internationalisation process of Australian SMEs to China, and what critical factors are related to the internationalisation process of Australian SMEs.

According to ‘Small business in the Australian Economy reports (2016)’, SMEs in Australia represent more than two million businesses, and ninety-nine per cent of the Australian actively trading businesses (Australian Bureau of Statistics (ABS), 2016). The Australian Government (2012) through the 'Australia in the Asian Century' White Paper suggests that SMEs can play a vital role in Asian markets by internationalising their businesses with innovative products and/or services. According to the ABS reports (2016), Australian SMEs involved with international businesses are significantly low (19,965 out of 2 million firms). These factors indicate that Australian SMEs could contribute far more to the Australian economy than they are currently if they are encouraged to internationalise.

China is a critical trading partner for Australia. China’s increasing urbanisation, growing middle class and intensified demands for innovation create many business opportunities for Australia. The Australian government has encouraged Australian innovative SMEs to internationalise to China since 2012 (Australian Government, 2012) and the introduction of
the Free Trade Agreement (FTA) in 2015 further stimulated the situation (Austrade, 2017). This encouragement and level of connection between the two countries motivated Australian SMEs to enter China. Australian SMEs, however, face barriers with innovation and resources in their internationalisation process. Limited research thus far has looked at the internationalisation of Australian SMEs into China, hence studies in this subject are important and fill identified gaps in the literature.

To explain the internationalisation process of Australian SMEs to China this thesis uses internationalisation theories such as Stage theory (Johanson & Vahlne, 1977), Rapid/International New Venture Approach (Knight & Cavusgil, 1996), Network theory (Anderson, 1994), Entrepreneurial Orientation (Okpara & Koumbiadis, 2007; Lan & Wu, 2010)), and entrepreneurship-based theories, to examine how the SMEs internationalised to China. Based on these theories a conceptual framework of the factors related to the internationalisation process is developed.

This conceptual framework is examined using a qualitative methodology. As the research is exploratory it utilised a qualitative approach, which involved semi-structured interviews with managers and owners of thirty-five SMEs based in Australia and China. A semi-structured interview schedule was created, based on the literature review. Data were collected by using a selective sample from different industries of Australian SMEs that have already internationalised to China. In-depth interviews were considered to be the most appropriate means of exploring the phenomena under investigation. The interview schedule contained a number of structured questions to gather data for classification purposes and formally structured questions were minimised when eliciting socially-constructed knowledge, mainly open-ended questions were used to gather the opinions of interviewees. Following the
collection of the data, three steps were used in the process: data reduction, data display and data analysis.

The findings of the thesis were that, first, SMEs followed either the ‘stage’ or the ‘rapid’ form of internationalisation, with a majority using the ‘stage’ approach. A special category of SMEs titled born-in-China (BIC) SMEs was examined. These SMEs had utilised a ‘rapid’ approach. Prior domestic and international experience played a vital role in the ‘stage’ approach, and manager’s international exposure, experience and contacts were a common factor for ‘rapid’ approach firms.

Secondly, SMEs used innovation in their internationalisation and adopted different types, mostly product and process innovations, with others adopting marketing and business innovations. The study found that SMEs had to adapt their innovation to the characteristics of the Chinese environment. In particular, cultural values and levels of technological development impacted Australian SMEs’ ability to sell their innovative products and services to the Chinese market. SMEs’ survival relied upon innovation applications although not all innovations offered were accepted. SMEs who used the stage approach, were more likely to utilise product and service innovations whereas rapid approach firms utilised marketing and business innovations. SMEs utilised either ‘incremental’ or ‘radical’ innovation approaches. Radical innovation was adopted by SMEs in the services sector, and incremental innovation was popular among SMEs using product and process innovation. The results showed that, for different reasons, the SMEs’ innovations were not always accepted in the Chinese market.

A third finding was that SMEs utilised networks or connections (guanxi) when entering and running businesses in China. These networks provided information on business opportunities,
partners and the host location. SMEs used different types of networks in China including formal to informal networks, government agencies, business associations, clients/customers, trade shows, missions and exhibitions, and personal contacts or social relationships. These networks provide a strong degree of protection against the risks associated with foreignness, newness and smallness.

The next finding was that the owners/managers’ entrepreneurial orientation (EO) influenced their decision to pursue an international strategy and their high EO encouraged internationalisation. The findings suggest that being entrepreneurial and taking risks helped with overcoming the liabilities of foreignness. The majority of the managers/owners of the SMEs undertook risky ventures, whilst only some were risk-averse in their internationalisation.

The findings make a contribution to the area of research related to SMEs’ internationalisation to China (Asia) by providing important information about the critical factors that SMEs should take into consideration when internationalising to China. It is anticipated that this knowledge will assist Australian SME owners and managers to develop their internationalisation processes. Further, the findings will provide guidance to Australian government authorities to provide the necessary support for SMEs willing to internationalise to China. The results also will contribute to improved government support services by providing more efficient and effective services to encourage Australian SMEs to internationalise to China, which will have a significant impact on improving internationalisation and, as a result, the Australian economy.
There were a number of limitations with this thesis. The most obvious methodological limitation is qualitative techniques which does not allow the researcher to test relationships between variables. Other limitations included the fact that 1/3 of the interviews were done over the phone, rather than face-to-face, which may limit the quality of information that interviewees provide, in addition a few interviewees had been new to doing business in China, which may have influenced their responses.
Statement of Authorship

Except with the committees’ approval, this thesis contains no materials which have been accepted for the award of any other degree, or diploma from any university or other tertiary institution and, it is affirmed, to the best of my knowledge and belief, contains no materials previously published or written by another person, except where due reference has been made in the text.

I give consent to this copy of my thesis being made available in the university library.

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Patabeni Maddumage Sajeewa Amantha
Publications from the Thesis

Research Book.
Orr, Stuart, Menzies, Jane, Zheng, Shao-Mei and Maddumage, Sajeewa 'Pat'. (2018),
Innovation and internationalisation successful SMEs Ventures into China, Routledge,
Abingdon, Eng.

Conference Proceedings
The role of innovation in the internationalisation of Australian SMEs into Chinese Market
(2017), Doctoral Student Consortium, Academy of International Business - US Southeast
Acknowledgements

The DBA process has been a challenging but rewarding journey which would not have been possible without the support of a number of people. I am indebted to my supervisor, Dr Jane Menzies of Deakin University, for her invaluable guidance, hospitality, encouragement and friendly support during my DBA candidature. Dr Menzies assisted me throughout to complete the DBA process with the development of the project, the ethics application, the interviews, and reviewing and providing critical and constructive feedback on countless drafts of chapters, and also with proof-reading.

Special thanks also to Professor Stuart Orr for his insightful advice and feedback on the development of the project during critical stages of the DBA process. Dr Rodney Carr also provided constructive feedback that benefited the development of this DBA. I would also like to say thanks to all the staff of Deakin University’s Faculty of Business and Law for the support extended during my candidature. I would like to thank Lynn Spray, who professionally edited my thesis. This included proof-reading the entire thesis and making grammatical suggestions where necessary. Based on these suggestions I made a number of changes to sentences, sentence structure, grammar and wordings.

This research would not have been possible without the willing participation of the managers and owners of the SMEs involved with this study. I thank all those participants for their support. Next, I would like to acknowledge the support of the Australia China Business Associations which provided Australian-Chinese business details to determine suitable Australian SMEs and the managers/owners interviewed. Whilst I was not a part of the original grant application, the data collection for this thesis was funded by the Australia-China
Council (ACC), Department of Foreign Affairs and Trade, to the value of $28,000, so I would like to duly acknowledge their financial support for the project and give them my thanks.

Finally, but not least my thanks go to my family for supporting me while I wrote up my thesis, particularly my wife Jayan and children (Heshan, Devin and Senesa) for their understanding, patience and sacrifices made during the last five years of my DBA journey. I would also like to mention my late parents, without whom, and particularly without my mother’s courage, guidance and support, I would not have achieved what I have today.
Chapter 1: Introduction

Overview of this Chapter

The purpose of this chapter is to give an overview of the thesis. The chapter begins with a brief introduction that describes the background of the project and the key terms used throughout the thesis are defined. The conceptual framework and the problem statement for the thesis are presented and the justification for conducting the thesis is given. The chapter then describes the structure of the thesis, which includes a discussion of each chapter, and a presentation of the research questions that were developed to examine the topic.

Introduction

China’s strong economic growth in the past decade has provided many opportunities for businesses to create long-term and valuable commercial activities in China, and offers businesses great potential for growth, particularly entrepreneurs, and companies seeking rapid rates of growth (Boyd, 2016). These opportunities have attracted both large companies and small to medium enterprises (SMEs) to China. The focus on foreign SMEs entering China and the challenges they face is an area of considerable interest, although it has not received the attention that the internationalisation of large organisations to China has received to date. Understanding these issues for SMEs provides both academic and practical relevance. The purpose of the thesis is to understand the internationalisation process of Australian innovative SMEs to China and the critical factors that influence their internationalisation.

Examining the internationalisation process of Australian SMEs in China is important given their significant contribution to the Australian economy and the rise of Asia (particularly China), which presents great opportunities for Australia. Between 2000 and 2010 (except for the GFC period), China's economic growth was consistently in double digits. Between 2014
and 2016, however, China’s growth has been much more conservative, varying between 6.7% and 7.3% (Department of Foreign Affairs and Trade [DFAT], 2017).

The Australian Government (2012), through the 'Australia in the Asian Century' White Paper, recommended that Australian businesses should be innovative, should engage more with Asian countries such as China, and should enhance their capabilities in doing business in foreign countries. As noted in the 'Australia in the Asian Century' White Paper, the Australian government set a road map for building Australians’ capacity to engage effectively with Asia (Australian Government, 2012), and particularly with China. This will become a vital aspect of Australia’s economy given China’s booming economic conditions. Currently, China is the second largest economy in the world, that is, it is ranked number two in the world, in terms of its Gross Domestic Product (GDP) and taking into account purchasing power parity (GDP - PPP) (CIA, 2017), and is also Australia’s number one trading partner (DFAT, 2017).

**Australian Small to Medium Enterprises (SMEs)**

The importance of SMEs to the Australian economy is reflected in the following statistics. In Australia, there were more than 2.1 million actively trading businesses according to the 2016 Australian Bureau of Statistics (ABS) survey, and Australian SMEs represent ninety-nine per cent (99.7%) of the total actively trading Australian businesses provide 70 per cent of industry employment (Commonwealth of Australia, 2016). Previous research indicates that exporting is often a SME’s first step in internationalisation (Murray & Edwards, 2010). ABS survey data (2015) show that 19,970 of small businesses (0.95% of 2.0 million actively trading businesses) exported in 2013-2014, and 20,753 medium businesses (27% of 80,680 actively trading businesses) exported goods in 2010-11.
In addition, ABS survey data indicated that 90.2% of Australian firms exporting goods in 2013-2014 were SMEs, and represented 4.9%, or $13.4 billion, of sales of total goods exported in the year ($272.9 billion). In comparison, large firms accounted for $260 billion (or 95.1 per cent) of the value of all exports.

The above figures (Figure 2.1) together demonstrate that Australian SMEs’ contribution in international businesses and/or number of SMEs involved with international businesses is a relatively lower number than that of larger firms (ABS, 2016). SMEs face a variety of issues that larger organisations do not face, and as a result they behave differently from a competitive perspective (O’Cass & Weerawardena, 2009; Anderson et al., 2004; Coviello & McAuley, 1999; Gomes-Casseres, 1997) and utilise different ways of overcoming their size-related internationalisation constraints (Love & Roper, 2015; Coviello & McAuley, 1999). Although SMEs often have competitive advantages over larger firms in innovation due to their flexibility and speed of response, they face size-related barriers in internationalisation.
which may make it difficult for SMEs to execute strategies. It may also limit the markets in which SMEs may be able to target. On the other hand, SMEs may use their small size to be adaptable, flexible and change-oriented which is necessary for internationalisation, which means they can easily adapt their strategies to international markets. Hence, despite the success and contribution of SMEs to the Australian economy, Australian SMEs face barriers with resources, capabilities and knowledge in their internationalisation, however on the other hand they have flexibility and speed of response, which is a competitive advantage that they have over larger firms.

**SMEs in China**

In the past, SMEs had been a smaller portion of the economy in China due to China’s previously centrally-planned economy. By 2007, China had over 4.3 million registered SMEs, of which 95% were privately owned and which constituted 60% of GDP at the time (Asia Pulse, 2007). Today SMEs make up 98% of all registered companies in China, contribute 60% of China’s industrial output and create 80% of China’s jobs. They own 54% of total assets, and generate 68% of total revenue and 64% of total profits (China Statistical Yearbook, 2016; Urbach Hacker Young, 2017). Over the period 2011 to 2015, China’s 12th five-year plan specifically focused on support for SMEs, with the objective of increasing their numbers over that period at an annual rate of 8% (China Economic Review, 2011). This initiative generated massive investment in the SME sector in China. For example, in the relatively small city of Shenzhen in southern China, publicly-listed SMEs alone now have a combined market value of over US$600 billion (China Business News, 2014).

The above facts suggest that the SME sector is the area of the Chinese economy on which to focus when investigating international business establishment in China, as it is the most
representative sector by sales volume, number of organisations and economic effect. Findings drawn from research examining the behaviours of foreign SMEs investing in China will not only be important for the development of the international SME literature, but will also reflect on internationalisation into the most important sector of the Chinese economy. This factor, combined with the apparent capability of SMEs to utilise their innovative capabilities to enter new markets, is the focus of this study.

Background

China established a free trade agreement (FTA) with Australia in 2015 (China FTA Network, 2017) and the EU is seriously considering a free trade agreement with China (European Commission, 2017). The introduction of the FTA with Australia in 2015 further stimulated and increased the volume of trade and levels of foreign direct investments (FDI) between the two countries (Austrade, 2017). The connections and familiarity with China are important foundations for the motivation of Australian SMEs to enter China. The FTA also created the context for the Australian government to promote the involvement of innovative SMEs in China (in Asia) through major initiatives (Australian Government, 2012).

Whilst the literature has investigated the trade between China and most developed countries, the research investigating internationalisation to China from developed countries is much less extensive and conclusive. SME internationalisation in China has the potential to increase the level of FDI significantly, particularly from smaller developed countries, such as Australia. Understanding the patterns of trade and FDI in China, especially considering the rapid increase in China’s economy and the opportunities for investment, is important for both economic and international business theory development.
Australian SMEs’ Internationalisation to China

Large numbers of SMEs from Australia have been taking advantage of the opportunities in China since China first opened its doors to foreign operations, and particularly over the last 10 years as China’s growth has created a large and attractive domestic market. In 2014, approximately 13,400 Australian SMEs had operations in China (Keating, 2014), making Australia the country with the largest number of foreign SMEs operating in China, since the Cultural Revolution.

Boyd (2016) argues that SMEs are able to take up the opportunities available in China as they are not constrained by governance or compliance requirements and are less risk-averse than large organisations. This risk tolerance provides SMEs with the flexibility to pursue opportunities, and benefit from operating in China’s rapidly developing economy.

As per the Australian International Business Survey (AIBS) report by Austrade (2016), Australian firms’ main motivation for doing business in China was to gain better access to the target market, followed by building brands and lower production costs. The AIBS survey further found that Australian firms nominated China as their most important market because of the strong growth/profit opportunities available, followed by the presence of family or personal contacts there (Austrade, 2016).

Over the past decade, China has offered a range of opportunities to foreign enterprises that they do not have at home. These include opportunities for increased rates of growth, and much larger markets than most SMEs would experience in their home country, including large numbers of consumers who wish to buy innovative new and branded products (Orr et al., 2017). Previous research identifies the importance of internationalised and innovative
SMEs for the growth and prosperity of countries (Ozcelik & Taymaz, 2004), as innovation is linked to greater economic growth and productivity. In Australia, an increasing trend of internationalisation by SMEs has been seen (Waters, 2012), and by SMEs that are innovative (Fernández-Esquínasa et al., 2017). Perenyi & Yuhanaev (2016) found positive relationships between past profitability, current firm growth and size in Australian ICT SMEs.

**Demand for innovation in China**

Over the last 10 years, the Chinese government has planned for the economy to shift from a focus on manufacturing and export, to include innovation and services (Macquarie Bank, 2017). The development of an innovation-based economy (and society) was one of the key goals of the Chinese Government’s 2011 five-year plan. Evidence already points to innovative product and service industries becoming increasingly attractive in China (Abrami et al., 2014). The government has put in place measures to increase innovation such as the establishment of high-technology business zones, the attraction of foreign investment in some industries (for example, wind turbine production), the introduction of caps on importing technology (to stimulate local technology product development), and increased investment in research and development in key industries.

As part of the 13th and current Five-Year Plan, the Chinese government has focused on development of innovation in biotechnology, energy-efficient technologies, equipment manufacturing, information technology and advanced materials industries (KPMG, 2016). This policy is intended to keep the skilled people in China to develop new innovations and products (Macquarie Bank, 2017). In the past, the government had encouraged innovation in selected industries, but the structural arrangements tended to drive technology from the top down, and at a slow pace (Abrami et al., 2014). As a result, China has demonstrated an
innovative capacity in some industries such as consumer electronics and construction equipment, but not in industries such as the pharmaceutical or automobile industries. This investment is forecast to generate between US$1-2 trillion in the Chinese economy by 2020 (Roth et al., 2017).

China, is steadily moving to be a leader in innovation and information technology which is most strongly witnessed by its Made in China 2025 policy. Its guiding principles are to enhance industrial capability through innovation-driven manufacturing, optimize the structure of Chinese industry, emphasize quality over quantity, train and attract talent, and achieve green manufacturing and environment (Ling, 2017). Data demonstrates that China is no longer the lowest–cost labour market; it is being squeezed by newly emerging low-cost producers such as Vietnam, Cambodia, and Laos. Meanwhile, China is not the strongest player in the high-tech arena; well-established industrialized nations, the US, Germany, and Japan, have all effectively deployed digital technology to create new industrial environments, produce new products, and improve their well-established brands. Having analysed the data from the World Bank and China's National Bureau of Statistics, it is found that there is an upward trajectory in China in manufacturing capability development, research and development commitment, and human capital investment (Ling, 2017). However, implementing an ambitious strategic plan such as “Made-in-China 2025” is coupled with challenges (Ling, 2017).

The development of an innovation-based economy offers clear advantages to innovative foreign SMEs. Government initiatives will develop the infrastructure necessary to support innovative SMEs in China, and the market will facilitate innovation.
Barriers to Australian SMEs

Despite the success and contribution of SMEs to the Australian economy, Australian SMEs face barriers with resources and innovation in their internationalisation process, demanding significant organisational capabilities and managerial commitments (Lamb, Sandberg & Liesch, 2011). Limited research thus far has been undertaken into the internationalisation of Australian SMEs into Asia (or China), and almost no literature exists on the internationalisation of innovative SMEs to the Chinese market.

SMEs face the liability of smallness (Freeman et al., 1995; Stinchcombe, 1965) which impacts on their ability to internationalise. SMEs behave differently to larger firms from a competitive perspective (Shuman & Seeger, 1986) and utilise different ways of overcoming their size-related constraints (Gomes-Casseres, 1997; Coviello & McAuley, 1999). For example, SMEs face the liability of foreignness (Zaheer, 1995) and smallness (Freeman et al., 1983; Stinchcombe, 1965), which can impact on their ability to internationalise. The liability of foreignness may be more pronounced for SMEs because they only have limited resources.

Accordingly, the research is set against understanding the internationalisation process and identifying critical factors that assist the internationalisation process of innovative Australian SMEs to China. The thesis aims to contribute to knowledge by developing a conceptual framework of how SMEs internationalise to China, a developing country. This conceptual framework will contribute to theory also practice by showing how SMEs can internationalise, and the processes by which it can be done. The framework may be helpful for those SMEs currently contemplating internationalisation. The next section articulates the definitions of the thesis.
Definitions

The purpose of the section is to define the terms that will be used throughout the thesis.

Innovation

There are many definitions of innovation, and a number of them will now be reviewed to capture the essence of innovation, and what it means for this study. An early definition of innovation developed by Schumpeter (1962, p. 152) states that innovation is “what incessantly revolutionises the economic structure from within, incessantly destroying the old one, incessantly creating a new one”. Porter (1990, p. 11) goes on to define innovation “to include both improvements in technology and better methods or ways of doing things”. Definitions can also include innovations in process or in management. For instance, Hamel (2006, p. 6) defines management innovation “as a marked departure from traditional management principles, processes, and practices, or a departure from customary organisational forms that significantly alters the way the work of management is performed”. Innovation can be demonstrated in changes to products, processes, and new ways to market products, new ways of distribution or new ideas of scope (Murray & Edwards, 2010). Past studies (Australian Manufacturing Council, 1995; Weerawardena, 2003) have found that Australian firms use four different types of innovation which include innovations to product, process, market, and business systems. It is not surprising then that the Australian Government argues that innovation “is the key to making Australia more productive and more competitive and to answering the challenges of climate change, national security, and so on” (Commonwealth of Australia, 2012, p. 39). Kanter (2006, p. 5) defines innovation as “the generation, acceptance, and implementation of new ideas, processes, products, or services, and thus it can occur in any part of a corporation and can involve creative use as well as original invention and it involves the capacity to change and adapt”. Accordingly, innovation can be manifested in product changes, process changes, new
approaches to marketing, new forms of distribution, and new conceptions of scope (Rees & Edwards, 2010).

Innovation can also include the development of new markets such as the internationalisation (Schumpeter, 1962), and commercial value through introduction of new or improved products or processes (AMC, 1995). The ABS (2013) defines innovation as “the introduction of a new or significantly improved good or service; operational process; organisational/managerial process; or marketing method”. Therefore, building on these past definitions, and for the purposes of this thesis, innovation is defined as “the introduction of new systems and procedures that will enable existing and/or new firms to operate more efficiently and effectively in order to create new products, services and new markets” (Commonwealth of Australia, 2012).

**Internationalisation**

There is no universally accepted definition of internationalisation. The term ‘internationalisation’ is ambiguous and definitions vary depending on the phenomenon they include. The literature on the internationalisation of firms is based on the observation that the crossing of national boundaries makes a difference in terms of how firms grow (Buckley & Ghauri, 1993). Penrose’s (1959) point of view on internationalisation focuses on the firm’s core competencies and opportunities in the foreign environment. Hymer (1960, 1968, as cited in Hutzschenreuter, Pedersen & Volberda, 2007) is said to have created the foundations for the study of internationalisation by suggesting that internationalisation is about overcoming the inherent disadvantages foreign firms experience when competing with local firms, thus identifying the ‘liability of foreignness’. Welch and Luostarinen (1988) defined internationalisation as the process in which firms increase their involvement in international
operations. Calof and Beamish (1995, p. 116) defined internationalisation as “the process of adapting firm’s operations (strategy, structure, resource, etc.) to international environments”. Coviello and McAuley (1999) suggest that Beamish’s (1990) is the most holistic interpretation of the concept. Beamish (1990, p. 77) defines internationalisation as “the process by which firms increase their awareness of the direct and indirect influence of international transactions on their future, and establish and conduct transactions with other countries”. The current thesis adopts the definition by Welch and Luostarinen (1988), where internationalisation is defined as “the process in which firms increase their involvements in international operations”.

**Small to Medium Enterprises (SMEs)**

The size of a business generally can be determined based on its annual turnover, employee numbers, or a combination of the two. SMEs are accordingly defined in the literature based on their annual turnover and/or the number of employees. ABS has defined a small business as an actively trading business with 0–19 employees and a medium business as an actively trading business with 20–199 employees (Commonwealth of Australia, 2012). Accordingly, SMEs in this thesis are defined as actively trading Australian businesses with 0-199 employees.

**Entrepreneurial Orientation**

Entrepreneurial Orientation (EO) is considered to be an important factor of internationalisation in the literature. Lumpkin et al. (1996), Naldi et al. (2007), Kreiser et al. (2010) and Kraus et al. (2012) agree that EO is a combination of the three dimensions of innovativeness, pro-activeness, and risk-taking. Thus, EO involves a willingness to innovate to rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more pro-active than competitors toward new marketplace opportunities (e.g.,

**Problem Statement**

Although the Australian Government’s (2012) White Paper “Australia in the Asian Century” suggests innovative SMEs can play a vital role in Australia’s business activities in Asia (China), the current knowledge on how SMEs internationalise to countries such as China is not well documented. Further, the factors that trigger Australian SMEs’ motivations and/or the decision to internationalise into China seem largely ignored in the literature. In addition, the problems they face are relatively unknown, and how they internationalise, therefore, this thesis adds timely work to this debate.

A review of the literature indicates also that no studies have specifically looked at the critical factors required when internationalising to the unique environment of China for innovation-based SMEs from Australia. For example, it is not known how these innovative SMEs internationalise, whether Australian innovations are useful/accepted in the Chinese market, how entrepreneurship and networks are used, or the types of resources the SMEs use. In such a scenario, it will be useful to identify the process by which innovative Australian SMEs internationalise to China.

**Research Purpose and Aims**

The aim of this research is to contribute to overcoming shortfalls in the understanding of the internationalisation process of Australian SMEs to China, and SMEs in general. This research explores the internationalisation process of Australian SMEs to China and casts light on how Australian SMEs have succeeded in internationalisation to China, a country with a unique
developing country context. The research focuses specifically on China as the Australian government has identified it as having the potential for Australian SMEs to grow their business activities with innovative product and services. There is limited previous academic research into the internationalisation of Australian SMEs into China, and limited research looking at the internationalisation of SMEs from developed markets to developing markets. Thus, this research not only furthers our understanding of how Australian SMEs internationalise, it also broadens our understanding of internationalising to a vital economic region of the world.

This research intends to fill the gap by focusing more specifically on the internationalisation of Australian innovative SMEs to China. The objective of this study is to approach the internationalisation process of innovative Australian SMEs to China and, more specifically, to understand the process and strategies use by those firms:

- To explore the process of internationalisation for innovative Australian SMEs across industries.
- To understand the critical factors of the internationalisation process needed by Australian innovative SMEs to successfully internationalise to China.

**Research Contribution**

The research is both timely and relevant for Australia because it contributes to solving a practical problem that innovative Australian SMEs face when doing business in China. The research adds also to the body of knowledge about how SMEs internationalise, and has several theoretical implications for internationalisation theories in international business research.

In regard to the contribution to theory perspective, the research contributes to the emerging literature attempting to integrate the SMEs internationalisation process, entrepreneurship, and
networking literatures. By integrating aspects of the ‘stage’ and ‘rapid’ approaches, innovation adaption, and the network and entrepreneur perspective of internationalisation, this research contributes to a broader understanding of both the internal and external drivers of the internationalisation process by exploring the process innovative Australian SMEs use for internationalisation to China.

Finally, the research makes further contributions to the internationalisation process literature in relation to empirical knowledge, and advances existing SMEs’ internationalisation perspective literature on internationalisation. By systematically exploring the roles of internationalisation approaches, innovation adoption, networking abilities, and the role of entrepreneurship in the internationalisation processes of SMEs, the research contributes to a broader understanding of the external and internal drivers of the process of internationalisation.

The White Paper “Australia in the Asian Century” (Commonwealth of Australia, 2012) points out a number of national objectives for Australian companies doing business in Asian countries: 1) the development of more innovative business; 2) the development of capabilities for businesses to do business in Asia; and 3) building relationships and linkages between business groups in Australia and China. This thesis will contribute to these objectives, particularly objectives (1) and (2), by developing knowledge on the process by which Australian innovative SMEs can internationalise to China, and the resources and capabilities they require. This thesis will contribute to these objectives by developing knowledge on the process by which innovative Australian SMEs can internationalise to China.
Major Research Questions

Before the case studies conducted in the thesis are examined, the research questions that evolved from the Literature Review are presented below. In summary, the questions to be addressed by this research are provided in Table 1.1.

Table 1.1: Topic Area and Research Questions Investigated in the Thesis

<table>
<thead>
<tr>
<th>Topic Area</th>
<th>Research Questions</th>
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| Internationalisation | Research Question 1a: What process do Australian innovative SMEs use to internationalise to China?  
Research Question 1b: What factors drive SMEs to follow a stage or rapid approach to internationalisation, and how and why does this occur?  
Research Question 1c: Do different entry modes display different internationalisation processes? How and why? |
| Innovation | Research Question 2a: What types of innovation do Australian SMEs use in the Chinese environment?  
Research Question 2b: What types of innovation do various entry modes use, and why, in the Chinese market?  
Research Question 2c: Do innovation types vary with stage or rapid internationalisation approaches?  
Research Question 2d: What degree of innovation do innovative Australian SMEs use in China, and why?  
Research Question 2e: Do SMEs standardise or adapt their innovations to the Chinese market, and how does this help with being successful in the Chinese market? |
Networks  
Research Question 3: What is the role of networks in the internationalisation of innovative Australian SMEs to China?

Entrepreneurship  
Research Question 4a: How does entrepreneurship orientation (EO) influence the innovative Australian SMEs participating in China?  
Research Question 4b: How do the entrepreneurial behaviours of SMEs vary according to their entry mode?

Structure of the Thesis

This thesis is divided into eight chapters.

Chapter 1

Chapter One provides an overview and justification of the present study.

Chapter 2

Chapter Two provides a literature review of the key research relevant to this study, and an overview of the seminal research conducted in the field. It presents the context and lays the theoretical foundation for the thesis by describing and applying theoretical lenses to Australian SMEs’ internationalisation processes in China. As a starting point, Chapter Two reviews and discusses innovation adoption and internationalisation theories and then develops a conceptual model for the process of internationalisation of Australian SMEs. Finally, the chapter reviews past literature on the factors relating to Australian SMEs’ internationalisation processes in China according to the conceptual framework provided in Figure 2.1. In particular, the chapter reviews the literature on international entrepreneurship, networks, the use of resources, capabilities and the strategies used in internationalisation.

Chapter 3

Chapter Three presents the research design and methodology used in the study, with theoretical explanations and justifications for adopting those methods in conducting the
research. Given the review of the literature which identifies scant research on the specific topic, the weaknesses of previous theories in explaining the internationalisation of innovative firms, and the fact that the research questions above do not seek to test relationships between variables but rather explain processes by which innovative SMEs internationalise, a qualitative and inductive approach to this research will be used (Yin, 2009).

**Chapters 4 to 7**

Chapters Four, Five, Six, and Seven provide research results, analysis and discussions under key topics, namely, internationalisation approaches of SMEs, innovation adoption by SMEs, networks used, and entrepreneurship roles. These chapters integrate, compare and discuss the findings from all case studies. The aims of the research are reviewed to highlight how they have been met in relation to the studies conducted. The major findings from each study are presented and discussed in relation to the research questions used in the thesis, the theoretical perspectives, and the extant literature in the research field.

**Chapter 8**

Chapter Eight provides the overall conclusions of the thesis. The chapter also discusses the contributions made to theory and knowledge, the overall limitations (conceptual and methodological) of the entire thesis, and directions for future researchers. The chapter highlights the practical implications of the findings of the thesis in regard to Australian SME owners, managers, and Australian Government authorities.

**Conclusion**

The chapter explains the justification for this thesis, including the background, and the importance of studying this topic. The chapter presents the aim of the research, and explains the research design and methodology used. The research questions used in the thesis are presented and the structure of the thesis is discussed. Overall, understanding Australian SMEs’ internationalisation more completely is important because the Australian Government
recognises that SMEs’ engagement in Asian markets is vital for the Australian economy in this Asian dominant era. For SMEs wishing to internationalise, it is useful to develop a better understanding of these factors to assist firms in more successfully internationalising and improving their chance of success in the process. According to current ABS statistics, the percentage of Australian SMEs’ involvement in internationalisation is low compared with the number of SMEs active in Australia (two per cent, or around 40,000 out of 2.1 million active SMEs). Hence, to encourage more Australian SMEs to be involved with internationalisation to China with innovative ways, it is essential that the internationalisation processes of the SMEs already involved in the Chinese market are explored to understand critical factors affecting this process. In addition, these research findings will also be relevant to SMEs from other countries, with or without a history of internationalisation to China.
Chapter 2: Literature Review

Overview of this Chapter

This chapter provides the theoretical foundation for the study by exploring and outlining theoretical perspectives that are useful in explaining how innovative Australian small to medium enterprises (SMEs) internationalise to China. These perspectives are summarised into a conceptual model, which highlights how innovative Australian SMEs internationalise to China. After this conceptual model has been developed, the empirical research conducted on the internationalisation of innovative firms is reviewed in order to understand ‘how’ and ‘why’ Australian SMEs internationalise to China, and eight research questions are developed from the literature. In summary, this chapter discusses and analyses theoretical perspectives and past empirical research, in order to explain how innovative Australian SMEs internationalise to China. The chapter also develops and presents the research questions for the study.

Introduction

Internationalisation is broadly seen as a way that firms progressively increase their activities and resource commitments to foreign markets (Johanson & Vahlne, 1977, 2009), and has been widely used by businesses as a key strategy for expanding their business into different markets for varied reasons (Lamb et al., 2011). Internationalisation is a complex process, demanding significant organisational capabilities and managerial commitments (Lamb et al., 2011). As a result, SMEs often face a liability of foreignness, smallness and newness. Some researchers, however, have found that SMEs can be more productive than MNEs in terms of innovation (Palangkaraya et al., 2015; Afuah, 1998) as they have competitive advantages in innovation due to their smallness, flexibility and speed of response. Accordingly, SMEs can make a valuable economic and social contribution with their innovative capacities. In the
current global economy, it is imperative that SMEs seek opportunities in foreign markets because of the tough competition in home markets (Rodrigues, 2007) and the vast range of opportunities available in foreign markets (OECD, 2013). Hence, internationalisation to foreign markets has become very important for many SMEs, to increase their markets and revenues. Academics and governments increasingly recognise that gaining a better understanding of the internationalisation process of SMEs, especially from emerging markets, is a very important endeavour (Filatotchev, Liu, Buck & Wright, 2009). However, prior research into SME internationalisation strategy has focused mostly on large multinational enterprises from developed countries (Olejnik & Swoboda, 2012; Crick & Spence, 2005).

Structurally, the Australian economy is changing, with the closing down of manufacturing industries such as the car and textile industries, and the slowdown in the mining industry (Connolly et al., 2010; Australia Industry Report, 2015). As a result, it is vital that Australian businesses refocus and change what they do. In addition, the Australian population is relatively small at 24.6 million people (ABS, 2017), and previous research identifies that for small domestic markets, internationalisation is an important growth strategy (Sapienza et al., 2006). One way that Australian SMEs can deal with the current economic conditions in Australia, is to utilise innovation and product refinements to increase exports to markets in the Asian region, such as China (DHL Export Monitor, 2016). The DHL Export Monitor (2016) mentioned that it is not just China where export forecasts are strong but North America has recently moved up the charts, along with the Middle East, Europe, ASEAN (Association of Southeast Asian Nations), and even Japan and India are seen as having favourable future export prospects.
In fact, previous research identifies the importance of internationalised and innovative SMEs for the growth and prosperity of countries (Ozcelik & Taymaz, 2004), as innovation is linked to economic growth and productivity (Love & Roper, 2015). In supporting this view, the Australian Government’s (2012) White Paper *Australia in the Asian Century* suggested that Australian SMEs can play a vital role in Asian markets by internationalising their business activities (to Asia, particularly to China) with innovative products and services. As noted in this document, the rise of Asia provides great opportunities for Australia and Australian firms.

The Australian Government has set a road map for building Australians’ capacity to engage effectively with Asia, particularly China. This will become a vital factor for Australia’s economy mainly due to China’s booming economic conditions, the fact that China is the second largest economy in the world as of 2014 (CIA, 2017), and is Australia’s number one trading partner (Department of Foreign Affairs & Trade, 2017). In order to increase Australian’s capacity to engage effectively with Asia, Australian firms could offer innovative products and services to Asian countries (Commonwealth of Australia, 2012).

The next section reviews different internationalisation theory processes and what makes internationalisation successful for innovative SMEs in particular.

**Internationalisation theories**

A wide range of theories and approaches are adopted in the literature for explaining and justifying internationalisation of firms. The one major theory is: the ‘stage approach’, where the internationalisation of a firm is a dynamic, gradual and staged process that occurs over time (Bilkey & Tesar, 1977; Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). The two primary stage models are Uppsala Internationalization Model (U-model) and the Innovation-related Model (I-model). The Uppsala model suggest that internationalisation
can be viewed as a dynamic cycle, where the change in the state of internationalisation depends upon the state of internationalisation. As a consequence the distinction between state and change aspects of internationalisation is emphasized. In contrast, the I-models view internationalisation as an innovation for the firm and employ theory of innovation diffusion to explain the international behavior of firms. Both of these models view internationalisation as a sequential incremental process with a varying number of stages.

The other major theories of internationalisation include the ‘network theory’, where internationalisation occurs through the relations of actors in the market network (Coviello & Munro, 1997; Johanson & Mattson, 1993; Johanson & Vahlne, 2009); and ‘international entrepreneurship’, where internationalisation occurs through the combination of innovative behaviour, risk-taking and being proactive in international markets (McDougall & Oviatt, 2000).

First, the literature on the role of innovation in SME’s internationalisation is reviewed.

**Innovation and internationalisation**

As per Australian Government (2016), innovation allows for an accelerated pace of technological change, which causes structural changes and opportunities in countries, industries, and employment. Governments, businesses and individuals, therefore, see it as important to engage in innovative activities. Innovation is helpful in international markets as it creates advantages, and distinction for firms.

According to Australian Government statistics (2016), total research and development (R&D) funds in Australia were valued at $33.3 billion, which is devoted to activities such as
knowledge application, transfer and creation which includes the creation of new products, ideas and processes. The Australian Government (2016) identifies that to build an innovative country, a mix of the right ‘culture’, ‘networks’, ‘skills’, ‘infrastructure’, ‘money’, and ‘policy’ is needed for promoting innovation. Despite there being many well-known innovations in Australia, Australian firms are generally seen to lack novelty, newness and the development of new products (Australian Government, 2016). Australia spends 2.13% of GDP on R&D (Mazzarol, 2015), however, this is one of the lowest amounts in OECD countries, where the average is 2.63%. Australia no longer has a strong and vibrant manufacturing sector, as mentioned previously. However, government officials argue that Australian companies can be successful in Asian markets (Australian Government, 2012) through innovation.

China, being the world’s largest exporter, has focused on building an innovative nation (Tian, 2007). The Chinese Government has done this by focusing on creating an innovation ecosystem (McKern, 2017) which is reflected in the fact that investment in innovation is extremely high in China. High-tech business parks, increased patent publications, export of high-tech products, and development of global innovative companies such as Huawei, Haier, Alibaba are some examples (McKern, 2017). China is now recognised as a future global innovator (McKern, 2017).

Role of Innovation in SMEs’ Internationalisation

An examination of the literature reveals that internationalisation in general has been a well-researched topic, however, the literature on how innovative SMEs internationalise has been less examined, with most of the studies on this topic looking at the role of innovation, exporting activities and the performance of the firm (Love & Roper, 2015). O’Cass and Weerawardena
(2009) also argue that the role of innovation in the internationalisation of SMEs has received little attention. Crick and Spence (2005) argue that rapid expansion might be more appropriate for innovative SMEs, rather than step-by-step expansion. In addition, they find that entrepreneurial culture, opportunistic strategies and short-term goals were important for their internationalisation (Crick & Spence, 2005). Previous research identifies that it is important for innovative SMEs to learn how to adapt quickly to a new situation such as a foreign country, which has been identified as being more important than prior acquired knowledge (Autio et al., 2000; McDougall et al., 1994). Other researchers have identified that internationalisation for innovative SMEs is dependent on the internal resources of the entrepreneur, such as knowledge, skills, and financial resources (O’Cass & Weerawardena, 2005). Previous research also identifies that the entrepreneur and management team characteristics (for example, experience, education levels, background) also drive internationalisation (Crick & Spence, 2005).

Innovative firms operate in a dynamic environment, and arguably the consideration of ‘serendipity’ is important, which has received relatively little attention in the research literature, although Crick and Spence (2005) do find this in their research. Also missing in terms of investigation into innovative SMEs, is the identification and exploitation of opportunities – how do managers of innovative SMEs react to new opportunities, and what are the dynamics in regard to opportunity seeking versus, opportunity grabbing? Networks and resource bases are also highly influential, for example, according to Handfield et al. (1999) SMEs operating within an industry or with technologically advanced suppliers have higher innovation potential. The results of a research by LeCerf (2012) confirm strong correlations between technological resources, innovation, and internationalization.

Having reviewed the literature, the following section develops the conceptual model for the
study.

**Conceptual model for the internationalisation of innovative SMEs to China**

It has been suggested that no one theory can explain the internationalisation of innovative firms, due to the complex nature of internationalisation, and instead it is more likely that a range of theories is needed to explain it (Crick & Spence, 2005). Ratten et al. (2007) developed a conceptual model that explains the importance of resources, networks, and international entrepreneurship as a theory for explaining the SME internationalisation process. Researchers have argued that past theories do not capture the full complexities of the realities for innovative SMEs, where environmental variables constantly change (Knight & Cavusgil, 1996), requiring the organisation to be flexible and open to change. Based on prior theories and research, a conceptual model is now developed that explains internationalisation for innovative firms (see Figure 2.2). This model will now be explained.
Internationalisation process

The first factor investigated is internationalisation itself. Freeman (2000) argues that there are two basic approaches to internationalisation, which is either a relationship or a transaction approach. According to Freeman (2000), if a firm utilises a transaction approach they are more likely to move through the stages of internationalisation in a stage approach, and if they use a relationship approach, they will leap straight into foreign markets quite rapidly. A study by Rodrigues (2007) brings a fresher, wider and more inclusive perspective to the internationalisation of SMEs. The study categorised internationalisation theories into two main categories. The first states that internationalisation is a sequential, gradual and evolutionary process (Rodrigues, 2007). The second theory, or rather group of theories, states that the whole process of internationalisation is ever changing. Companies may start overseas activities in a shortened period, either by-passing or leaping over some or all of the logical
steps of increasing foreign market commitment. Each of these theory sets will now be explained.

**Stage theory**

Stage theory, initially developed by Johanson & Vahlne (1977), states that internationalisation is a sequential, gradual and evolutionary process (Johanson & Wiedersheim-Paul, 1975; Rodrigues, 2007). It may be described as a stepwise process of increasing involvement and commitment with overseas markets (Rodrigues, 2007). The theory suggests that as knowledge and understanding of internationalisation increases, the firm will make larger resource commitments to internationalisation. Therefore, as the firm grows, they will increase their level of internationalisation from exporting to other activities such as foreign direct investment (FDI).

A concept associated with stage theory is that of ‘the liability of foreignness’ (Zaheer, 1995), which means that when a firm first starts off internationalisation they will lack understanding of the foreign country, which can be characterised as a liability or cost, which limits the organisation from investing in that country. However, as their knowledge builds and their liability decreases, the firm may wish to make further investments, and devote more resources to the venture. The theory is reasonably generic, and hence could be applied to innovative SMEs. However, one issue that may impact on the SME making further commitments to the market is the small size of the SME, and their lack of resources which is referred to as the ‘liability of smallness’ (LOS) (Hannan & Freeman, 1984; Stinchcombe, 1965). Previous studies have established that smaller organisations behave differently from their larger counterparts (Anderson et al., 2004; Coviello & McAuley, 1999; Gomes-Casseres, 1997; O’Cass & Weerawardena, 2009).
According to Song (2014), most efficient firms not only can internationalise, but also are able to source knowledge from foreign countries via strategic asset-seeking FDI. In addition, the firms’ past international experience is important for increasing their international expansion. Moen and Servais (2002) questioned the general applicability of the stage approach and stated that new theories of internationalisation should be developed which correspond with current business conditions.


Apart from the stage approach, introduced by Johanson and Vahlne (1977) in the 1990s, Oviatt and McDougall (1994) introduced the concept of International New ventures (INVs), or what is referred to as a born global firm (Knight & Cavusgil, 1996). This theory states that the whole process of internationalisation is an ever-changing, fast-paced and evolving process in which firms may start overseas activities in a shortened period of time, either by-passing or leaping over some or all of the logical steps of increasing foreign market commitment (Oviatt & McDougall, 1994).

International New Ventures (INV) are defined as a business organisation that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of output in multiple markets (Oviatt & McDougall, 1994). The business typically begins with a proactive international strategy but does not necessarily engage in FDI (Freeman, 2000). According to Andersson and Wictor (2003), definitions of rapidly internationalising firms have been largely influenced by the context of the research, not the comparability of results.

The emergence of international new ventures (INVs), or born global, has been one of the defining features of twenty-first century global capitalism (Knight & Cavusgil, 1996). More
open markets, lower communication and transport costs, and the availability of staff with more international experience have created opportunities for smaller players to enter global markets (Karra & Phillips, 2004). As a result, more companies are now ‘rapid international-INV’ with an explicit vision to draw a substantial portion of their sales from beyond their home market.

However, rapid international firms face a triple threat when they enter foreign markets (Sapienza et al., 2006). Not only do they have to cope with the liabilities of smallness and newness common to all entrepreneurial ventures, but they also must overcome an additional liability of foreignness that adheres to all ventures entering foreign markets (Zaheer, 1995).

The extant literature shows considerable differences of opinion regarding the speed required to be defined as a ‘rapid’ international firm. It is seen to range from two years from inception (McKinsey & Co., 1993) to three years (Knight & Cavusgil, 1996), six years (Zahra et al., 2000), and eight years (McDougall et al., 1994). The factors that lead to this rapid process of internationalisation have dominated rapid international analysis. The drive, vision, experience and ability of the entrepreneur have been considered a key driver in the pace of rapid international firm internationalisation (Autio et al., 2000; Knight & Cavusgil, 2004; Oviatt & McDougall, 2005). In particular, the firms’ ability to identify, assess and act on opportunities is considered vital (Oviatt & MacDougall, 2005). Linked to the influence of the entrepreneur is the development of an innovative culture considered unique and essential to rapid international development. As Knight and Cavusgil (2004, p. 127) explain, rapid international firms are inherently ‘entrepreneurial and innovative’ with a culture that facilitates the acquisition of knowledge, and capabilities that engender early internationalisation.
Oviatt and McDougall (2005) propose that entrepreneurs act as interpreters to both the enabling and motivating forces of accelerated internationalisation. Enabling forces are embodied in faster and more efficient shipping and airline routes, as well as improvements in digital technology, which enable firms to have enhanced forms of communication and increased transportation efficiencies for their products. Motivating forces encourage entrepreneurs to enter markets quickly, either to capitalise on technological opportunities, or react to the presence (or potential presence) of competitors. Entrepreneurial decisions based on these forces influence the speed of internationalisation by interpreting these enabling and motivating forces and acting upon them.

Early rapid international research revealed that rapid international firms often have a weak domestic base from which to launch their international efforts (McKinsey & Co., 1993). Research by Ibeh (2003) found that if small firms possess an entrepreneurial orientation, as is common with rapid international firms (Rialp et al., 2005), they are more likely to enter international markets sooner when faced with a hostile domestic industry. Fan and Phan (2007) conclude that the larger the size of its home market, the less likely it is that a rapid international firm will choose to go international at inception – they are more likely to enter international markets sooner when faced with a hostile domestic industry. Considering that Australia is a small domestic market, it is expected that Australia would have a high proportion of firms targeting international markets.

As per McDougall et al. (2003), rapid international firms target niche market gaps so that they may remain competitive, while their success is frequently attributed to entrepreneurs who have the vision and drive to avoid following a slow, evolutionary path to internationalisation. Although McDougall et al.’s research (2003) expands the rapid international literature, the
emphasis is on comparisons with traditional process or ‘stage’ models of internationalisation. A more fundamental issue explored, but still largely unresolved, in the literature is a focus on that which distinguishes some rapid international firms from other rapidly internationalising firms (Crick, 2009; Kuivalainen et al., 2007; Lopez et al., 2009). Although the pace or speed of internationalisation is seen as a unique and defining characteristic, true rapid international firms can be identified using measures in addition to pace (Kuivalainen et al., 2007).

Some researchers argue that rapid international firms do not appear to present a challenge to the ‘stage’ models’ in theoretical terms when management factors are taken into consideration. In fact, they provide support for the stage models, in particular the ‘innovation diffusion’ or I-model (Andersen, 1993) theoretical framework, where management is the unit of analysis (Wicramasekera et al., 2003).

The study conducted by Rodrigues (2007) revealed that nearly half (44%) of the surveyed companies engage in international activities within five years of creation. The companies also started international activities in a similar fashion – the manager and the company gain experience and get to know people. Barely any significant discrepancies occur in the strategy followed by SME managers from the five countries surveyed by Rodrigues (2007). According to Rodrigues (2007), the manager is the key decision maker in the internationalisation of the SME and managers engage in overseas activities for different reasons. There are push drivers – internal stimuli at the company or home country level, and also pull drivers – external stimuli coming from the target country. The most frequent is the attraction of growing overseas markets; following customers that go overseas is the second reason (Rodrigues, 2007). Rodrigues (2007) found the most common push driver for SMEs is a shrinking domestic market. To grow their organisations, SME managers want to escape from their
mature markets and the increasing competition at home, and therefore choose to look at growing international markets (Rodrigues, 2007). Most of these rapid international companies are in the service sector and more than half have fewer than 50 employees (Rodrigues, 2007). According to the survey results, they have much more intensive international activity than the average surveyed company, and all the rapid international companies receive income from overseas, compared with just under half of the surveyed companies. They rely to a great extent on their own patents and consider them as one of the most important factors of their international competitiveness (Rodrigues, 2007). All of the organisations are relatively young and, given the innovative nature, there are firms which seek knowledge and technology abroad, thus a knowledge-seeking motivation is also present (Rodrigues, 2007).

Opposed to the above view, some researchers are of the opinion that the emergence of the INV presents a unique challenge to stage theory (Oviatt & McDougall, 1994; Knight and Cavusgil, 2005; Falabata, 2015). This implies that established theories are less applicable in an expanding number of situations where technology, specific industry environments, and firm capabilities are rapidly changing (Oviatt & McDougall, 1994). Thus, the stage theory of firm internationalisation is increasingly incongruent with recent developments, and a large-scale operation has become one of the many ways to compete internationally (Oviatt & McDougall, 1994). Wicramasekera et al. (2003) undertook a study to explore the phenomenon of rapid international firms within the Australian wine industry. The findings support the view that the development of a rapid international firm does not negate the validity of the stage theories of internationalisation. The findings indicated three major reasons for acceleration of the internationalisation process in the wine industry: (1) ready market for products (demand for Australian wine overseas “ready market for Australian wines”, given the “quality” and “reputation of the industry”); (2) domestic market issues (the taxation regime in Australia is
an impediment to domestic market expansion and is a reason for tapping into export markets); and (3) networking - the importance of “building relationships” and “access to contacts” is an important driver in achieving rapid internationalisation (Wicramasekera et al., 2003). The survey findings showed that a significantly high proportion of managers in the rapid international firms had previously worked for a company that had exported or imported goods (Wicramasekera et al., 2003). The findings also showed that rapid international wineries tended to target significantly fewer overseas markets than the non-rapid international firms (Wicramasekera et al., 2003). The findings also highlight the importance of management having international and industry experience (Harveston et al., 2000) and access to networks (contacts) for rapid internationalisation (Welch & Loustarinen, 1988; McGaughey et al., 2002).

As Rammer and Schmiele (2008) suggest, nevertheless, unfavourable conditions for innovative activity do have an effect on SMEs' decisions to engage in innovation in foreign locations. First, high innovation costs are an important factor for establishing or expanding non-R&D innovation activities in foreign locations. Internationalisation of innovation is also driven by a cost dimension, and a shortage of qualified personnel has a strong impact on increasing production activities for new products abroad, while there is no effect on any other international innovation activity (Rammer & Schmiele., 2008).

In summary, the pace of rapid international firm internationalisation occurs through the entrepreneurial drive of the founder(s) as well as the small size of the domestic market. Psychic distance is considered when assessing international markets and firms entered markets based on psychic distance and not just strategic opportunity (Moen, 2002; Rialp et al., 2005). Rapid international firms did not rely on low-commitment entry modes (Knight &
Cavusgil, 2004), instead, the most appropriate entry mode was determined by the firm’s product and its ability to meet client needs (Taylor & Jack, 2013). More recent literature has looked at how opportunity-based issues impact on firm internationalisation (Dimitratos, Johnson, Plakoyiannaki & Young, 2016). In particular, Dimitratos et al. (2016) looked at how entrepreneurs mould and shape the characteristics of SMEs to gain opportunities in foreign markets, and in particular examined issues such as risk attitude, market orientation and networking orientation, in respect to time to internationalisation, entry mode and market presence.

Based on past research in this area, this study seeks to understand the pattern of internationalisation for Australian SMEs to China. Accordingly, the following research questions are posed:

**Research Question 1a:** What process do Australian innovative SMEs use to internationalise to China?

**Research Question 1b:** What factors drive SMEs to follow a stage or rapid approach to internationalisation, and how and why does this occur?

**Research Question 1c:** Do different entry modes display different internationalisation processes? How and why?

A summary of the main constructs based on the literature around the stage approach, INV, internationalisation and innovation for Australian SMEs are summarised in Table 2.1. These constructs will be utilised for analysis in the results section.

**Table 2.1:** The stage approach, INV, and internationalisation: Constructs identified in the literature

<table>
<thead>
<tr>
<th>Theory</th>
<th>Studies Examined from Innovation Perspective</th>
<th>Relevant Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The stage approach</td>
<td>Reuber &amp; Fischer (1997)</td>
<td>Knowledge</td>
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<td></td>
<td>Czinkota et al. (2002)</td>
<td>Understanding of international markets</td>
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<td></td>
<td>Etemad (2004)</td>
<td>Experience</td>
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<td></td>
<td>Littunen &amp; Tohmo (2003)</td>
<td>Resource commitments</td>
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<tr>
<td></td>
<td>Rammer &amp; Schmiele (2008)</td>
<td>Gradual stage approach</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increasing level of internationalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Liability of foreignness</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SME innovative firms may not progress through the stages due to lack of resources</td>
</tr>
<tr>
<td>International New Ventures (INV)</td>
<td>Oviatt &amp; McDougall (1994)</td>
<td>Seek multiple market opportunities from inception</td>
</tr>
<tr>
<td></td>
<td>Rodrigues (2007)</td>
<td>Begins with a proactive international strategy</td>
</tr>
<tr>
<td></td>
<td>Freeman (2000)</td>
<td>Manager is the key decision-maker in the internationalisation process</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Push drivers, internal stimuli home country and pull drivers, external stimuli from the target country</td>
</tr>
</tbody>
</table>

**Firm Innovation Focus**

As defined previously, innovation can include the development of new products or services, systems, or even new markets such as internationalisation (Schumpeter, 1962), and firms may gain an increased commercial value through the introduction of new or improved products or processes (AMC, 1995). There are many types of innovation from product, process, marketing, and even business/paradigm innovation, and firms will use different types of innovations, which will have differing effects on their internationalisation (Love & Roper,
In addition, innovation can vary by how incremental it is, or how radical it is, which is further broken down into whether an innovation is an architectural innovation (i.e., the whole product), or whether it is just the innovation of a component of a product (Henderson & Clark, 1990). Accordingly, Henderson and Clark (1990) classify innovation into four different dimensions. It is noticed that firms who are engaged in disruptive technologies are engaged in radical innovation most of the time, and firms who are involved with smaller scale innovations are referred to as ‘incremental’ innovators.

**Impact of Innovation on Firms Internationalisation**

According to Ratten & Tajeddini (2017), managers should focus more on innovativeness if they are wanting to increase their internationalization rate. Innovations may be used as a strategy for growth or survival. Growth may be achieved if innovation enables the expansion of existing markets or entry into new markets. On the other hand, firms may be forced to match the innovation of rivals to maintain market share (AMC, 1995). Depending on the type of innovation that the firm is using, and the degree of innovativeness, this may influence the internationalisation process (Castellani & Zanfei, 2007).

According to Onetti and Zuchella (2008), internationalisation is an overwhelming task for some SMEs that lack sufficient manpower, finance, language abilities, and international outlook. However, innovation and internationalisation have been seen as ways for firms to gain competitive advantage. Researchers do argue, and find that innovation and internationalisation is inter-related (Onetti et al., 2012; Cassiman & Golovoko, 2011; Golovoko & Valenittin, 2011, Ganotakis & Love, 2011). Researchers (Rees & Edwards, 2010; Higon & Drifield, 2010; Nguyen et al., 2008) suggest also that innovation assists with internationalisation (export initiation) to begin with. Other researchers (Golovko & Valentini,
2011; Kafouros et al., 2008) have found reverse effects, for example, when a firm becomes international it is required to innovate, especially when operating in very different market places. Hence, there is an overlapping relationship between innovation and internationalisation.

The rapid expansion of SMEs might be more appropriate for innovative SMEs, rather than a step-by-step expansion, as explained by the *U and I-stages models* (Crick & Spence, 2005). In addition, researchers Crick and Spence (2005) find that entrepreneurial culture, opportunistic strategies and short-term goals were found to be important for the internationalisation of innovative firms. Therefore, instead of the ‘liability of foreignness’ (Johanson & Vahlne, 1977), or the ‘liability of outsidership’ (Johanson & Vahlne, 2009), the important concept for innovative firms is the ‘learning advantage of newness.’ Previous research identifies that it is important for innovative SMEs to quickly learn how to adapt to new situations such as a foreign country, which has been identified as being more important than prior knowledge (Autio et al., 2000; McDougall et al., 1994).

Researchers have investigated whether or not there is a relationship between an entrepreneur’s background and their strategic choices around innovation and internationalisation (Denicolai, Hagen & Pisoni, 2015). They found particularly that family firms are less likely to be international and innovative; and that team-based organisations tend to be more innovative and international than a solitary, one-man-controlled firm. One-man-controlled firms display product and process innovation, but limited scope for internationalisation. Previous research finds that internationalisation tends to be related to the type of innovation, rather than R&D intensity or novelty (Denicolai, 2015). According to Varadarajan and Jayachandran (1999) the role of innovation is critical in delivering higher firm performance for SMEs in foreign
markets. Other researchers have found similar links, for example, O’Cass and Weerawardena (2009) found that international entrepreneurial SMEs pursued organisational innovation to a larger degree than non-exporters, which suggests that innovation encourages exporting, but the reverse can also be true where exporting encourages innovation.

In Australia, there has recently been an increasing trend of internationalisation by SMEs that are innovative (Waters, 2012). Huber (1991) in his study found that the use of certain entry modes into foreign markets will influence SMEs' future product innovation. In particular, licensing and alliances are positively associated with product innovation, consistent with prior research on licensing and alliances (Huber, 1991). These modes of entry usually provide access to a wider pool of knowledge and create avenues for knowledge sharing.

There is quite a large and diverse literature examining the role of innovation in SME internationalisation, and how it might influence performance. There is a tremendous amount of research also on SMEs entry methods and innovation techniques in cross border ventures in developing countries (which could be possibly generalized to Australia’s SMEs). However, the extant literature on SME and innovation has had a strong focus on exporting as an important part of the internationalisation process of SMEs (Roper & Love, 2015), with less focus on other entry modes such as wholly-owned foreign enterprises (WOFEs) or rapid international firms such as those Born-in-China (BICs).

**Innovation, Internationalisation and SMEs’ Performance**

Innovative firms are much more likely to export (Australian Manufacturing Council, 1995, pp. 5-6). Their innovation allows them to more effectively compete against the rest of the world. The main drivers of innovation in businesses are performance-related: independent of size they
are profit-related, followed by increased responsiveness to customer needs, increasing or maintaining market share and improved quality of goods or services (Commonwealth of Australia, 2011). Other drivers identified include increasing the efficiency of supplying and delivering goods/services, being at the cutting edge of industry, establishing new markets, ensuring products are competitively priced, improving IT capabilities or better utilising IT capacity, improving safety or working conditions, increasing capacity of production/service provision, adherence to standards, reducing environmental impacts, increasing export opportunities and response to government regulations (Commonwealth of Australia, 2011).

The association between innovation and firm performance depends on performance measurement and the characteristics of a given organisation. That is, the utilisation of objective or subjective performance indicators such as sales or self-reported performance may lead to different research results, and different combinations of innovation, such as combinations of technological and marketing innovations may also result in divergent organisational performances. Previous studies of the relationship between innovation and performance provide mixed results, some positive, some negative, and some showed no relationship at all (Capon et al., 1990; Chandler & Hanks, 1994; Li & Atuagene-Gima, 2001). According to Pratali (2003), incremental technological innovations help improve company competitiveness with the ultimate aim of increasing company value. Incremental market innovation is about new ways of reading and serving current markets, which ensures firms provide appropriate offers and yield greater revenues (Johne & Davies, 2000). In addition, researchers reported that innovative marketing aims at increasing product consumption and has a positive influence on firm sales. Furthermore, continuous work process innovation was regarded as the most important action for improving short-term profitability (Soderquist, 1996). Many small companies also succeeded in introducing more radical innovations because of their genetic make-up (Stringer,
However, some argue that the linkage of radical innovation and performance is an S-shaped curve because of diminishing research effort and resource inefficiencies (Foster, 1986).

Recent internationalisation literature investigates the effect of internationalisation on innovation (Boermans & Roelfsema, 2016), and finds that internationalisation positively impacts on performance. In particular, internationalisation increases firm performance directly and indirectly, whilst the indirect impact of innovation on firm performance is significant (Boermans & Roelfsema, 2016).

The results suggest that there needs to be internationalisation for innovation to have an effect. There is some debate about whether a firm is first innovative, which leads them to internationalisation, or whether firms being internationalised makes them innovative because they are exposed to ideas in the foreign market, which they absorb, and use to develop new ideas (Boermans & Roelfsema, 2016; Hagemejer & Kolasa, 2011). Boermans and Roelfsema (2016) find that firms that are more active internationally will have a greater amount of innovation and perform better. Interestingly, recent research on service innovation tells a different picture. In particular, Kunttu and Torkeli (2015) find that service innovation (SI) has a positive relationship with firm performance, but not with the degree of internationalisation. There is also a debate in the literature about whether an SME can manage or handle both internationalisation and innovation at the same time, but given that these two factors are self-reinforcing, and require similar skills and resources, this may be possible (Kuntuu & Torkeli, 2015) or pose a difficulty, as one function may drain the resources from the other. Interestingly, Kuntuu and Torkeli (2015) find that innovative service activities explained higher performance, but did not explain higher growth, or higher degrees of innovation.
A study by Yu-Ching et al. (2006) in the electronics and textile industries identifies a curvilinear relationship between internationalisation and performance of SMEs. According to the survey, the relationship between SMEs’ level of internationalisation and performance will demonstrate an inverted U-shaped curve, in which performance increases up to an optimal level of internationalisation; after that point, performance will begin to decline (Yu-Ching et al., 2006).

According to Yu-Ching et al. (2006), investments in research and development (R&D) were also shown to be positively associated with firm performance.

It appears that innovative activity is linked to firm size; for instance, the ABS (2012) survey data (2010-11) reveal that larger firms are more likely to undertake innovative activity (74%), than small (55%) or medium-sized (61%) businesses. This result indicates that SMEs experience more barriers to innovation than larger firms. The main barriers identified by the ABS survey (2010-11) were: a lack of skilled persons within the business or within the labour market, a lack of access to additional funds, cost of development, government regulation or compliance, uncertain demands for new goods and services, adherence to standards and lack of access to knowledge and technology (Commonwealth of Australia, 2011).

A study by Lin et al. (2007) indicates that innovation has a weak link with a firm’s sales, and that administrative innovations have surfaced as the most crucial factor in explaining sales rather than technological innovations. This finding provides evidence of Drucker’s (1998) comment that a system-wide involvement of all departments is essential to prevent innovation failure. The results of this study further highlight that a successful innovation does not necessarily require a radical change and SMEs which had overseas investment perform better in terms of sales. The finding of Lin et al.’s (2007) study, that almost 60 per cent of the surveyed
SMEs in Taiwan already had overseas operations and achieved better performance, is very encouraging for those who intend to go overseas. Competing in an international arena challenges the SME to become more innovative, because it helps the firm tackle the market, and stay competitive (Lin et al., 2007). The research found that when organisations perceived that the innovation was effective in a number of areas, they had a more positive attitude toward innovation adoption. Thus, those that perceive greater benefits from an implemented innovation are more likely to have positive attitudes towards innovation, which may lead to further innovation adoption (Sukanlaya et al., 2007).

Previous literature identified innovation and internationalisation as essential competitiveness strategies for a firm, and SMEs achieve growth by launching innovative products or services in reaching new customers. Rammer & Schmiele (2008) investigated the drivers for the international innovation activities of SMEs from Germany, and analysed the effects of these activities on a firm’s performance at its domestic location. A particular feature of the study is to distinguish various types of international innovation activities and to consider the role of the home market environment, both in terms of competition and conditions for innovation. By linking innovation activities abroad with firm growth at its domestic location, it is able to identify the effect of international innovation activities on a firm’s development in its home market. Nevertheless, unfavourable conditions for innovative activity in Germany do have an effect on SMEs’ decisions to engage in innovation in foreign locations. First, high innovation costs are an important factor for establishing or expanding non-R&D innovation activities in foreign locations (Rammer & Schmiele, 2008). Internationalisation of innovation is also driven by a cost dimension and a shortage of qualified personnel has a strong impact on increasing production activities for new products abroad, while there is no effect on any other international innovation activity (Rammer & Schmiele, 2008). At the same time,
internationalising innovation activities is beneficial to an SME’s economic performance in its home country (Rammer & Schmiele, 2008). R&D activities abroad as well as selling innovative products to foreign customers significantly increase employment growth at domestic locations, which indicates that innovative SMEs are able to profit from knowledge transfer from their foreign locations to their domestic activities. They also benefit from exploiting new business opportunities from globalisation by geographically expanding the market for their innovative products. There are no negative effects from internationalising innovation on home market performance. This is even true for producing innovative products at foreign locations or by increasing the efficiency of foreign production through process innovations. Any likely negative impact of a potential shift in resources from domestic to foreign locations seems to be compensated for by corresponding increases in a firm’s competitiveness (Rammer & Schmiele (2008).

The above research findings indicate that it is important to study Australian innovative SMEs and their internationalisation to China, and based on this prior research the following questions are asked:

**Research Question 2a:** What types of innovation do Australian SMEs use in the Chinese environment?

**Research Question 2b:** What types of innovation do various entry modes use, and why, in the Chinese market?

**Research Question 2c:** Do innovation types vary with stage or rapid internationalisation approaches?

**Research Question 2d:** What degree of innovation do innovative Australian SMEs use in China, and why?
Research Question 2e: Do SMEs standardise or adapt their innovations to the Chinese market, and how does this help with being successful in the Chinese market?

The main constructs around innovation and internationalisation for Australian SMEs are summarised in Table 2.2. These constructs emanate from the literature will be utilised for analysis in the results section.

Table 2.2: Innovation, SMEs and internationalisation: Constructs based on the literature

<table>
<thead>
<tr>
<th>Studies on Innovation and Internationalisation</th>
<th>Relevant Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Schumpeter, 1962</td>
<td>Innovation includes new products, services, systems, even new markets</td>
</tr>
<tr>
<td>AMC, 1995</td>
<td>Firms gain an increased commercial value through innovation</td>
</tr>
<tr>
<td>Love &amp; Roper, 2015</td>
<td>Many types of innovation product, process, marketing, and even business/paradigm innovation</td>
</tr>
<tr>
<td>Henderson &amp; Clark, 1990</td>
<td>Disruptive technologies likely to be engaged in radical innovation, much smaller innovations, not entirely game changing ‘incremental’ innovations.</td>
</tr>
<tr>
<td>Rees &amp; Edwards, 2010</td>
<td>Innovation helps with export initiation</td>
</tr>
<tr>
<td>Higon &amp; Drifield, 2010</td>
<td>Overlapping relationship between innovation and internationalisation</td>
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<tr>
<td>Nguyen et al., 2008</td>
<td>Degree of innovativeness influences the internationalisation process</td>
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<td>Golovko &amp; Valentini, 2011; Kafouros et al. 2008</td>
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<td>Castellani &amp; Zanfei, 2007</td>
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Critical Factors

The next part of this literature review will examine the factors that enhance success with internationalisation, and includes the networks, entrepreneurship, resources and capabilities such firms have.

Networks

As SMEs face barriers in internationalisation, and a lack of resources, one way to overcome these barriers is through the utilisation of networks, contacts and social capital. The literature on the role of networks in internationalisation can be classified into several key areas: how networks assist with the firms' liability of foreignness issues, network processes for firms in internationalisation, the role of social networks in internationalisation, and innovative networks and government support in internationalisation approaches.

Liability of Foreignness and Role of Networks

The existing literature (Boehe, 2011; Elodie & Caroline, 2012; Schweizer, 2013; Musteen, Datta, & Butts, 2014) highlights the importance of international networks, in particular in providing information such as international business practices and institutional knowledge; identifying foreign exchange partners, helping stimulate awareness of foreign market
opportunities, providing legitimacy and attractiveness of the internationalising firm, and promoting moral obligations within the network of partners. Networks are considered crucial in the internationalisation of SMEs, especially as vehicles for reducing entry barriers, and in particular the deterrent effects of psychic distance in firm internationalisation (Kovacs & Perenyi, 2017).

International networks ease and accelerate the development of innovative SMEs and lead to increased resource commitments in foreign markets (Falice et al., 2012). From a resource perspective, networks could also be useful because they give SMEs the resources that they do not already have. As a result, firms can connect their activities and resources to those of their partners (Saeedi et al., 2011). For the SME, it is important to be located within a network, hence Johanson and Vahlne (2009) coined the term ‘liability of outsidership,’ which suggests that if a firm is located outside an international network, they will find it more difficult to internationalise than those located within a network. Research by Lu and Beamish (2001) suggests an effective strategy for managing that aspect of internationalisation is to form alliances with local partners who can overcome deficiencies in host country knowledge (Lu et al., 2001). According to Handfield et al. (1999), SMEs operating within an industry or with technologically advanced suppliers have higher innovation potential. Therefore, networks can influence the ability of firms to engage in innovation, and in internationalisation.

Engaging with business partners, clients and so on, allows internationalising SMEs to understand the market, gain an insight on how business is done, and to build trust (Wilson & Mummalaneni, 1990; Vasilchenko & Morrish, 2011).
Previous research identifies that trade associations and government bodies assist SMEs in internationalisation, which results in joint activities and knowledge development (Spence, 2000; Senik et al., 2011).

Firms use their social networks to achieve their strategic objectives (Nahapiet & Ghoshal, 1998). SMEs link internal and external resources in networks to pursue strategic objectives such as entering a new market (Blomstermo, Eriksson, Lindstrand & Sharma, 2004; Coviello & Munro, 1997; Moen, 2002; Sharma & Blomstermo, 2009). Networks provide SMEs access to resources in the international market, which enables them to overcome their isolation in the globalised market (Musteen et al., 2010; Hashim & Hassan, 2008; Rutashobya et al., 2004). Networks help SMEs to identify opportunities and support them with their internationalisation. The value of foreign country networks is determined by that country’s specific advantages, where firms will leverage their internal and external resources to pursue strategic objectives (Rugman et al., 2012). Consequently, the use of networks to support internationalisation may differ greatly by country.

The use of networks by small enterprises has received much attention in the literature (Coviello, 2006). Despite these findings for SMEs, little is known regarding innovative firms and whether they use networks to assist in their internationalisation. For example, it is more difficult for innovative firms to partner with other companies if they wish to protect their proprietary knowledge. Traditionally, market entry has been seen as how a firm overcomes various barriers in international markets, but this view has recently become less important than the view that internationalising should be undertaken to strengthen a firm's position in the network (Johanson & Vahlne, 2003, 2009). These researchers claim that existing business relationships are useful as they make it possible to identify and exploit opportunities, which
has a considerable impact on the particular geographical market a firm will decide to enter, and on which mode to use. This claim is also consistent with the business network view, where much emphasis is placed on existing relationships (Hakansson & Snehota, 1989). Networks are also important because learning and commitment building take place in relationships.

According to Saeedi et al. (2011), networks give SMEs resources they do not have, and SMEs can rely on networks to overcome their isolation in the globalised market (Musteen et al., 2010; Hashim & Hassan, 2008; Rutashobya et al., 2004). As per Johanson and Vahlne’s (2009) work, networks help with eliminating the ‘liability of foreignness’ and can reduce the risks that businesses face when they internationalise (Falice & Coeuderoy, 2012). According to Zizah et al. (2010), networking or relationships influence the awareness of international opportunities, which they believe is the most influential factor for internationalisation. This finding supports other researchers’ work (Musteen et al., 2010; Hashim & Hassan, 2008; Rutashobya et al., 2004) that finds small firms have to rely on networks to overcome their isolation in the current globalised market. A study by Mohammad and Filho (2009) has shown network relationships are important factors in understanding the internationalisation pattern of SMEs. Also, the performance of internationalisation depends largely on the ability of companies to relate innovative and proactive international behaviour to the learning process through the maintenance of national and international networking (Mohammad & Filho, 2009). The results of a study by Kovacs & Perenyi (2017) show that network facilitation organisations can do little to reduce the perceived geographical distance, however their contributions can be seen as tangible in terms of advocacy and awareness raising.
A key point of interest has been the relational capital that firms build as a way of creating opportunities and capabilities to grow beyond their home market (Prasantham & Dhanaraj, 2010). Internationalisation networks may be inherited or actively constructed by entrepreneurs. Ciravegna et al. (2014) argued that the analysis of network building mechanisms, however, is limited and more empirical research in this area is required. Hohenthal, Johanson and Johanson (2014) confirm this by noting that there are many qualitative case studies describing the process but few articles that have analysed the process and treated the network as a dynamic phenomenon (Fletcher, 2011; Guercini & Runfola, 2010; Sharma & Blomstermo, 2003).

Network strategy is the deliberate set of objectives and activities undertaken to build various types of relationships and capabilities, in order to enter foreign markets (Hohenthal et al., 2014). Qualitative studies from Coviello (2006) and Coviello and Munro (1997) have identified the importance of building the relationship first in a foreign market. Relationships are important as they bring knowledge and opportunity (Chetty, Ojala & Leppäaho, 2015; Meyar & Skak, 2002). International network strategy for an SME will have the goal of supporting and accelerating its internationalisation and success. It will lead to increased resource commitments in foreign markets. Thus, from a resource perspective, international networks provide SMEs with access to critical resources.

The lack of network support creates a liability of foreignness (cost of foreignness in the country). Networks help eliminate the liability of foreignness or reduce the risks and liabilities that international businesses face when they internationalise (Falice & Coeudero, 2012).
According to Zizah et al. (2010), networking or relationships influence the awareness of international opportunities, which they suggest is the most influential factor for internationalisation. Mohammad and Filho (2009) similarly found that network relationships will determine the pattern of internationalisation for the SME and the success will reflect the ability to maintain international networks.

**Network Process**

Limited evidence in the literature focuses on the network processes of SMEs (Gilmore & Carson, 1999). A study carried out by Audrey et al. (2006) indicated that SME owner-managers in Australia and Northern Ireland face similar challenges in developing, passing on and encouraging the networking activities of others within the firm; organisation culture and values underlie most of the difficulties owner-managers encounter when handing over or expanding their marketing networks. The issues included transference of trust, lack of networking competence among staff, hesitancy of owner-managers to let go, the need to develop the commercial skills of employees, a reluctance of staff to assume networking responsibilities and the need to match staff to clients/customers (Audrey et al., 2006).

Evidence from a survey conducted by Meyer and & Skak (2002) sheds more light on the dynamics of entry, as events in the network and expansion of the network motivate increased commitment. Results of this survey further illustrate the internationalisation of SMEs, and their interdependence with their business networks. As reported in the study, firms accumulate knowledge interactively within their business networks, which forms a basis for a commitment to foreign markets (Meyer & Skak, 2002). This leads to a gradual deepening of the international business, as firms make their decisions about entry based on knowledge and contacts that they, or their partners, have (Meyer & Skak, 2002). Meyer and Skak (2002) find
that international entry is driven by a high degree of serendipity and offers SMEs a crucial competitive advantage. Sensitivity and flexibility to react to events in the network and to new business contacts are crucial capabilities for successful internationalisation. The existing knowledge base within a network, therefore, influences the commitments of its members to the specific foreign market, which in turn promotes further learning (Meyer & Skak, 2002).

Mohammad et al. (2012) find that networking capability plays a crucial role in developing competitive advantage over time. Therefore, there are many benefits of networking in foreign markets, including testing ideas, developing trust, collecting information, developing new opportunities and specialised opportunities (Coviello & Munro, 1997). Thus, a firm may develop external resources they did not already have, which assist them in their international business development and compensate them.

Kenny and Fahy (2011) suggest a positive relationship between a firm’s network, human capital resources and international performance. They further mentioned that network resources most suited to explaining firm internationalisation may not be the use of established networks, but the rapidity, scope and network management capability to exploit the social networks developed by the entrepreneurs from those firms (Chetty & Campbell-Hunt, 2004; Etemad, 2004; Harris & Wheeler, 2005).

**Social Networks**

Xia et al. (2007) argue that social, internal or external networking are the most valuable resources for firms’ competitiveness in the Chinese market, compared to managerial skills and/or technological resources. Other researchers (Al-Laham & Souitaris, 2008) have similar findings, hence the probability of forming international alliances by firms located within a
local cluster already dense with international linkages is high. Therefore, if a firm is located within a network, that will enhance the firm’s ability to internationalise, which is linked into the resource-based view of the firm, as networks give the company the capability to internationalise. To deal with their resource-based constraints, Gesmer et al. (2012) suggest that innovative SMEs should use cooperation with partners either by joint ventures where equity is shared, or through a contractual arrangement without equity, such as licensing or management contracts, to obtain the resources that may be required.

Zhou et al. (2007) suggest that international business managers should consider social networks as an efficient means of helping internationally-oriented SMEs to go international more rapidly and profitably. Seen from the standpoint of the social dynamics of the internationalisation process (Ellis, 2000; Harris & Wheeler, 2005), they argue that internationalisation orientations require such network ties to have a positive performance impact. Drawing from the broader claim of social network theories, Lianxi et al. (2007) point out those internationalisation orientations (outward/inward) influence firm performance via home-based social networks.

Internationalisation orientations require such network ties to have a positive performance impact (Lianxi et al., 2007). Using survey data from SMEs in China, they found some support for the mediating role of social networks in the form of guanxi, where the mediating mechanism is attributed to the three information benefits of social networks: knowledge of foreign market opportunities; advice and experiential learning; and referral trust and solidarity. This is so because internationalisation orientation alone may not necessarily bring about sufficient information and knowledge on the part of the internationalising firm to take risks and rapidly capture market opportunities at home or abroad. It is reasonable, therefore,
that internationally active entrepreneurs rely on readily available interpersonal ties and social interactions to obtain the particular information benefits (such as knowledge of potential market opportunities, personal advice and experiential learning, and referral trust and solidarity) that eventually lead to improved performance outcomes.

SMEs that operate within social networks are believed to enjoy a more rapid and experiential learning advantage, and therefore find it relatively easy to achieve the performance consequences of early internationalisation. In fact, SMEs that are born-global with network resources are more suited for explaining that firm internationalisation may not be about the use of established business networks, but about the rapidity and scope of informal social networks developed by the entrepreneurs from those firms (Chetty & Campbell-Hunt, 2004; Etemad, 2004; Harris & Wheeler, 2005). The study by Lianxi et al. (2007) advances the argument by demonstrating the important role of home-based social networks (guanxi) underlying born-global internationalisation. According to this research outcome, the role of social networks is likely to be more crucial in terms of speed and flexibility for the implementation of a born-global internationalisation strategy. Born-global SMEs that operate in the broader areas of social networks are believed to enjoy a rapid and experiential learning advantage, and therefore find it relatively easy to achieve the performance consequences of early internationalisation. Indeed, in the context of born-global SMEs, network resources most suited for explaining firm internationalisation may not be about the use of established business networks, but about the rapidity and scope of informal social networks developed by the entrepreneurs from those firms (Chetty & Campbell-Hunt, 2004; Etemad, 2004; Harris & Wheeler, 2005).
The research confirmed that guanxi utilisation is relatively comparable to both directions of internationalisation strategies, especially in the context of China and acknowledge that Chinese SMEs may represent ideal examples of weak organisations with strong, locally-based social networks. According to Oviatt & McDougall (1995), research that emphasises social networks is a promising approach to gain a better understanding of the internationalisation of born-global SMEs worldwide, especially with the rising concern of network capitalism in different countries (Redding, 1990; Boisot & Child, 1996; Oleinik, 2004).

**Networks and Innovation**

Chetty et al. (2010) investigated internationalisation and types of innovation. These researchers found that each group has particular types of network relationships: firms with limited network relationships have incremental internationalisation and innovation, but those with diverse network relationships have radical internationalisation and innovation. The findings indicate that network relationships are influential in shaping the firm’s future as well as sustaining the firm.

Other research indicates that SMEs tend to compensate for fewer internal resources available for innovation (Teece, 1986) and for internationalisation (Chetty & Wilson, 2003) by acquiring external resources and complementary assets (Teece, 1986) through their network relationships. These network relationships include the firm’s customers, suppliers, competitors, government and educational institutions (Johanson & Mattsson, 1988). Network relationships also provide the SME with diversity of knowledge, a key ingredient for recognising potential new innovations (Moller et al., 2005), and opportunities in international markets (Johanson & Vahlne, 2006). According to Hakansson and Snehota (1989), “no business is an island”, and business takes place in a network context with interdependency.
amongst members of the network. Similarly, Johanson and Mattsson (1993) state that international business occurs in a network setting.

Partanen et al. (2014) identified the brokerage role of agents who help link up firms to unconnected networks. The brokerage role provides insight into how agents are used to find new customer leads in radical innovation, and finds new distributor and distributor partner leads in incremental innovations. It was found that for successful commercialisation, each innovation type required certain types and strengths of relationships. Results of Gellynck et al.’s (2007) study demonstrate that internationally operating firms benefit from regional networking. Further, it is argued that regional networking is not contradictory to an international market orientation, and that firms gain innovation competence by searching for external knowledge on different geographical scales. As these networks have the potential to enhance the innovation competence of firms, support to regional networking is promoted as a policy tool.

Johanson and Vahlne (2009) argue that internationalisation depends on the firm’s network capabilities, hence, firms that go abroad depend upon their relationships with important partners who are committed to provide necessary support for internationalisation. The firm is also likely to follow a partner abroad if that partner firm has a valuable network position in one or more foreign countries. There are two possible reasons for such foreign expansion, one is the likelihood of finding interesting business opportunities, the second occurs when a relationship partner who is going abroad, or already is abroad, wants the firm to follow.

It is evident that most SMEs are able to reach international markets only through the help of third parties, which vary from individual agents to institutions that provide formal support for
export activities. These may involve the governmental Trade and Investment bodies, Chambers of Commerce, and Industry Associations. One common way in which SMEs may access foreign markets is through piggy-backing on MNEs (Child & Rodrigues, 2008). This is more frequent in customer-supplier conditions where SMEs have to follow the geographical movement of MNEs in order to survive. Obtaining security of sales through membership in the supply-chains of large players can be a big premium for SMEs, but it also creates the risk of becoming highly dependent. Building ties with large players can be very important to reduce costs, to adjust for asymmetry of information, and to cope with the other liabilities SMEs face in international environments. If the SME is already an experienced exporter, it might as well draw from already known and established sources. It could for example use its connections with MNEs in other countries to access an unfamiliar market, or alternatively use one of its own sales agents. SMEs may find out that a less costly and more risk-averse strategy to assess a new market is through an indirect route, using relationships it already has with partners and agents elsewhere, or through joining a consortium as a means of risk sharing.

Al-Laham and Souitaris (2008) argue that internationalising through supply chains of large organisations is another form of network which influences the internationalisation mode of the SME. Not only does this approach to internationalisation reduce the risks and costs, but it leads to a high level of future dependency on the supply chain (Al-Laham & Souitaris, 2008).

**Government Support Networks**

The final network relevant to SMEs is government support. Previous research also identifies that government support is an integral part of knowledge development and international expansion (Meyar & Skak, 2002). O’Gorman et al. (2011) identify that export promotion
organisations (EPOs) play an important role in information mediation, that is, identifying foreign opportunities and customers, facilitating introductions to international customers, and providing foreign market knowledge, as a resource provider developing the firm’s export capacity.

A previous study by Mort and Weerawardena (2006) finds that through networks SMEs can develop opportunities. Therefore, utilising networks such as the China-Australia Chamber of Commerce (AustCham), Austrade, or the Australia China Business Council (ACBC), may assist Australian SMEs with resource deficiency (Mort & Weerawardena, 2006). Due to their small size SMEs benefit from public policy support given their limited resources, however, only 7% of internationalised SMEs use available support mechanisms, calling for a greater awareness of support initiatives (Falize et al., 2012). This clearly has important implications for policy making, given the contribution of innovative SMEs to economic growth (Falize et al., 2012). Research by Yu-Ching et al. (2008) found that host country governments can influence firms’ FDI decisions, and the more incentives a host country offers the more inward investment it will receive. The study also found that a home country’s assistance can positively influence firms’ degree of internationalisation, although this relationship was not significant (Yu-Ching et al., 2008). It was also found that tight network relationships had been constructed among SMEs (in Taiwan) and, using these networks, Taiwanese SMEs obtained essential information and resources and reduced some of the risks of internationalising. Meanwhile, Taiwanese SME entrepreneurs were adventurous and aggressive, daring to seek out new markets and customers without government assistance (Yu-Ching et al., 2008). According to Yu-Ching et al. (2008) the assistance of the home country government appears not to be directly important to SMEs, however, previous research has identified that
successful internationalisation for SMEs is the result of engagement with public institutions fostering the international competitiveness of the companies (Guillermo et al., 2014).

Freeman et al. (2006) identified that born-global SMEs overcome constraints such as lack of resources and aversion to risk-taking by using networking competencies to develop a range of collaborative partnerships. A study by Rodrigues and Child (2012) found that approximately one-third of companies’ business was triggered through serendipity in the sense of fortunate, chance events. These events generated new social capital but in a way that was not planned or even, in the beginning, sought after. Significantly, serendipitous encounters could lay the basis for a trust-based personal relationship to support business in a new market. Based on this past research this study seeks to understand the influence of networks, guanxi and government support on internationalisation for innovative Australian SMEs. Accordingly, the following research question is posed:

**Research Question 3: What is the role of networks for the internationalisation of innovative Australian SMEs to China?**

The main constructs emanating from the literature around networks, internationalisation and innovation for Australian SMEs are summarized in Table 2.3.

**Table 2.3: Networks, and Internationalisation: Constructs from the Literature**

<table>
<thead>
<tr>
<th>Studies Examined from Networks’ Perspective</th>
<th>Relevant Constructs</th>
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<tbody>
<tr>
<td>Falice &amp; Couederoy (2012)</td>
<td>Located within a network</td>
</tr>
<tr>
<td>Xia et al. (2007)</td>
<td>Networks are influential for innovation</td>
</tr>
<tr>
<td>Bacqsson et al. (2004)</td>
<td>Relationship approach</td>
</tr>
<tr>
<td>Hashim &amp; Hassan (2008)</td>
<td>Links with scientific networks</td>
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Entrepreneurship

SMEs are one of the most entrepreneurial forms of business in most industries, and international SMEs are even more entrepreneurial in behaviour because of their decision to operate in a foreign environment. Commercialisation of product innovations is one of the big challenges for SMEs due to the barriers that limited organisational resources create (Thuy Hang et al., 2014). Large organisations are able to devote substantial internal resources to these endeavours, however, with the limited resources available to them SMEs have been found to utilise their networks to support the implementation of entrepreneurial behaviour (Elodie & Caroline, 2012; Nordman & Tolstoy, 2016). SMEs are required to enter partnerships in order to bring innovative products to the market (Braga et al., 2008; Chye, 2011; Nordman & Tolstoy, 2016). It was found that the entrepreneurs actively strove to use networks as they explored opportunities for internationalisation and, on many occasions, past, present, or newly acquired serendipitous contacts (e.g., from trade fairs and sponsored events) were largely influential in this process (Vasilchenko et al., 2011). In an international context, partnerships can often result providing both market knowledge and assistance with commercialisation. This type of partnership, when operating in a foreign market, can create more complexity for the SME, which brings its own challenges.
Entrepreneurship considers the entrepreneurial behaviours of the SMEs that create the business development, partnerships and opportunities for commercialising innovations and utilising the innovative capabilities of the organisation. O’Cass and Weerawardena (2008, p. 1328) argue that “through entrepreneurship SMEs can overcome their resource-poverty constraints and embark on rapid internationalisation”. They further suggest that “entrepreneurial effort” (Collinson & Shaw, 2001) is a key driver of SME internationalisation.

The essential act of entrepreneurship is new entry, accomplished by entering new or established markets with new or existing goods or services (Lumpkin & Dess, 1996). Miller (1983) summarises the characteristics of an entrepreneurial firm as “one that engages in product market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch” (p. 771). Anderson et al. (2015) argue that a firm must engage in entrepreneurial behaviours that involve the pursuit of new ideas, processes, and technologies, and that a firm must aggressively seek to commercialise those ideas by extending its boundaries to new product/market domains. In addition, the firm must engage in entrepreneurial behaviours with some reasonable consistency across time. The proclivity of senior managers to pursue projects with uncertain outcomes is a fundamental covariate to the sustained pursuit of entrepreneurial behaviours (Anderson et al, 2015).

The case studies presented by Mohammad & Filho (2009) show that the role of entrepreneurs is crucial in understanding the inception and development of SMEs’ internationalisation in developing countries. They found in all the cases that entrepreneurs instigated the international venture. Motives were found to be relatively the same; the limitation and instability of the domestic market meant that companies opted to grow through foreign markets (Mohammed & Filho, 2009). The entrepreneurship effect is strongly related to the
ability of the firm to transform its proactive vision, and innovative investment plans into real opportunities in the foreign market (Mohammad & Filho, 2009). Murray and Edwards (2010), when examining innovation, identified that “key actors of the firm” play a critical role in innovation and internationalisation. This implies that innovation actor roles are critical in the internationalisation process; that is how managers of innovative firms react to new opportunities, and what the dynamics are in regard to opportunity seeking versus opportunity grabbing.

The results of the study by O’Cass and Weerawardena (2009) suggest that international SMEs differ from non-international SMEs in terms of international entrepreneurship, organisational innovation intensity and firm size. Innovation helps the firm perform better in international markets (O’Cass & Weerawardena, 2008), and firms adopting an international entrepreneurial posture will display greater innovativeness, pro-activeness and risk-taking propensity in their strategic decisions. Overall, the findings from Collinson and Shaw (2001) suggest that “entrepreneurial effort” is a key driver of SME internationalisation.

The case studies presented by Mohammad & Filho (2009) show that the role of entrepreneurs is crucial in understanding the inception and development of SMEs’ internationalisation. They found in all the cases that entrepreneurs stimulate the start of the international venture. Motives were found to be relatively the same; the limitation and instability of the domestic market meant that companies opted to grow through foreign markets (Mohammad & Filho, 2009). Success of internationalisation will depend on the commitment of the executives with the goals of internationalisation, but it is also important that the entrepreneur turns these goals into a corporate strategic growth target (Mohammad & Filho, 2009). The findings of study by Rubens et al (2004) offer support for existing theories that suggest executive cognitions play a
significant role in filtering information, ultimately influencing the accuracy of perceptions and the effectiveness of strategic choices.

The effect of entrepreneurship is strongly related to the ability of the firm to transform its proactive vision, and its innovative investment plans into real opportunities in the foreign market (Mohammad & Filho, 2009). It is important to emphasise that strategic planning and future vision influence the ability of the company to maintain international competitiveness and develop new markets (Mohammad & Filho, 2009).

**Entrepreneurship Orientation (EO) and Identity**

Entrepreneurial identity has received some attention in the literature. According to Lheureux and Auzoult (2017), entrepreneurial identity is the perception of the entrepreneur that some of their behaviours are entrepreneurial, rather than professional or managerial. However, EO (entrepreneurial values and attitudes) has been the subject of extensive research (Covin & Miller, 2014) probably due to the fact that entrepreneurial identity is more strongly associated with the antecedents that create it (Farmer et al., 2011; Karhunen et al., 2017; Lheureux & Auzoult, 2017; Navis & Glynn, 2011; Obschonka et al., 2015), whilst EO is more strongly associated with entrepreneurial behaviours (Anderson et al., 2009; Chen et al., 2015; Covin & Miller, 2014; Gathungu et al., 2014; Manoochehr & Mohammad Hasan, 2016).

EO is a willingness to innovate and rejuvenate market offerings, take risks with creating new products, services, and markets, and take an aggressive stance regarding competition (Miller, 1983; Knight, 2001). O’Cass and Weerawardena (2009) found that EO in internationalised companies results in greater innovativeness, pro-activeness and risk-taking and also accelerates the internationalisation process (Mohammedi & Schnepper, 2015). According to
Mostafa et al. (2006) and Slevin and Terjesen (2011), EO is central to the exploitation of international entrepreneurial opportunities and accepting the risks associated with international environments (Jantunen et al., 2005; Wang, 2008). EO is also positively associated with SME performance (Kusumawardhani et al., 2009).

The level of entrepreneurial identity is significantly influenced by EO (Lheureux & Auzoult, 2017; Manoochehr & Mohammad Hasan, 2016). The entrepreneurial self-identity was a strong predictor of the ability to discover new opportunities, but more so for new entrepreneurs than for experienced entrepreneurs (Farmer et al., 2011). Obschonka et al. (2015) argue counter to this and state that entrepreneurial self-identity has been found to increase with entrepreneurial experience. Professional scientific entrepreneurs more often self-identify with their professional role than their entrepreneurial role. They (professional entrepreneurs) view these two roles as separate activities (Karhunen et al., 2017; York, O'Neil & Sarasvathy, 2016). High-tech entrepreneurs, however, are found to associate strongly with their entrepreneurial identity (Yitshaki & Kropp, 2016). Lheureux and Auzoult (2017) state that ties with entrepreneurial communities significantly influence entrepreneurial intentions but not entrepreneurial self-identity.

**Entrepreneurial Motivation**

Entrepreneurial motivation will also be considered as it is an important feature of the entrepreneurship process (Garcia-Cabrera et al., 2016; Hui-Chen et al., 2014; Mani, 2013). Values, personal attitude (including self-identification as an entrepreneur) and the perception that there is an opportunity to behave as entrepreneurs are key motivators for entrepreneurial behaviour (Hui-Chen et al., 2014; Jayawarna, Rouse & Kitching, 2013; Obschonka et al., 2015; Uy, 2011; Yitshaki & Kropp, 2016). The motivating effect of the opportunity perception includes awareness of institutional barriers for SME internationalisation (Garcia-
Cabrera et al., 2016). Culture also plays a key role in entrepreneurial motivation; Chinese and Vietnamese entrepreneurs are motivated by the opportunity for personal control and financial rewards (Mani, 2013; Perri & Chu, 2012). Bacq, Hartog and Hoogendoorn (2016) and Farmer et al. (2011) suggest that entrepreneurs are motivated by the knowledge that their creativity can lead to an advantage in the market. According to Wong and Ng (2002), cultural factors affect sources of entrepreneurial motivation, for example, Chinese foreign entrepreneurs have demonstrated an increasing likelihood to relocate to Canada as the local Chinese community there develops.

**Entrepreneurial Orientation and Performance**

Findings of a study by Knight (2001) imply that international EO is an important driver of the international performance of firms and is positively associated with performance (Rauch et al., 2009; Shepherd & Wiklund, 2005). Performance is also positively moderated by the ability to link to external opportunities (Gathungu et al., 2014; Jayawarna et al., 2013; Rodríguez-Gutiérrez et al., 2015). The effect of the skills that this orientation provides on performance, however, varies as the organisation develops. Findings also imply that SMEs that prepare in advance to enter foreign markets tend to enjoy better performance.

Abebe (2014) and Wiklund and Shepherd (2005) suggest that EO positively influences SMEs’ performance, which is consistent with previous research. SMEs’ performance is also positively influenced by access to financial capital, with researchers Wiklund and Shepherd (2005) finding that businesses facing severe financial constraints and a stable business environment benefit the most from adopting an EO (Wiklund & Shepherd, 2005). In fact, firms in these situations can be superior performers if they have a high EO. Covin et al. (1990) found that EO had a stronger association with performance in low-tech rather than
high-tech industries. EO moderates the relationship between a bundle of knowledge-based resources (applicable to opportunity discovery and exploitation) and firm performance. That is, the willingness to be innovative, pro-active, and take risks enhances the positive impact that a firm’s bundle of knowledge-based resources has on performance (Wiklund & Shepherd, 2005).

Findings of a study by Knight (2001) imply that international EO is an important driver of several important parameters key to the international performance of the firm. Among these are internationalisation preparation, strategic competence, and technology acquisition. In this study, the most salient aspect of international EO appears to be its highly significant association with the development and activation of strategic competence. Unique to the present work is the focus on relatively resource-constrained SMEs operating in foreign markets. Findings also imply that international EO tends to promote the development of strategic competence, as well as internationalisation preparation and technology acquisition (Knight, 2001).

Competitive aggressiveness is part of EO and has also been found to directly affect performance (Becherer & Maurer, 1997; Lumpkin & Dess, 2001). The performance of international entrepreneurs is also, unsurprisingly, positively affected by foreign market knowledge (Mariola, 2016; Musteen et al., 2014). Performance is also influenced by the entrepreneur’s social capital and is moderated by the competitive intensity of the industry in which they are operating, for both domestic and international entrepreneurs (Becherer & Maurer, 1997; Hernandez-Carrion, Camarero-Izquierdo & Gutierrez-Cillan, 2017; Hmieleski & Baron, 2009; Lu & Beamish, 2001; Ngoma, 2016). Home country based social capital has even been found to improve the performance of international entrepreneurs (Zhou, Wu &
Luo, 2007). Similar to motivation, innovation performance is influenced by the entrepreneurs’ perceptions that they have the opportunity to function as an entrepreneur and their tolerance for risk (Jiarong & Shouming, 2016; Manoochehr & Mohammad Hasan, 2016). Innovation performance in large businesses is also influenced by internal networks (Chen et al., 2015). Internationalisation performance is affected by EO which affects the perceived opportunities for internationalisation (Vasilchenko & Morrish, 2011). Interestingly, the agreeableness of the entrepreneur was found to have the greatest positive effect on the performance of social enterprises, although higher levels of openness were found to have a negative effect (Liang, Peng, Yao & Liang, 2015).

**Entrepreneurial Orientation (EO) and Entrepreneurial Behaviours**

A popular model of EO suggests there are five dimensions which include:

- propensity to act autonomously
- willingness to be innovative
- willingness to take risks
- tendency to be aggressive toward competitors
- pro-activeness relative to marketplace opportunities (Lumpkin & Dess, 2001).

A firm can adopt an entrepreneurial posture by displaying innovativeness, a high tolerance for risk-taking, and pro-activeness, which is commonly referred to as EO. A substantial body of EO research has shown that entrepreneurial firms generally outperform their more conservatively managed peers (Rauch et al., 2009). Anderson et al. (2015) delineate between entrepreneurial and conservative firms according to their EO, that is, the decision-making practices, managerial philosophies, and strategic behaviours that are entrepreneurial in nature (Anderson, Covin & Slevin, 2009). According to Anderson et al. (2015), for firms to have an
entrepreneurial orientation, they need to have managerial proclivity towards pursuing projects with uncertain outcomes is an additional necessary condition. Further, entrepreneurial behaviours and managerial attitude towards risk are conceptually and functionally distinct.

EO is re-defined by Anderson et al. (2015) as a second-order, firm-level construct comprised of two lower-order dimensions: entrepreneurial behaviours (encompassing innovativeness and pro-activeness), and managerial attitude towards risk-taking. Entrepreneurial behaviour is then defined as the firm-level pursuit of new products, processes, or business models (e.g., innovativeness) with the intended commercialisation of those innovations in new product/market domains (e.g., pro-activeness). Managerial attitude towards risk is defined as an inherent managerial inclination existing at the level of the senior manager(s) tasked with developing and implementing firm-level strategy, and favouring strategic actions that have uncertain outcomes (Miller, 1983).

Under this reconceptualization by Anderson et al. (2015), the three existing components of EO are the two lower-order dimensions, with risk-taking as an attitudinal dimension, while innovativeness and pro-activeness collapse into one behavioural dimension. Prior research indicates that risk-taking is an important component of innovativeness, which affects internationalization rates (Ratten & Tajeddini, 2017).

Innovativeness has been discussed in detail in this chapter. Pro-activeness refers to a firm’s response to marketplace opportunities. A strong pro-active tendency gives a firm the ability to anticipate change or needs in the marketplace and to be among the first to act on them (Lumpkin & Dess, 2001). Competitive aggressiveness, by contrast, refers to a firm’s response to competitive threats. A strong competitively aggressive stance gives a firm the ability to be a decisive player in a field of rivals, and to act forcefully to secure or improve its position.
Lumpkin and Dess (1996) argue, however, that these dimensions might vary independently, depending on the environmental and organisational context. Previous researchers clearly demonstrate that entrepreneurship has an influence on the internationalisation of innovative SMEs. A firm can adopt an entrepreneurial posture by displaying innovativeness, a high tolerance for risk-taking, and pro-activeness. Therefore, the Miller (1983) and Covin and Slevin (1991) view suggests that entrepreneurial firms are those that exhibit innovativeness (the introduction of new products, processes, and business models), pro-activeness (actively entering new product/market spaces and seeking market leadership positions), and risk-taking (a willingness among strategic decision makers to contribute resources to projects with uncertain outcomes).

Based on this past research this study seeks to understand the influence of entrepreneurship or EO on internationalisation for innovative Australian SMEs. Accordingly, the following research questions are posed:

**Research Question 4a: How does entrepreneurship orientation (EO) influence the innovative Australian SMEs participating in China?**

**Research Question 4b: How do the entrepreneurial behaviours of SMEs vary according to their entry mode?**

The main constructs around entrepreneurship, internationalisation and innovation for Australian SMEs identified in the literature are summarised in Table 2.4.

**Table 2.4: Entrepreneurship, Internationalisation and Innovation: Constructs Identified in the Literature**

<table>
<thead>
<tr>
<th>Studies Examined from an Entrepreneurship Perspective and SME Internationalisation</th>
<th>Relevant Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Miller (1983)</td>
<td>Innovativeness</td>
</tr>
</tbody>
</table>
Conclusions and Future Research

In summary, this chapter developed a conceptual model for the internationalisation of Australian innovative SMEs to China. The review took a more holistic approach to review a range of theories and empirical research to develop explanations about how internationalisation occurs for these innovative SMEs. It demonstrates that firm context (innovativeness) influences the type of internationalisation. It also argued that internationalisation could either occur through a stage approach or a rapid international (or born-global) approach, and that Australian SMEs could face a ‘liability of foreignness’ in the Chinese market because of the unique conditions in China. Utilising this model to determine whether or not it is explanatory for the internationalisation of innovative Australian SMEs would be beneficial. Case study methodology is used to do this qualitative research, which is expanded upon in Chapter 3. Such research will help with building and extending research in the field.
Chapter 3: Research Methods

Overview of this Chapter
This chapter discusses the methods employed for the study and justifies the selection of the methods used to investigate the given phenomenon. In order to assess the contribution of the research results outlined in Chapters 4 to 8, it is important to have an in-depth understanding of the methodological framework within which the results were produced. This introduction includes a brief explanation of the philosophical stance adopted in order to clearly position the research, and then provides detailed explanations of the methods adopted.

Introduction
An exploratory approach was chosen for this research (Yin, 2014; Hesse-Biber & Leavy, 2006) which was deemed the most suitable method for data collection because the purpose of the study was to gain a better understanding of the internationalisation process of innovative SMEs. With regard to the use of a combination of key internationalisation process theories, little is known about the internationalisation process of innovative Australian SMEs to an emerging market context such as China. An exploratory study deals with a phenomenon that researchers do not know much about, such as, a new or undiscovered area where very little research has been done (Yin, 2014), or where researchers want to know something in-depth about the topic. According to Sekaran (1992), it requires extensive preliminary work to be done in order to become familiar with the phenomenon and an essential aim of exploratory studies is to gain a better understanding of the problem, as only a few studies might have been done to comprehend the phenomenon. Exploratory studies usually focus on the ‘why’ and the ‘how’, not the ‘what’ type of questions, and enable researchers to provide a comprehensive view of the problem area and help generating hypotheses, suggesting directions and feasibility for further research (Sekaran, 1992). “Exploratory studies are thus important for obtaining a
good grasp of the phenomena of interest, and for advancing knowledge through good theory building” (Sekaran, 1992, p. 95).

Although the purpose of this research is mainly to be exploratory it will be explanatory to a certain extent as well. An explanatory study is undertaken in order to describe the phenomenon of interest, especially when a certain amount of knowledge is available on the subject. The goal of an explanatory study is to describe relevant aspects of the phenomenon of interest (Sekaran, 1992) and often focuses on ‘how’ and ‘who’ questions. This current study will explain relevant aspects of the phenomenon of interest (Sekaran, 1992) and will deal with ‘how’ questions to a certain extent.

**Research Approach and Perspectives**

**Ontology & Epistemology**

The researcher’s ontological and epistemological views significantly influence the research methods used (Stanley & Wise, 2002). Ontology is the study of being, that is, what can be said to really exist or be, and it is important because whatever assumptions the researcher makes affect how the researcher approaches the study (Stanley & Wise, 2002). For example, if the researcher’s view is that ‘reality’ is a load of facts out there waiting to be discovered then the researcher could be classified as a realist, and might be comfortable with an experimental approach to the study (Stanley & Wise, 2002). Alternatively, if the researcher’s ontological view is that ‘reality’ is very fluid and elusive and only exists through people's claims, then the researcher would be a post-modernist, and might be comfortable with a discursive approach, where reality is regarded as a constructed account (Stanley & Wise, 2002). On the other hand, epistemology is the study of knowledge, that is to say, even if something really exists, how can someone know that (Stanley & Wise, 2002)? It is again
important because whatever assumptions the researcher makes about what can be known affects what the researcher bothers to try to find out scientifically. For example, if the researcher’s epistemology view is self-sense, it helps the researcher to know the objective world: ‘to see is to know’ and then the researcher is an empiricist and, as above, might be comfortable doing experiments with lots of data to gather knowledge (Stanley & Wise, 2002). Alternatively, if the view is ‘would not trust the sense’: knowledge is constructed subjectively by people, then the researcher is a constructivist and, as above, might be comfortable doing discursive analysis, and working with an interactive construction of knowledge (Stanley & Wise, 2002).

In terms of epistemology (the nature of knowledge about those phenomena) and according to Burrell and Morgan’s (1979) four research paradigms, this study utilised a multi-paradigm theory building approach, that is, in the interpretivist–functionalist transition zone. The goal of interpretivism is to describe and explain in order to diagnose and understand. It approaches theory building by discovery and through code analysis. The functionality paradigm, instead, searches for regularities and tests in order to predict, control and approach theory building by refinement through causal analysis. In this zone the researcher makes sense of both subjective and objective reality by model building (Burrell & Morgan, 1979). For the current study in the thesis, the research was qualitative and subjective; however, the objectivity of the research was also emphasised by counting frequencies of themes and conducting inter-rater reliability. Therefore, according to the positions chosen here, a qualitative research method was chosen.

**Qualitative vs Quantitative**

It is well known that research can be approached in different ways, either qualitative or quantitative, or a combination of both qualitative and quantitative methods, which is
commonly referred to as a mixed-methods approach. The distinction between the two research methods is how the data are treated and how they are dealt with analytically (Quinn, 2002), and also why.

The quantitative approach emphasises transforming the data to numbers, quantities and statistical models for the purpose of measurement and analysis (Quinn, 2002). Researchers utilising this approach have a clear idea of what they are looking for and often use quantitative tools such as surveys to collect the data. This approach focuses on preciseness in terms of analysing and measuring the data. Since quantitative research is based on the measurement of quantity or amount, it involves studies that use statistical analyses to produce results (Quinn, 2002). A more traditional experimental (quantitative) approach sees social reality as a set of facts to be known for all time by measuring people in a laboratory.

A more critical, discursive (qualitative) approach sees social reality as mutually constructed between people in the real world. With a qualitative research approach, a researcher focuses on gaining a better understanding of the research problem through detailed information about the subject matter (Quinn, 2002). One essential aim of this research approach is to have a complete and detailed description of the subject through the application of reasoning. Qualitative research often involves interviews and observations without formal measurement. The main purpose of this kind of research is to understand the phenomenon studied and describe the situation. Qualitative data consist of descriptions, quotations, observations, and excerpts from documents (Quinn, 2002). Qualitative research is well suited for the purposes of description, interpretation and explanation (Lee et al., 1999). However, the disadvantage of using qualitative research methods is that this type of research has unconscious biases (Lee et al., 1999). Qualitative research is subjective not objective, and therefore the biases of the
researcher may influence the results and their interpretation. In addition, some qualitative research is often not explained appropriately which means that replication is difficult.

**Choice of Qualitative Approach**

Lee et al. (1999) suggest that qualitative research is suitable where the research area requires new theory, processes and outcome variables. Since the purpose of this study is to gain a better understanding of the internationalisation process of SMEs, a qualitative research approach has been applied to gather more information and describe the situations involving the process. A qualitative methodological approach was undertaken in this study in order to address the ‘why’ and ‘how’ questions.

The qualitative approach selected for this study is consistent with a growing trend towards qualitative methods in empirical enquiries in internationalisation studies (Bryman, 2015; Welch et al., 2011; Merriam et al., 2009; Coviello & Munro, 1997; Julien et al., 1997; Carson & Coviello, 1996;). This approach is also increasingly prevalent in industrial network research, which has a strong business internationalisation focus (Birkinshaw et al, 2011; OECD, 2009; Axelsson & Johanson, 1992; Melin, 1992). Indeed, Easton’s (1995) robust epistemological defence concludes that it is “a powerful research method and one particularly suited to the study of industrial networks’ which has an internationalisation focus. Furthermore, the use of qualitative methods is particularly beneficial as numerous authors have recently called for a qualitative approach to internationalisation of SMEs (Doz, 2011). A qualitative approach can facilitate a better understanding of the process of SMEs’ internationalisation and how firms overcome their issues using innovative approaches.
Given the review of the literature which identifies scant research on the specific topic, the weaknesses of previous theories in explaining the internationalisation of innovative firms, and the fact that the research questions given in Chapter One do not seek to test relationships between variables but rather explain the processes by which innovative SMEs internationalise, a qualitative, inductive and interpretive approach to this research is used (Yin, 2014).

The chapter explains the data collection and analysis methods at length, and acknowledges the limitations.

It is very important to choose the appropriate data collection method for a particular study in order to complete the research successfully. The selected method determines how the data are collected. According to Yin (2014), there are five major research strategies: experiments, surveys, archival analysis, history and case studies. Each of the five strategies has different ways of collecting and analysing data on the basis of three conditions – the type of research questions posed, the extent of control an investigator has over actual behavioural events, and the degree of focus on contemporary as opposed to historical events (Yin, 2014).

As already indicated, the main objective of the study is to explore the internationalisation process of innovative Australian SMEs. It is quite evident that qualitative research in international business is the least preferred research method (Doz, 2011), despite this approach being good for theory building purposes, and also for testing theories and/or qualitative case-based research which can contribute to the contextualisation of general theories (Doz, 2011).
Accordingly, a qualitative in-depth interview approach was adopted in order to seek richer and deeper insights into the complex phenomena under investigation, and to attempt to answer and explain ‘why’ and ‘how’ research questions (Easterby-Smith et al., 1994; Eisenhardt, 1989; Yin, 1989). For this study, the researcher collected primary data by conducting semi-structured, in-depth interviews. Berg (1998) called interviews a conversation with a purpose of finding something out. The purpose of the interview is to allow the researcher to enter into the informant’s perspective (Doz, 2011). The in-depth interview methodology is consistent with the phenomenological approach adopted, and a ‘research’ interview, as opposed to other interviews (job, journalistic, performance appraisal, customer feedback, etc.) is, thus, designed for the purpose of improving knowledge (Wengraf, 2001). It is difficult to discuss the role of the researcher without some critique of the epistemological perspective and the paradigms that underlie that perspective. Clearly, the role of the interviewer is different given the epistemological approach used, and different types of interviews are used within a variety of epistemological approaches (Doz, 2011). This is rarely considered in the literature, where the interview is often treated as an epistemologically-neutral device for data collection where technical expertise is the most important issue (Doz, 2011). However, the interview itself as a process means something different given the epistemological assumptions held by the researcher (Cassell, 2005, p. 168). The in-depth interview approach responds to recent calls for more in-depth interviews in internationalisation process theories (Doz, 2011).

In the interview process, open-ended questions were used to probe the strategic directions of firms and explore underlying reasons for key internationalisation decisions. They included questions on specific circumstances surrounding particular episodes (such as the first internationalisation decision, market selection and entry decisions, etc.) and the rationale for
why particular decisions had been taken. Particular events that resulted in a change or refoocusing of business strategy were investigated in-depth and the firm’s subsequent strategic directions were explored. The questions facilitated a wide-ranging discussion of business and internationalisation strategies in a manner that enabled respondents to provide their own account of the way in which such strategies had unfolded.

Interview-based research is often most favourable when the population under investigation is small, as was the situation with this research project. The focus of the research thus becomes the depth of data collected rather than the breadth (Daniels & Cannice, 2004). In addition, generalisability of the study to other organisations is not important, instead generalisability to theory is, which Yin (2014) refers to as analytical generalisation. Since the main aim of this research is to gain in-depth knowledge about the internationalisation process of innovative SMEs to China, and to analyse whether their behaviour during the process fits into any of the current internationalisation theories, in-depth interviews were found to be the most appropriate strategy for this research.

In-depth interviews are particularly appropriate for the investigation of a contemporary problem when the questions posed are ‘how’ or ‘why’ questions and when there is limited ability to control for all variables (Yin, 2003). The research was concerned with ‘why’ and ‘how’ Australian SMEs internationalise into China. The in-depth interview methodology was also well suited to this research because the data were collected in a cross-border and cross-cultural setting. In this context, the in-depth interviews provided the researcher with an opportunity to check and re-check the interpretations and understandings with key informants. In comparison, international surveys and experiments are beset by serious issues of the equivalence and comparability of data collected from different countries (Ghauri, 2004). The
in-depth interview methodology has many benefits. A key benefit of the design is its emphasis on context. The in-depth interview design enables a researcher to retain the holistic nature of the phenomenon in question and to study it in relation to its environment, and this view is upheld by McGrath et al. (1982).

A detailed description of the research objective and decisions relating to sample selection, data collection procedures and analysis are elaborated upon hereafter.

**Research Objectives and Design**

Given the nature of the study, data were collected by using a selective sample of Australian SMEs that have already internationalised to China. Yin (2014) suggests that conducting a multi-industry study will validate the robustness of the findings and, as a result, no specific industry type was selected for the study. The research was designed by collecting information on international activities, differentiated by mode of entry and/or degree of control (exports, licensing, wholly-owned affiliate, joint venture, etc.), regional orientation, and the motives for and the obstacles to international expansion. In addition, information about innovative activities and some basic characteristics of the firm (such as what the firm does, their employee numbers) were collected.

**Sample Approach & Sample**

A sample is considered to be a subset of the population: “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 the characteristics of the sample subjects, which will be able to generalize the properties or characteristics to the population elements” (Sekaran, 1992, p. 226). Accordingly, sampling allows a researcher to collect the data from a subset or subgroup
rather than the whole population, which reduces the amount of data to fit the purpose of the study. But in qualitative research, sampling is often used in a different way and for a different purpose, and one such way is purposive sampling (Eisenhardt, 1989; Pettigrew, 1990; Eisenhardt & Graebner, 2007).

**Population and Sampling**

For this research the purposive sampling technique has been adopted (Eisenhardt & Graebner, 2007). This is a type of non-probability sampling technique which focuses on sampling techniques where the units that are investigated are based on the judgment of the researcher. A purposive sample is selected based on knowledge of a population, and the purpose of the study and the subjects are selected because of some characteristics. That is, in selecting firms for this research, the approach taken was consistent with that of Eisenhardt (1989), who suggested that “random selection is neither necessary nor preferable”. Indeed, Eisenhardt further asserts that “extreme examples” are most appropriate when seeking to extend theory.

In this study the target population (companies) for investigation is innovative Australian SMEs. The sample was developed first by selecting purposive sampling, which is designed to capture the process of Australian SMEs’ internationalisation to China. The size of the firm then becomes a key criterion. Also, the firms were drawn from the population of Australian firms which had a physical presence in China and/or had any kind of business link with China. A total of 40 Australian innovative SMEs was interviewed, and the criteria for inclusion in the study were that they:

1) Were Australian

2) Were a small to medium-sized enterprise fitting the definition of having 1-200 employees, as per the ABS (2011) definition
3) Had some form of innovation

4) Had an international business in China

The sample was taken from the lists of Australia China Business Council, Australian Chamber of Commerce Shanghai, Hong Kong and Guangzhou. All firms that were perceived by the researcher to be ‘small-to-medium’ enterprises were contacted and asked to be part of the study. Accordingly approximately 100-120 firms were contacted, and a total of 42 agreed to participate. This means that there might be the possibility that the sample of firms are representative of the population in which they are drawn from, although this was not intended, as the research presented in the thesis is qualitative, and analytical generalisation was sought (Yin, 2014).

The first criterion was that the firms needed to be Australian and, therefore, needed to be independent and indigenous (i.e., not subsidiaries of larger domestic or international companies, to avoid potential resource and cultural influences on decision-making). The operational definition of small firms varies widely among empirical studies of small businesses (Brooksbank, 1991; d’Amboise & Muldowney, 1988). The most widely used categorisation of small firms in Europe-based research seems to be employment size (e.g., Carter & Jones-Evans, 2000; Jones & Tilley, 2003; Storey, 1994). Hence, in this study the second criterion was that SMEs fit into the definition used by the Australian Bureau of Statistics (ABS). The ABS defines a SME to be a company with fewer than 200 employees (Commonwealth, 2011). In accordance with the statistical definition of small to medium firms in the ABS, small firms were set to include firms with 1 to 19 employees, and medium firms were set to include 20-199 employees. There were two companies that had over the 199 employees that was included in this sample, including one that 400 employees and one that
had 686 employees. These two firms were kept in the sample, as is in essence they still were not ‘large’ firms by any means. In addition, the US consider a SME to be of the upper limit of 500 employees (US Small Business Administration, 2018).

The third criterion was that the firms should be innovative in some form, and that they are actively using innovative approaches in their internationalisation. The definition of innovation remains one of the key challenges in innovative business research, where a single agreed-upon definition remains elusive. However, there is broad agreement in the innovation literature that the most common way of defining an innovation is through “the generation, acceptance, and implementation of new ideas, processes, products, or services, thus it can occur in any part of a corporation and can involve creative use as well as original invention and it involves the capacity to change and adapt” (Murray et al., 2010, pp. 20-21). Since the current study is concerned with innovative SMEs’ internationalisation, a broad definition of innovation was used. For the purpose of this study, innovation is defined as “the introduction of a new or significantly improved good or service; operational process; organisational/managerial process; or marketing method” (ABS, 2013). The fourth criterion is that the SMEs to be chosen for the study should have already internationalised to the Chinese market, be currently doing business in China, and at a minimum be involved in exporting or importing.

**Key Informants**

The key informants from each company interviewed for this research were the owners or senior managers of the SMEs in the study. Wilkinson and Young (2004, p. 209) point out that informants are rich sources of two kinds of knowledge: “knowledge about the phenomenon itself” and “knowledge of how to discover and know”. This is particularly relevant in an
international research context. Informants are embedded in personal and business networks; even if they cannot provide the researcher with the information themselves, they may have useful ideas about where to look, what to look for or who to ask. By suitably managing the interview process, researchers can build up a network of new data, insights and referrals (Daniels & Cannice, 2004).

Marshal and Rossman (1995) argue that the key informant must be an influential, prominent, and well-informed person in the organisation, selected on the basis of his or her expertise in areas relevant to the research. In this study, the firms’ top managers (CEOs or executives) were used as key informants. It is assumed that such senior managers have the best vantage point for viewing the entire organisation and, thus, will provide the most accurate responses (Glick et al., 1990).

**Firm Types**

The decision to select a sample of firms from different industries was driven by the aim of examining all types of innovation within the industries, though results will include possible cross-industry issues. For these reasons the study does not focus on a particular industry. Focusing on a single industry would reduce the range of extraneous variations that might influence the constructs of interest. While the shortcomings of such sampling are recognised, it is believed that the advantages of this approach outweigh the disadvantages.

The theoretical concept of replication logic is used to select firms as both literal replication and theoretical replication gives a foundation for outcomes through confirmation and analytical generalisability to the study (Healy & Perry, 2000; Parkhe, 1993; Yin, 1994) or theory building (Eisenhardt, 1989). Firms contacted were selected in an attempt to vary industry, firm size, the business mode, and the length of time the firm had been doing
business in China. Pragmatic concerns including time and budgetary constraints restricted firm selection to those with offices in all the cities of China and/or Australia. Replication involves applying the theory to new situations in an attempt to determine the generalisability to different businesses, and locations within China. For example, the study involves production and services businesses located in Hong Kong and mainland China. It may be changed slightly to add additional variables such as industry type or location to determine if these variables play any role in the results. Replication, therefore, is important for a number of reasons, including assurance that results are valid and reliable; determination of generalisability or the role of extraneous variables; application of results to real-world situations; and inspiration of new research combining previous findings from related studies.

After the screening procedure, a qualified sample of 42 firms remained for follow-up. Two firms were later dropped from the study because of the unavailability of key individuals in the sampled firms. Five more firms had been removed from the sample after interviews were conducted; these firms had been recognised as improper for the study based on initial analysis of data collected. Thus, the final sample contains a total of 35 SMEs. The real names of the firms and interviewees are not reported because of ethical, confidentiality, anonymity and privacy observances (Flick 2009), and instead each firm is given a pseudonym which represents their business type.

Table 3.1: Basic Characteristics of the Organisations Involved in the Study
<table>
<thead>
<tr>
<th>Number</th>
<th>Industry Type</th>
<th>Main Entry Mode</th>
<th>Employee Size</th>
<th>Pseudonym</th>
<th>Locations in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Wholesaling &amp; Retailing</td>
<td>Import</td>
<td>40</td>
<td>Furniture Co</td>
<td>Shanghai, Suzhou</td>
</tr>
<tr>
<td>2</td>
<td>Manufacturing</td>
<td>Import</td>
<td>25</td>
<td>Rubber Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>3</td>
<td>Manufacturing</td>
<td>Import/Export</td>
<td>12</td>
<td>Chemical Co</td>
<td>-</td>
</tr>
<tr>
<td>4</td>
<td>Technical Services</td>
<td>Export (services)</td>
<td>42</td>
<td>Security Co</td>
<td>Xian, Shanghai</td>
</tr>
<tr>
<td>5</td>
<td>Manufacturing</td>
<td>Export (services)</td>
<td>6</td>
<td>Man Control Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>6</td>
<td>Manufacturing</td>
<td>Export</td>
<td>180</td>
<td>Pneumatic Co</td>
<td>Beijing</td>
</tr>
<tr>
<td>7</td>
<td>Biotechnology</td>
<td>Export</td>
<td>65</td>
<td>Biotech Co 3</td>
<td>All over China</td>
</tr>
<tr>
<td>8</td>
<td>Biotechnology</td>
<td>WOFE (partnership)</td>
<td>400</td>
<td>Biotech Co 1</td>
<td>Mongolia, Nanjing</td>
</tr>
<tr>
<td>9</td>
<td>Biotechnology</td>
<td>WOFE</td>
<td>6</td>
<td>Biotech Co 2</td>
<td>Shanghai</td>
</tr>
<tr>
<td>10</td>
<td>Biotechnology</td>
<td>WOFE</td>
<td>72</td>
<td>Biotech Co 4</td>
<td>Shanghai/Suzhou</td>
</tr>
<tr>
<td>11</td>
<td>Business &amp; Property Services</td>
<td>WOFE</td>
<td>100</td>
<td>Recruitment Co</td>
<td>Shanghai &amp; Beijing</td>
</tr>
<tr>
<td>12</td>
<td>Business &amp; Property Services</td>
<td>WOFE (License)</td>
<td>40</td>
<td>Accounting Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>13</td>
<td>Business &amp; Property Services</td>
<td>WOFE</td>
<td>100</td>
<td>Vehicle Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>No.</td>
<td>Sector</td>
<td>Legal Form</td>
<td>Cap.</td>
<td>Main Business</td>
<td>Location(s)</td>
</tr>
<tr>
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<tr>
<td>14</td>
<td>Business &amp; Property Services</td>
<td>WOFE</td>
<td>10</td>
<td>Office Co</td>
<td>Beijing &amp; Shanghai</td>
</tr>
<tr>
<td>15</td>
<td>Mining</td>
<td>WOFE</td>
<td>200</td>
<td>Resources Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>16</td>
<td>Mining</td>
<td>WOFE</td>
<td>684</td>
<td>Processing Co</td>
<td>Shanghai &amp; Beijing</td>
</tr>
<tr>
<td>17</td>
<td>Building &amp; Construction</td>
<td>WOFE</td>
<td>50</td>
<td>Metal Frame Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>18</td>
<td>Building &amp; Construction</td>
<td>WOFE</td>
<td>180</td>
<td>Build Co</td>
<td>Shanghai &amp; Beijing, Suzhou &amp; Harbin</td>
</tr>
<tr>
<td>19</td>
<td>Building &amp; Construction</td>
<td>WOFE</td>
<td>50</td>
<td>Architect Co 1</td>
<td>Shanghai &amp; Shenzhen</td>
</tr>
<tr>
<td>20</td>
<td>Building &amp; Construction</td>
<td>WOFE</td>
<td>70</td>
<td>Architect Co 2</td>
<td>Guangzhou</td>
</tr>
<tr>
<td>21</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>100</td>
<td>Box Co</td>
<td>Suzhou</td>
</tr>
<tr>
<td>22</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>60</td>
<td>Medical Equip Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>23</td>
<td>Manufacturing</td>
<td>WOFE</td>
<td>80</td>
<td>Print Co</td>
<td>Guangzhou</td>
</tr>
<tr>
<td>24</td>
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<td>WOFE</td>
<td>30</td>
<td>Milk Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>25</td>
<td>Agriculture</td>
<td>WOFE (Export)</td>
<td>5</td>
<td>Meat Co</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>26</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>25</td>
<td>HR Consult Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>#</td>
<td>Category</td>
<td>WOFE Born in China</td>
<td>Branches</td>
<td>City</td>
<td></td>
</tr>
<tr>
<td>----</td>
<td>--------------------------------</td>
<td>--------------------</td>
<td>----------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>32</td>
<td>Social Media Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>28</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>3</td>
<td>Consulting Co 1</td>
<td>Shanghai</td>
</tr>
<tr>
<td>29</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>5</td>
<td>Consulting Co 2</td>
<td>Shanghai</td>
</tr>
<tr>
<td>30</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>1</td>
<td>Finance Co</td>
<td>Shanghai</td>
</tr>
<tr>
<td>31</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>1</td>
<td>Arbitration Co</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>32</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>10</td>
<td>Marketing Consultants Co</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>33</td>
<td>Business &amp; Property Services</td>
<td>WOFE Born in China</td>
<td>5</td>
<td>Investment Co</td>
<td>Hong Kong</td>
</tr>
<tr>
<td>34</td>
<td>Building &amp; Construction</td>
<td>WOFE Born in China</td>
<td>200</td>
<td>Architect Co 3</td>
<td>Shenzhen</td>
</tr>
<tr>
<td>35</td>
<td>Wholesaling &amp; Retail</td>
<td>WOFE Born in China</td>
<td>8</td>
<td>Shop Co</td>
<td>Guangzhou &amp; Shanghai</td>
</tr>
</tbody>
</table>
As indicated in Table 3.1, the sample included Australian SMEs from multiple industries. A sample size of 35 was finally chosen, despite there being a total of 42 interviews conducted, and the sample consisted of firms in varied industries, as shown in the table below (Table 3.2).

Table 3.2: Industries Represented in the Study

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Numbers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business and property services</td>
<td>12</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>7</td>
</tr>
<tr>
<td>Biotechnology</td>
<td>4</td>
</tr>
<tr>
<td>Building, construction and engineering</td>
<td>5</td>
</tr>
<tr>
<td>Wholesaling and retailing industry</td>
<td>2</td>
</tr>
<tr>
<td>Mining</td>
<td>2</td>
</tr>
<tr>
<td>Technical services</td>
<td>1</td>
</tr>
<tr>
<td>Agriculture</td>
<td>2</td>
</tr>
</tbody>
</table>

The major entry modes examined were importing and exporting (7), wholly-owned foreign entity (WOFE) (18), and businesses that are defined as being “born in China” (BICs) (10).

Firms were selected from base offices mainly located in Melbourne, Victoria, Australia, but also included a business from New South Wales, which had taken an interest in the study. Data for this study were collected from SMEs located in China, including Shanghai (23), Guangzhou (3), Hong Kong (4), Mongolia (1), Nanjing (1), Beijing (5), Suzhou (4), Xian (1), Shenzhen (2), Harbin (1), and locations all over China (1). More importantly, firms from

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1 Born in China firms are defined as entrepreneurial start-ups by Australian nationals in China, and they do not have a home country representation in Australia. The characteristics of these BIC firms will be expanded upon in the findings chapter.
these regions are generally considered among the most entrepreneurial and internationally-oriented enterprises in China. As most SMEs in this region are developing an international orientation from start-ups, this makes them a suitable target for this research.

For a number of the firms’ managers and owners were the same (Print Co, HR Consultant Co, Shop Co, Arbitrtaion Co, and Meat Co). However, for a number of firms the interviewees were only managers. This might cause some bias as it would be expected that owners would care more about their businesses then managers. However, it did appear that what the owners said in comparison to what the managers said was similar, so it would be expected that there would not be too much difference between what the owners said, and what the managers said.

**Data Collection Techniques**

**Data Collection Instrument**

A semi-structured interview schedule was created, based on the literature review. For a deeper understanding of the internationalisation pattern or process of SMEs, in-depth interviews were considered to be the most appropriate means of exploring the phenomena under investigation. The interview schedule was designed considering this requirement, focusing more specifically on aspects connected to the internationalisation of SMEs. Analytic generalisation, however, whereby a previously developed theory is used as a template for comparison rather than statistical generalisation, is the goal of in-depth interview research (Yin, 2003). The in-depth interview design’s ability to deal with a clarifying response at the time of the interview is also one of its unique strengths (Yin, 2003).

The research instrument and approach used in this research was based on the refinement of a qualitative methodology. This study specifically focused on identifying all the issues involved
in the consideration of how SMEs internationalise to China from Australia, and how innovation is being used by Australian SMEs in the Chinese market. The facts collected during previous studies as well as current research were evaluated in the context of the research questions. Aspects not covered before and newer trends were mapped, also some interpretations were checked during interviews.

To implement this approach interviews were conducted with senior managers of SMEs who have business activities in China. To analyse the data, an inductive grounded theory approach (Glaser & Strauss, 1967) was used, because the research questions focus on the experiences of innovative SMEs internationalising (Barnacle, 2001).

The interview instrument sought information on several topics, for instance, the way that firms internationalised, what factors had influenced internationalisation, and how innovation is being used to become successfully established in the market. The interview schedule contained a number of structured questions designed to gather data for classification purposes (firm size, age, mode of entry, international experience, etc.). When eliciting socially-constructed knowledge, formally structured questions were minimised and any subsequent interventions took the form of prompts and probes, based on the words of the informant (Riley, 1996). Mainly open-ended questions are then asked to gather the descriptive opinions of the interviewees. An open-ended question does not provide the participant with a choice of answers. Instead, participants are free to answer the question in the manner they choose (for example: How would you describe the pace of internationalisation of the firm?). However, other questions were asked, where necessary, to provide further clarification. The interviewees then had the opportunity to describe and analyse the internationalisation
procedure of their firms. All interviews were tape-recorded. Interviewees were encouraged to talk openly and were assured of confidentiality.

To control for the possibility that some of the sampled firms may have engaged in little or no innovation, a filter question was asked to ascertain whether or not the firm had engaged in an innovative activity, according to the definition established in the literature review. The interview questions were divided into two parts: general information and specific questions. While developing the interview questions the focus was on eliciting data related to the main theme of the research which is, to investigate whether the internationalisation process of innovative SMEs can be described using any, or a combination, of the internationalisation theories that have been discussed in this study, and how being innovative had assisted the firm with being successful in the Chinese market. In-depth interviews enable the researcher to develop a deeper rapport with informants than is possible with other methods of data collection. This rapport is important in several ways. First, it is important if informants are suspicious of how information may be used. Rapport established during an interview may help to overcome this suspicion and lead to more candid responses. Good rapport with informants is also important when it comes time to asking for follow up information. In their own experience, Daniels and Cannice (2004) found that once such rapport is established informants will seek out accurate information for the researcher and facilitate cooperation with other managers, both within and outside their own company. Building rapport also helps the interviewee be more comfortable, and open up to the interviewer (see Measures section below for detailed questions and reasons for asking those questions).
Data Collection Method

The qualitative data were collected through face-to-face interviews, via teleconferencing; and some interviews were performed by videoconference via Skype. These methods allowed respondents to deliberate on issues and to ask for clarification from the interviewers, thus ensuring a better understanding of the study. Most of the semi-structured questions were open-ended, and respondents were asked to provide detailed explanations about their experiences.

Although face-to-face interviews potentially reduce the size of the sample, it is believed that the quality of the data collected through this method was more comprehensive, accurate, and reliable than would have been possible through a mail survey. Interviews mainly took place at the interviewees’ offices, if not conducted by telephone or Skype. All the interviews were recorded using a digital voice recorder except in two instances, to control the quality of the interview process (Groves et al., 1988). Two participants asked not to be recorded, in which case extensive notes were taken. Most interviews were one-on-one except two interviews which involved two informants. These interviews proved particularly fruitful as the participants constantly checked their understanding or recollection of events with one another and sometimes challenged one another’s perspective. As a result, a combination of face-to-face (25) and telephone interviews (15) was conducted. The interviews were transcribed by a professional transcriber in full, resulting in approximately 600 pages of data.

When first requesting participation from a firm, Daniels and Cannice (2004) recommend using letters of support from trade promotion organisations or government officials. As the Australia China Council (ACC) funded this research, their logo and information was used in a letter of invitation to participate. Interviews were conducted with CEOs and/or senior
managers of the selected 40 firms. CEOs occupy a central position in these firms and usually control access to information about operations and, therefore, are usually appropriate people to interview for this type of work. The person interviewed was usually a senior manager of the firm who had knowledge of or had been involved in the firm’s internationalisation process, or was a founder/CEO of the business. Past researchers Zahra and Covin (1993) have found that CEOs will often provide data that is as reliable and valid as that obtained from multiple informants. In the context of this study, the job titles given by the respondents in the field study indicated that the sample was, in fact, made up of senior managers and top decision-makers. The choice of CEOs was made in light of the key role played by the CEOs in SMEs. Within smaller firms, chief executives are directly involved in the business and have firsthand information on what is going on in the firm. Since the internationalisation process is executed in the context of strategic decision-making, senior executives and managers in charge of overseas operations were interviewed when no access to the CEO was possible as they have more intimate knowledge on business process and approaches. Accordingly, the questions were answered either by the CEO or by a top-level manager of the SME who was exposed to the China operations. To protect the confidentiality and anonymity of participants, and as requested by their managers, the names of the companies were not revealed. A range of different pseudonyms was created to describe the SMEs that participated in the study.

**Pre-testing the interview guide**

It is important to pre-test an interview guide to ensure that questions are asked correctly and also so the questions address the theoretical areas under consideration and answer the research question (Collins, 2003). Pre-testing can also help to improve and clarify the wording and order of questions (Collins, 2003). Pre-testing was conducted on one academic in the Graduate School of Business at Deakin University, and also at a SME that fitted the sample
requirement for the study. From the pre-testing changes were suggested to the interview guide.

**Procedure**

Before participants were contacted for this research, ethics approval was applied for through the Deakin University Ethics Committee, and was received on 28 June 2013 (see Appendix A for the Ethics Application Approval). To recruit participants, the researcher joined the Australia China Business Council (ACBC), and AustCham in Shanghai, Southern China and Hong Kong. Joining these business councils and Chambers of Commerce ensured that the researcher had access to the bodies’ membership lists. Membership lists were available through a password protected website for ACBC, through hardcopy directories (book available to members) for AustCham Hong Kong, freely available on their website for AustCham Shanghai, and then finally members’ contact details were shared with the researcher for AustCham Southern China.

Once the membership lists were sourced, they were screened for SMEs and, subsequently, emails were sent to SMEs asking for their participation. In the request for participation email, prospective participants were sent an explanatory statement, an informed consent form, and a copy of the interview schedule to determine their suitability to participate in the interviews. Based on this information, participants were able to accept or decline the request. Non-respondents were followed up with phone calls until they either accepted or rejected participation in the study. Subsequently, a time was made to conduct the interviews, either at the participant’s office, at Deakin University, over the phone for some, or via Skype for others. As a result, face-to-face interviews were conducted in Melbourne and Shanghai, Hong
Kong and in Guangzhou, Shenzhen, and over the phone and/or Skype interviews were conducted with some participants located in China (see Table 3.3).

At the time of the interviews, participants were asked to complete and sign the *Consent Form* indicating their willingness to participate. The signed informed consent forms were kept by the researcher, which is specified by the Deakin University ethics regulations. All interviews were tape-recorded and subsequently professionally transcribed, except for one interviewee who refused to have the interview recorded. Instead, copious notes were taken.

<table>
<thead>
<tr>
<th>Interview Method</th>
<th>Number (n)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Face-to-face at participant’s office</td>
<td>13</td>
</tr>
<tr>
<td>Face-to-face at Deakin University</td>
<td>8</td>
</tr>
<tr>
<td>Over the phone</td>
<td>12</td>
</tr>
<tr>
<td>Skype</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
</tr>
</tbody>
</table>

**Table 3.3: Interview Method**

**Measures used in the research**

This section describes the interview questions used for this research. The interviews began with general open-ended questions about the firm, which were used to facilitate the interviewees providing a wide range of experiences. Open-ended questions were asked because they are “grand tour” questions which permit both in-depth and descriptive responses, and help the interviewee open up and talk about their experiences (Spradley, 1979). Presented in the next section are the interview questions that were asked about different areas.
**Firm’s origin, international experience, and internationalisation**

In order to find out the firm’s origin, the nature of business and the role the interviewee played within the firm, some direct questions were asked: “What does your business do?”; “What industry is the business located in?”; “What is your firm’s current involvement in international business?”; “Where is your business located (in Australia and China)?”; “What are the number of employees (overall and in China)?”; and “What is your position in the organisation and how are you involved in the China business?” These very open-ended questions were followed up with: “How old is your business?”; “When did you first start doing business internationally?”; and “What does the firm do in China exactly?”

**Innovation**

In order to understand whether the firm used innovation as a growth strategy, some open-ended questions were asked: “How would you define your organisation as being innovative?” Participants were asked about the nature of the innovation. For instance, they were asked: “Is it incremental or radical innovation?” In addition, the questions: “Are your products/service/process or marketing approaches innovative?” or “Which one do you use?” were asked to understand the area of innovation. As the literature says, innovation will be in many forms - products, processes and/or marketing.

**Mode of entry**

It is useful to explore what mode of entry was used by the SME to enter foreign markets and/or the Chinese market, and to find this out participants were asked: “Please describe the entry mode you use at the moment?” This was followed up with: “Did you use any others previously?” and “Are you considering changing this in the future?”
Process of internationalisation and active/reactive strategy

To investigate the process that innovative SMEs used to internationalise to China, the following question was asked: “How did it come about that you set up a business in China?” In order to determine the factors that motivated firms to enter China, the following question was asked: “What was the driver that made you establish your business in China?” These questions were further probed with: “Was the process either rapid or slow?” and “When did you start with your internationalisation to China?”

Determinant factors of the internationalisation performance

Having examined the market selection strategies and modes of entry, it was also necessary to examine the determinant factors of the internationalisation performance: “Was it entrepreneurial in nature or were networks important for establishing your innovative business in China?” SMEs were also asked where they located their business in China with the following question: “Where is your business located in China?” and “Why did you choose that location?” In addition, the following question was raised to understand how government supports impacted on internationalisation performance: “Did you use any government support to assist you in establishing and running your business in China?” “What level of support did you use? Was it federal (Austrade), state or council level?”

Role of Networks, entrepreneurship and knowledge in internationalisation

To assess the role of networking, entrepreneurship styles and knowledge on the internationalisation to China process, the following questions were utilised: “How did it come about that you set up a business in China?” “What was the driver that made you establish your business in China?” “Was it entrepreneurial in nature?” “Were networks important for establishing innovative business in China?” “Did your firm maintain any link with innovation
networks in China? If so, how did you find them?” “Did you use any government support to assist you in establishing your business in China? If so, what level (Federal, State or Council)?”

A copy of the interview schedule is enclosed as Appendix B to the thesis.

**Process for Data Analysis**

The gathered data should enable the researcher to observe, understand and analyse the internationalisation process that the firms have gone through, as well as the innovative approaches adopted throughout the process. Further, the gathered data should provide more knowledge about the practical situations of SMEs with regard to the use of the main internationalisation theories that were discussed in Chapter 2.

**Analysis Strategies and Methods**

The analysis of qualitative data is a “continuous iterative process” (Miles & Huberman, 1984, p. 23). It is useful to think of the qualitative analytical process as consisting of three components: *processes, procedures* and *outcomes*. *Processes* including data reduction, data display and conclusions and verification, can be broken down into *procedures* such as coding, categorisation, abstraction, comparison and integration, with the eventual *outcomes* being first description, but ultimately explanation and interpretation.

Data analysis involved pattern matching and explanation building, as developed by Yin (1989). Experts differ in their recommendations regarding qualitative data analysis, particularly as methodologies differ. For example, grounded theorists emphasise constant comparison whereas phenomenologists emphasise an exhaustive systematic reflection of lived
experiences. They do agree, however, on the need for a systematic approach to the analysis of qualitative data.

Systematic data analysis techniques are essential when working with qualitative data if one wishes to avoid the ominous and much touted “death by data asphyxiation” (Pettigrew, 1990, p.281). More importantly however, adherence to such techniques increases the likelihood of producing a trustworthy account of the research. Trustworthiness is particularly germane given the frequent criticism of qualitative research as subjective and sloppy (Lincoln & Guba, 1985).

Qualitative content analysis is one of the numerous research methods used to analyse text data, and researchers regard content analysis as a flexible method for analysing text data (Cavanagh, 1997). Content analysis describes a family of analytic approaches ranging from impressionistic, intuitive, interpretive analyses to systematic, strict textual analysis (Rosengren, 1981). The specific type of content analysis approach chosen for a research study varies according to the theoretical and substantive interest and the problem being studied (Weber, 1990). Accordingly, to analyse the data it was decided to use an interpretive analytical approach, because the research questions focus on the experiences of innovative SMEs internationalising (Barnacle, 2001).

Following the collection of the data, three steps were used in the process: data reduction, data display and data analysis (Miles & Huberman, 1994). The first step, data reduction, does not necessarily mean the quantification of data, rather, it is the process of selecting, focusing, simplifying, abstracting and transforming the raw data. Data display, the second step, is the
organised assembly that permits a conclusion to be drawn, and the third and final step of the process is called data analysis (Miles & Huberman, 1994).

Yin (1989) suggests two general strategies for data analysis. The first is the reliance on theoretical propositions, and the second is the development of a description; the latter is the less preferred strategy. Nevertheless, the two strategies proposed by Yin (1989) are not exclusive as data analysis should begin with individual firm descriptions and then continue with data analysis (Patton, 2002). The approaches to data analysis espoused by Miles and Huberman (1994) and Yin (1989) were adopted in this research.

After the data were collected, they were interpreted according to the respective theories and have been analysed using the computer software known as QSR NVivo (Version 10). The aim of analysis was to find the data consistent to the pre-defined codes of the theories. The methods and advice of Miles and Huberman (1994) in relation to the data reduction, drawing the conclusions and verification were used in the data analysis. However, in order to identify factors which have influenced the internationalisation process both prefigured and emerging codes were used at the same time (Creswell, 2009).

Structured questions were analysed manually in the NVivo software, to obtain a profile of participating firms and compare the characteristics of the firms. Thereafter, qualitative techniques were used to systematically analyse the open-ended questions. Thematic analysis, a common method of qualitative analysis, was used to code data by identifying themes within the identified research framework (Boyatzis, 1998). The information obtained was analysed using thematic content analysis to explore the firm’s internationalisation patterns and pathways, behaviours and motivation, processes, and strategies. A theme is a pattern that
emerges from the qualitative information and can either be directly observable in the information or underscore certain aspects of a phenomenon (Boyatzis, 1998). Three criteria have been used for identification of themes (Motion & Leitch, 2002): (1) recurrence of meaning; (2) repetition of the same text/data, across interviews; and (3) text salient to the research topic. The codes are established as a result of development, redevelopment, and refinement of qualitative data interpretation. In the initial coding stage, the NVivo 10 Software was used to search and retrieve relevant text and quotations according to the salient aspects of the research topic. Manual coding is also used in the later stages to organize the text according to themes (Taylor & Bogdan, 1998). A deductive and inductive approach to analysis was utilised. A deductive approach was utilised where previous literature on the topics was used to investigate the data for topics/themes of interest, which were then used to score the data. An inductive approach was then used, where new and emergent themes were identified and developed out of the research data. In most cases direct quotes from interview information were used because they best reflected the phenomenon under investigation.

In presenting the findings from this study, firms’ initial internationalisation strategies (entry mode in a particular overseas market) and timing are discussed first, followed by an overview of their subsequent strategies. In order to assist understanding, and given the space restrictions, groupings of firms exhibiting common characteristics are profiled.

**Data Reduction and Display**

Data reduction is a continual process that takes place throughout the life of a research project. It is the process of selecting, focusing, simplifying, abstracting and transforming the data as they appear in field notes and transcriptions into a more manageable form (Miles & Huberman, 1994). Through the process of data reduction, the data can be organised in such a
way that conclusions can be drawn and verified (Miles & Huberman, 1994). The reduction
and display of the data in this project was greatly aided by the use of NVivo 10, a software
package specifically designed for use in the analysis of qualitative data. The use of a
computer program does not replace time-honoured ways of learning from data, however, but
it does increase the effectiveness and efficiency of such learning (Bazeley, 2007). NVivo
supported data analysis in five ways: (1) Managing the data: Using NVivo enables the
keeping together of one project containing all original source documents (in this case
primarily interview transcripts as well as links to hard copy materials and websites), any field
notes and interviews in which grouped together transcripts and documents from one company
and assigned attributes to them (for example, firm size, industry and length of time in the
region); (2) Managing researcher’s ideas: Using NVivo a series of tree nodes is created plus
free nodes for coding the data, which are able to track the number of data chunks in each node
as well as the number of documents contributing data to each node. In this way the program
provided rapid access to conceptual ideas as they developed as well as to the data that
supported them whilst, at the same time, retaining access to the unchanged documents from
which the data came; (3) Querying the data: NVivo enabled the researcher to ask simple and
complex questions about data and have the program retrieve from its databases all relevant
information. It is able to save the results for further enquiry making querying a part of the on-
going analysis process. For example, in NVivo, the researcher was able to query particular
words, such as ‘innovation’ or ‘internationalisation’, and the relevant texts with frequencies of
how many people mentioned that word, plus the number of interviewees would be displayed;
(4) Graphically representing ideas: NVivo allowed the researcher to specify relationships
between concepts and to present those ideas in visual displays using models and matrices; (5)
Reporting from the data: NVivo facilitated reporting by providing easy access to the original
data sources, the coding database, the ideas and knowledge developed from the two and the
processes by which these outcomes were achieved. Using NVivo to aid the data analysis follows a modified version of the steps set out by Dey (1993). These were: reading and annotating, creating categories, assigning categories, splitting and splicing, linking data, making connections and producing an account.

As an initial step in the process of data reduction, reading and annotating helps the ‘digestion’ of data. According to Dey (1993, p. 83) “data cannot be analyzed unless the researcher has read it”. While such a comment may seem self-evident, what Dey (1993) means is that reading through the data whilst maintaining a free association prepares the ground for analysis. Such a free association involves “setting the mind free of fixed assumptions and encouraging a more sensitive and critical response to the data” (Dey, 1993, p. 86); “by digging over the ground the soil is loosened which may make it possible for the seeds of the analysis to put down roots and grow” (Dey, 1993, p. 83). In this stage of analysis each interview transcript was read through while at the same time listening to the recording of the interview. This simultaneous process refreshed the memory about what had taken place and facilitated a richer interaction with the data than just reading the transcript. After listening to each recorded interview, and reading each transcript, brief notes or ‘memos’ were made about the key concepts and ideas that emerged. This step corresponds to the annotating recommended by Dey (1993). Annotating continued through the analysis process particularly to assist the researcher to justify or explain the categories created and highlighting the emerging links between the data.

Creating and Assigning Categories
The process of creating categories is described as abstracting those features most relevant to the research from the vast detail and intricacy of the data. Categorising or coding the data
using NVivo 10 is done via a system of free nodes and tree nodes. Free nodes do not presume any relationships or connections between the data and serve as a starting point for ideas or concepts that may be further developed as analysis progresses. Tree nodes are hierarchical structures in which parent nodes serve as connecting points for subcategories or types of concepts. A combination of a priori or ‘theoretically derived’ (Bazeley, 2007, p. 76) codes and inductive codes were used in this research. A priori codes may be drawn from the literature or previous experience and are a good starting point when it comes to categorising the data. Bazeley (2007) warns, however, of the need to ‘hang loose’ and feel free to change or develop codes as analysis progresses. In contrast, inductive codes are derived from the data itself often using an actual expression of a participant as the title for the code. The process of assigning categories, also referred to as coding, in practice is a process of transferring chunks of data from one context (the original transcript) to another (the code or node created to store the concept). The data chunk is not actually transferred but rather copied as the original transcript remains intact in NVivo. The same data chunk may be coded at several nodes or data chunks may overlap in a process sometimes known as co-occurring coding. Whilst the process may seem simple it involves constant interpretation on the part of the researcher about what the data are actually saying. One benefit of using NVivo for data analysis is that double-clicking on the coded data chunk will open the original source document with the coded data highlighted, enabling the researcher to easily return to the context of the comment to double check the interpretation if necessary. Creating and assigning categories whilst conceptually distinct more often than not take place as an iterative process closely linked with the next phase of splitting and splicing (Dey, 1993).

Splitting and splicing are techniques designed to refine and refocus analysis. Splitting involves creating sub-categories or new categories all together that reflect more detailed divisions within
the data. Splicing is the opposite of splitting and involves merging two or more categories to enhance meaning, resulting in greater integration and scope (Dey, 1993). In fact, splicing reflects the theorising that has taken place so far.

**Linking the Data and Producing an Account**

Linking the data involves recognising substantive relationships between data and categories. Linking data guarantees that the context within which comments were made is not lost. Furthermore, it can illuminate relationships between comments that were made close to each other but that, in the process of assigning categories, were broken apart. If creating and assigning categories is viewed as breaking down the data, then linking the data builds it back up. Dey (1993, p. 152) aptly notes that “categories are the conceptual building blocks from which we can construct our theoretical edifices”. This step in the data analysis process highlighted the order in which issues were raised by informants, which was subsequently interpreted as lending weight to their relative importance. The NVivo strengths of querying the data and graphically representing ideas facilitated this aspect of the data analysis.

The final step in Dey’s progression of qualitative analysis, producing an account, is not only a means of reporting results, but also another way of producing the results. “What you cannot explain to others, you do not understand yourself” (Dey, 1993, p. 237). The challenge of explaining oneself helps to clarify and integrate concepts and relationships. Accordingly, producing an account is testament to the iterative nature of qualitative research. In this research the final account must not only be interesting and accessible (as Dey recommends), it must also meet the standards set for rigorous academic research. Using Lincoln and Guba’s (1985, pp. 289-331) guidelines for ‘establishing trustworthiness’, the researcher was able to ensure adherence to these rigorous standards. The following section outlines the steps the researcher took to establish and ensure trustworthiness in the research.
Establishing Trustworthiness

One of the key criteria addressed by positivist researchers is that of internal validity, in which they seek to ensure that their study measures or tests what is actually intended (Shenton, 2004). Establishing trustworthiness is vital in qualitative research. The premise is simple – how can a researcher convince his or her audience that their research findings are what they say they are, and hence worth paying attention to? Lincoln and Guba (1985) outline four criteria against: credibility, transferability, dependability, and conformability. These criteria can be likened to the corresponding criteria in the dominant (quantitative) research paradigm: internal validity, external validity, reliability and objectivity. This research project’s performance in regard to Lincoln and Guba’s (1985) criteria is described below. Lincoln and Guba (1985) argue that ensuring credibility is one of the most important factors in establishing trustworthiness. Ensuring credibility involves both carrying out the research in such a way that the findings are likely to be deemed credible, and demonstrating the credibility of the findings by having them approved by the research participants. The credibility criterion involves establishing that the results of qualitative research are credible or believable from the perspective of the participant in the research. Since from this perspective, the purpose of qualitative research is to describe or understand the phenomena of interest from the participant's eyes, the participants are the only ones who can legitimately judge the credibility of the results. The following provisions should be made by the researcher to promote confidence that he/she has accurately recorded the phenomena under scrutiny:

a) Adoption of research methods well established both in qualitative investigation in general and in information science in particular. Yin (2009) recognises the importance of incorporating “correct operational measures for the concepts being studied”. Thus, the
specific procedures employed, such as the line of questioning pursued in the data gathering sessions and the methods of data analysis derived, where possible, are from those that have been successfully utilised in previous comparable projects.

b) The development of early familiarity with the culture of participating organisations before the first data collection dialogues take place. This may be achieved via consultation of appropriate documents and preliminary visits to the organisations themselves. Lincoln and Guba (1987) are among the many who recommend “prolonged engagement” between the investigator and the participants in order both for the former to gain an adequate understanding of an organisation and to establish a relationship of trust between the parties.

c) Tactics to help ensure honesty in informants when contributing data. In particular, each person who is approached is given opportunities to refuse to participate in the project so as to ensure that the data collection sessions involve only those who are genuinely willing to take part and prepared to offer data freely.

d) In addition to the “preventative” strategies outlined above, specific ploys incorporated to uncover deliberate lies. These include the use of probing to elicit detailed data and iterative questioning, in which the researcher returns to matters previously raised by an informant and extracts related data through rephrased questions. In both cases, where contradictions emerge, falsehoods can be detected and the researcher may decide to discard the suspect data.

e) Frequent debriefing sessions between the researcher and supervisors. Through discussion, the vision of the investigator may be widened as others bring to bear their experiences and perceptions. Such collaborative sessions were used by the researcher to discuss alternative approaches.
f) Peer scrutiny of the research project. Opportunities for scrutiny of the project by colleagues, peers and academics are welcomed, as should feedback offered to the researcher at any presentations (e.g., conferences) that are made over the duration of the project.

g) The researcher’s “reflective commentary”. In addition to the outside scrutiny discussed above, the investigator seeks to evaluate the project again as it develops.

h) Member checks, which Guba and Lincoln (1989) consider the single most important provision that can be made to bolster a study’s credibility. Checks relating to the accuracy of the data may take place “on the spot”, in the course, and at the end, of the data collection dialogues. Member-checking involves submitting analytic categories, interpretations and conclusions to scrutiny by members of those stakeholder groups from whom the data were originally collected (Lincoln & Guba, 1985, p.314). This is a crucial technique in establishing the credibility of qualitative research.

Transferability refers to the degree to which the results of qualitative research can be generalised or transferred to other contexts or settings. From a qualitative perspective, transferability is primarily the responsibility of the one doing the generalising. The qualitative researcher can enhance transferability by doing a thorough job of describing the research context and the assumptions that were central to the research. The person who wishes to “transfer” the results to a different context is then responsible for making the judgment of how sensible the transfer is.
Qualitative research delves deeply into particular phenomena in a particular environment at a particular time. External validity as measured in quantitative research is not possible or even desirable in this context (Morse et al., 2002). Whether the findings hold in some other context is an empirical issue dependent on the similarity between the former and the latter. For example, one may question whether this Australian-based research or Australian-based SMEs internationalising to China is applicable to the US or the UK context. Australian culture may be similar (but different) from US and UK culture, however, other contextual conditions such as economy size and economic resources of governments are different, which means that the transferability of these results to a US or UK context could be problematic. It is not the responsibility of the researcher to provide an index of transferability, but rather to provide “the database that makes transferability judgments possible” (Lincoln & Guba, 1985, p. 316). This ‘database’ most commonly takes the form of a thick description. Elements of thick description can be found throughout this thesis.

The traditional quantitative view of reliability is based on the assumption of replicability or repeatability (Morse et al., 2002). Essentially, it is concerned with whether researchers would obtain the same results if they could observe the same thing twice. But the researchers cannot actually measure the same thing twice. By definition, if it is measured twice, researchers are measuring two different things. In order to estimate reliability, quantitative researchers construct various hypothetical notions (e.g., true score theory) to try to get around this fact. The idea of dependability, on the other hand, emphasizes the need for the researcher to account for the ever-changing context within which research occurs. The researcher is responsible for describing the changes that occur in the setting and how these changes affected the way the researcher approached the study.
To enable readers of the research report to develop a thorough understanding of the methods and their effectiveness, Chapter 3 has included sections devoted to: (a) the research design and its implementation, describing what was planned and executed on a strategic level; (b) the operational detail of data gathering, addressing the minutiae of what was done in the field; and (c) a reflective appraisal of the project, evaluating the effectiveness of the process of inquiry undertaken (Shenton, 2004).

Qualitative research tends to assume that each researcher brings a unique perspective to the study (Ritchie et al., 2013). Conformability refers to the degree to which the results can be confirmed or corroborated by others. A number of strategies can enhance conformability. Miles and Huberman (1994) describe 13 tactics for testing or confirming findings. The researcher can document the procedures for checking and rechecking the data throughout the study (Shenton, 2004). In the research design necessary steps have been taken to ensure that the findings are the result of the experiences and ideas of the informants, rather than the characteristics and preferences of the researcher. The open-ended questions were designed to collect the experiences and ideas of the informants. In the interview process the interviewers were guided by asking sub-questions, and keeping the interviewees within the limits of their experiences and ideas.

**Conclusions**

This chapter outlines in detail the basis of research methods selected, research design criteria adopted, sampling techniques, and the qualitative interview research design adopted for this project and the justification for those choices. Further, it provides details of measures used in the research study and data analysis principles used, together with the data collection methods adopted. In addition, it describes how trustworthiness of the results was established, which
imparts confidence in the forthcoming results and discussion chapters. The findings of each of the research questions will now be discussed in the next chapter.
Chapter 4: Internationalisation Process of Innovative SMEs

Overview of this Chapter

This chapter presents the results from the following research questions that were developed in the literature review. 1a: What is the pattern of Australian innovative SMEs internationalisation to China, and why? 1b: What factors drive SMEs to follow such patterns of internationalisation, and how and why does this occur? 1c: Do different entry modes display different internationalisation processes? How and why? Quotes are provided in italics throughout the text for each theme, which are extracts from interviews. The results are discussed by comparing and contrasting them to past literature, and by identifying the new insights from the study.

Research Question 1a:
What process do Australian innovative SMEs use to internationalise to China?

According to research results, either the ‘stage’ or the ‘rapid’ form of internationalisation was utilised by the Australian SMEs when they internationalised to China. Twenty-one SMEs entered the Chinese market by way of a staged approach similar to Johanson and Vahlne’s (1977) stage theory. Prior to becoming involved with the Chinese market, the SMEs had spent significant time developing their business activities domestically or internationally. For the SMEs that had followed the ‘stage’ form of internationalisation, most of them had operated for more than five years before entering the Chinese market, notably, one SME had been operating for more than 50 years prior to entering China, as the following quotation indicates:

“There was a big discussion here along the lines of our customers keep telling us we’re going to China, you should come and set up here with us and they’d been just talking about it for a couple of years. I guess at some stage they said we need to get on with
this, the event that triggered it I guess was the desire to get offshore and that was when things were still very buoyant in the market so I guess it was confidence, we can go and do this exploration and get established” (Case 6: Pneumatic Co).

On the other hand, 14 SMEs had followed a ‘rapid’ internationalisation approach when entering into the Chinese market, as discussed below. Those categorised in the ‘rapid’ approach had spent a short period of time developing their business activities in Australia before involving themselves with the Chinese market. The ‘rapid’ approach SMEs had operated for a maximum of four years before entering the Chinese market and were looking for international markets due to domestic market limitations:

“Australia only has 200,000 babies every year so if we looked at that and said our demographic is this niche organic segment of those 200,000 babies. So, we had to say, let’s look international” (Case 24: Milk Co).

Ten of the SMEs in the ‘rapid’ category were categorised as ‘born-in-China’ as the business activities had been commenced by Australian nationals for the very first time in China.

A comparison of the two approaches indicates that the ‘stage’ approach has been adopted by a majority (60%) of the SMEs. A detailed analysis will now be undertaken below to understand what factors drive these SMEs’ decisions in following the ‘stage’ or ‘rapid’ form internationalisation to the Chinese market.

**Research Question 1b:** What factors drive SMEs to follow a stage or rapid approach to internationalisation, and how and why does this occur?
**Stage approach**

Table 4.1 below provides some key characteristics of the SMEs which used the ‘stage’ form of internationalising to China. The table includes the year the SME commenced business in Australia, and the year the SME entered the Chinese market which provides the number of years the SMEs had operated prior to entering China. The table further includes a brief description of the nature of the business, and whether the SME was in the product/manufacturing sector or in the services sector. In addition, Table 4.1 grouped SMEs by the entry modes they used to enter the Chinese market. Further, the table includes a brief description of the international experience the SMEs had had and the international markets the SMEs operated in at the time they entered the Chinese market (if applicable).

**Table 4.1: Characteristics of SMEs which utilised ‘stage’ form internationalisation to China**
<table>
<thead>
<tr>
<th>Case No</th>
<th>Pseudonym</th>
<th>Year started</th>
<th>Year entered China</th>
<th>Actual Years</th>
<th>Evidence of why stage approach</th>
<th>Business Type</th>
<th>Entry Mode</th>
<th>Internationalisation Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Furniture Co</td>
<td>1997</td>
<td>2002</td>
<td>6</td>
<td>Spent more than five years prior to entering China, started as an importer (first phase of internationalisation)</td>
<td>Product Wholesaling and Retail Industry</td>
<td>Import materials from China for production facility in Australia.</td>
<td>China only</td>
</tr>
<tr>
<td>2</td>
<td>Rubber Co</td>
<td>1985</td>
<td>2008</td>
<td>24</td>
<td>Spent more than five years prior to entering China, started as an importer (first phase of internationalisation) in China</td>
<td>Product Manufacturing</td>
<td>Import materials from China for production facilities in Australia and Malaysia.</td>
<td>China and Malaysia (production facility)</td>
</tr>
<tr>
<td>Exporters</td>
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<tr>
<td>3</td>
<td>Chemical Co</td>
<td>1961</td>
<td>2004</td>
<td>44</td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Spent more than five years prior to entering China, started as an importer (first phase of internationalisation) in China, also exports to other countries.</td>
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<tr>
<td></td>
<td>Product Manufacturing</td>
<td></td>
<td></td>
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</tr>
<tr>
<td></td>
<td>Import materials from China for production facility in Australia. Also export products to China.</td>
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<tr>
<td></td>
<td>China, New Zealand and Fiji (exporting)</td>
<td></td>
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<tr>
<td>4</td>
<td>Security Co</td>
<td>1994</td>
<td>2002</td>
<td>9</td>
<td></td>
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<td></td>
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<td></td>
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<tr>
<td></td>
<td>Spent more than five years prior to entering China, started as an exporter (first phase of internationalisation), willing to move to next phase</td>
<td></td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td></td>
<td>Service/Product Security Tech industry</td>
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</tr>
<tr>
<td></td>
<td>Project-based service provider, working for EPC Contractors No office in China or Hong Kong.</td>
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<tr>
<td></td>
<td>Asia and Middle East (main markets). Work in other countries.</td>
<td></td>
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</tr>
<tr>
<td>#</td>
<td>Company</td>
<td>Year Entering</td>
<td>Year Manufacturing</td>
<td>Years Manufacturing</td>
<td>Industry</td>
<td>Services Provided</td>
<td>China Only</td>
<td></td>
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<tr>
<td>7</td>
<td>Biotech Co 3</td>
<td>2003</td>
<td>2008</td>
<td>6</td>
<td>Service Science and Technology</td>
<td>Case-based service provider - some clients in China since 2008</td>
<td>China only</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Company Name</td>
<td>Year Entered</td>
<td>Year Exit</td>
<td>Years in China</td>
<td>Method of Entry</td>
<td>Services Provided</td>
<td>Area of Operations</td>
<td></td>
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<tr>
<td>11</td>
<td>Recruitment Co</td>
<td>1995</td>
<td>2003</td>
<td>9</td>
<td>WOFE - Entry via Hong Kong.</td>
<td>Service Business Services</td>
<td>China, North America, Canada, Singapore and Europe</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Spent more than five years prior to entering China, spent 10 years already, established a WOFE (last phase of internationalisation)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Accounting Co</td>
<td>2002</td>
<td>2012</td>
<td>11</td>
<td>WOFE - Entry via Hong Kong.</td>
<td>Service Business Services</td>
<td>China only</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Spent more than five years prior to entering China, spent 11 years already, established a WOFE (last phase of internationalisation)</td>
<td></td>
<td></td>
<td>This firm has a license agreement with Australian company to use the Australian brand name.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Year 1</td>
<td>Year 2</td>
<td>Duration</td>
<td>Description</td>
<td>Industry</td>
<td>Entry Method</td>
<td>Region</td>
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<tr>
<td>15</td>
<td>Resources Co</td>
<td>2003</td>
<td>2008</td>
<td>6</td>
<td>Spent more than five years prior to entering China, spent five years already, established a WOFE (last phase of internationalisation)</td>
<td>Product Mining Industry</td>
<td>WOFE - Entry via Hong Kong</td>
<td>Asia (China), North America, Europe and Middle East</td>
</tr>
<tr>
<td>17</td>
<td>Metal Frame Co</td>
<td>1984</td>
<td>1996</td>
<td>13</td>
<td>Spent more than five years in Australia. Spent 17 years in the Australian market and then did some contracts with the Chinese and established a WOFE (last phase of internationalisation)</td>
<td>Service/Product Construction Services</td>
<td>WOFE - Entry via Hong Kong. Steel fabrication in Australia until 2005, now the steel fabrication is done in China.</td>
<td>China, export all over world from China.</td>
</tr>
<tr>
<td>No</td>
<td>Company</td>
<td>Year Entering China</td>
<td>Year Leaving China</td>
<td>Years</td>
<td>Experience</td>
<td>Product</td>
<td>WOFE Entry</td>
<td>Notes</td>
</tr>
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<tr>
<td>23</td>
<td>Print Co</td>
<td>2000</td>
<td>2005</td>
<td>6</td>
<td>Spent more than five years in Australia. Eight years working in China, established a WOFE (last phase of internationalisation)</td>
<td>Product Manufacturing</td>
<td>WOFE - Entry via Hong Kong. Has a Chinese registered Office as well.</td>
<td>China only. Owner has knowledge and experience of working overseas.</td>
</tr>
<tr>
<td>25</td>
<td>Meat Co</td>
<td>1995</td>
<td>2006</td>
<td>12</td>
<td>Spent more than five years prior to entering China, spent seven years already in China, established a WOFE (last phase of internationalisation)</td>
<td>Product Agriculture products</td>
<td>WOFE - Entry via Hong Kong and still has a Branch office in Hong Kong</td>
<td>Asia, the Middle East and North America</td>
</tr>
</tbody>
</table>

WOFE – Mainland China
<table>
<thead>
<tr>
<th>10</th>
<th>Biotech Co</th>
<th>2007</th>
<th>2012</th>
<th>6</th>
<th>Spent more than five years prior to entering China, established a WOFE (last phase of internationalisation)</th>
<th>Service/Product</th>
<th>WOFE in mainland China.</th>
<th>Products sell around the world</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>Vehicle Co</td>
<td>1999</td>
<td>2013</td>
<td>15</td>
<td>Spent more than five years prior to entering China, spent 15 years already, established a WOFE (last phase of internationalisation)</td>
<td>Service Business Services</td>
<td>WOFE in mainland China.</td>
<td>China only. Had another company based in China for the last 10 years.</td>
</tr>
<tr>
<td>No.</td>
<td>Company</td>
<td>Founded</td>
<td>Established</td>
<td>Years</td>
<td>Prior Experience</td>
<td>Industry</td>
<td>Establishment</td>
<td>Location</td>
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</tr>
<tr>
<td>14</td>
<td>Office Co</td>
<td>1993</td>
<td>1999</td>
<td>7</td>
<td>Spent more than five years prior to entering China, spent 14 years already, established a WOFE (last phase of internationalisation)</td>
<td>Service Property Services</td>
<td>WOFE in mainland China.</td>
<td>Around the world except Latin America and Africa</td>
</tr>
<tr>
<td>16</td>
<td>Processing Co</td>
<td>1979</td>
<td>2011</td>
<td>33</td>
<td>Spent more than five years prior to entering China, spent three years already, established a WOFE (last phase of internationalisation)</td>
<td>Service Construction Service (mining)</td>
<td>WOFE in mainland China. Owner purchased a 12-year-old firm owned by a foreigner in China.</td>
<td>Asia, Africa and America - Asia spans from Indonesia South East Asia, China, through Mongolia, Russia and India.</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Year 1</td>
<td>Year 2</td>
<td>Duration</td>
<td>Time Spent Prior to Entering China</td>
<td>Phase of Internationalisation</td>
<td>WOFE Location</td>
<td>Reason for Internationalisation</td>
</tr>
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</tr>
<tr>
<td>18</td>
<td>Build Co</td>
<td>1985</td>
<td>1994</td>
<td>10</td>
<td>Spent more than five years</td>
<td>Service Construction Service</td>
<td>WOFE in mainland China.</td>
<td>Projects around the world. Offices in America and Asia.</td>
</tr>
<tr>
<td></td>
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<td>prior to entering China,</td>
<td>(mining)</td>
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<td>spent 19 years already,</td>
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<td></td>
<td>established a WOFE (last phase</td>
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<td></td>
<td></td>
<td>of internationalisation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Architect Co 1</td>
<td>1980</td>
<td>1998</td>
<td>19</td>
<td>Spent more than five years</td>
<td>Service</td>
<td>WOFE in mainland China</td>
<td>China only.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>prior to entering China,</td>
<td></td>
<td></td>
<td>A job offered by a Chinese client (in Australia) was the reason for internationalisation to China</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
<td>spent 16 years already,</td>
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<td>established a WOFE (last phase</td>
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<tr>
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<td></td>
<td>of internationalisation)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>#</td>
<td>Company</td>
<td>Year Entered China</td>
<td>Year Established</td>
<td>Time Spent in China</td>
<td>Product/Service Type</td>
<td>China Branch Strategy</td>
<td></td>
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</tr>
<tr>
<td>21</td>
<td>Box Co</td>
<td>1954</td>
<td>2007</td>
<td>53</td>
<td>Manufacturing</td>
<td>WOFE in mainland China. Outsourced key production operations to China. Distributes products throughout Australia, New Zealand and internationally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Medical Equipment Co</td>
<td>1998</td>
<td>2013</td>
<td>15</td>
<td>Science and Technology</td>
<td>Case-based service provider (Fly-In-Fly Out). Looking to establish a WOFE in China. China only</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As specified in the literature review, stage theory (Johanson & Vahlne, 1977) suggests that as knowledge and understanding of internationalisation increases, firms will make larger resource commitments to internationalisation. This also occurs as a dynamic, gradual and stage process that occurs over time (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Therefore, as the firm grows, they will increase their level of internationalisation from exporting to other activities such as foreign direct investment.

**The role of previous domestic and international experience**

The analysis indicates that all these SMEs spent significant time in their domestic markets prior to internationalisation, with some of them involved with other international markets prior to entering China. Out of the 21 SMEs using the ‘stage’ form internationalisation approach, 10 SMEs had no prior international experience in other countries prior to entering the Chinese market. However, they did have long-running business experience in the domestic market in their market sector and, notably, the owners/managers of five of those 10 SMEs had prior international experience. Some of these managers had obtained their prior experience through jobs with previous employers.

The SMEs had appeared to follow the stage approach (Johanson & Vahlne’s, 1977), as prior to employing more resources in establishing WOFE operations, these SMEs had been involved with exporting and importing activities in the first phase of the internationalisation process. Five SMEs out of 10 without prior international experience were in the first phase of internationalisation and were involved in importing or exporting. These SMEs had not moved to the next phase of internationalisation stage in China market because of some challenges they faced, which were possibly due to lack of experience in international markets.
Eleven SMEs in the ‘stage’ form of internationalisation had international experience in other countries prior to entering the Chinese market. Most of those SMEs operated in Asian and Middle Eastern countries, and a few had business operations in the USA, Europe and Africa. Their decision to internationalise to the Chinese market was affected by the international experience and knowledge possessed by those SMEs and/or their managers. The SMEs which showed confidence in entering China had prior international exposure, and eight out of eleven established WOFEs which indicates they assumed less perceived risk.

The 10 SMEs that internationalised to China without prior international experience developed the necessary knowledge and gained the necessary experience in the domestic market by conducting business operations for a longer time (6 to 15 years) prior to expanding to China. The knowledge and experience gained over a longer period in the domestic market, triggered these SMEs to internationalise to China. Their managers’ knowledge and previous experience had positively impacted on the internationalisation of their businesses to China as well.

Eleven SMEs had internationalised to China as a result of their knowledge and experience from operating in other markets. The below quotes provide evidence that SMEs use international knowledge and experience before deciding on establishing their Chinese operation model, making the China operation more successful:

“The business model for us in the long-term in China would be significantly different than how the Institute operates in other countries in the region. So, for example, we have offices in Lao and Burma and so on, which still operates in a fairly traditional aid and development context. Whereas in China what we’re hoping is to successfully commercialize our first product” (Case 10: Biotech Co 4).
SMEs in the ‘stage’ category had gradually built their business and operational knowledge not only in the domestic market (Australia) but also internationally in other markets. This knowledge and experience had then motivated them to internationalise to China. Accordingly, the internationalisation approach of these SMEs complies, to a certain extent, with the Johanson and Vahlne (1977) stage theory elements, as the following indicates:

“Effectively, we were looking at China for our supply chain and, lo and behold, eventually we decided let’s start a manufacturing organization here (China) to essentially help us get a global footprint into a lot of cost markets” (Case 21: Box Co).

The quote below provides evidence that the SMEs were using China as one of their key international destinations, which was the result of a gradual internationalisation process:

“We absolutely are in pretty much of the markets around the world except Latin America and Africa. Why China? We’ve been here now 15 years. So it’s a one-stop easy shop and our biggest market is in Asia, Japan, South East Asia and China, Hong Kong because of that reason” (Case 14: Office Co).

However, the stage theory (Johanson & Vahlne’s, 1977) explains that a firm will make larger resource commitments to a foreign market once knowledge and understanding of internationalisation increases. Therefore, as the firm grows, the level of internationalisation from exporting to other activities such as FDI will take place. The results from the Australian SMEs studied do not support this element of Johanson and Vahlne’s (1977) stage theory. The possible reasons for this deviation are: 1) Importers seek cheaper materials to be competitive in the domestic market; (2) Service providing exporters can provide their services from the domestic market without having to form a WOFE operation (using the internet and/or project-based services, such as fly-in-fly-out activities).
Institutional Effects – Setting up in Hong Kong

One noticeable fact for this study is that some of these SMEs had set up their ownership structures in Hong Kong. Hong Kong has a liberal investment regime, rated the world’s freest economy by the Heritage Foundation for 22 consecutive years in 2016, consistently ranked first by the Fraser Institute in terms of economic freedom, open, outward-oriented economy, free trade, free market, free flow of capital and no foreign exchange controls (Hong Kong Government, 2018). Also, Hong Kong welcome foreign talents, professionals and entrepreneurs (Hong Kong Government, 2018). Hong Kong has a good rule of law and an independent experienced judiciary, free movement of capital and low, simple and predictable tax regime, which makes it an attractive location for market entry but also as a popular an entry point to China.

So SMEs did not need to comply with the capital or regulatory requirements that WOFEs would have imposed on them in mainland China, which was up to the value of $100,000 (six SMEs were in this category). According to Harris (2015) it is relatively easy to prove the existence and organizational structure of a Hong Kong company and the process is straightforward and the Chinese investment authorities understand the documents and readily accept them. The Chinese authorities have trouble understanding foreign company systems and are known to challenge perfectly standard documents from foreign jurisdictions (Harris, 2015). SMEs did this because they believed it was much easier to have their business set up in Hong Kong, rather than in mainland China. This is because there were not the same capital requirements for the business, or the other difficulties that Chinese regulations had posed. Therefore, institutional effects combined with the resources of the SMEs, have a strong influence on what these SMEs do. As the following quotation indicates:

“Whereas, if the entity that owned it was a Hong Kong entity, we could sell the Hong Kong entity to somebody and the ownership wouldn’t change as far as the authorities...
here are concerned. It’s still owned by that entity that sits in Hong Kong. So that was the primary driver but, as it’s turned out, it’s been a very useful, it provides a useful facility in that many of our clients are offshore. Most of them are onshore so we invoice them locally but some are offshore. We are working for a Dutch company just at the moment so they don’t have any entity in China to pay me, they can pay me in Hong Kong in Euros. The Hong Kong thing actually works nice” (Case 11: Recruitment Co).

In brief, SMEs have set out the advantages of using Hong Kong as a base for doing business in China, including, but not limited to, a robust legal system, a simple tax regime, a leading capital market and financial centre, a regional hub, quality manpower, proximity to China, an efficient government, free trade and a free market economy, global connections, and a logistic centre with efficient transportation.

**Services are a focus**

One other notable fact is that most of the SMEs that were WOFEs (10 out of 14) were service providers. The majority of these 10 SMEs targeted international or Australian businesses in China as their main customer base. They provide a range of services from legal, accounting, investment advice, and even virtual office space providers for international firms entering the Chinese market. These SMEs used their Australian brand, for example, the ‘country of origin effect’ as their main marketing tool in the Chinese market. These SMEs believed that highlighting their Australian nationality or brand name had an added advantage when selling their products and/or services in the Chinese market. Some of these SMEs had an Australian-based office that was used for support, and one SME had a licence agreement with their parent company, an Australian accounting firm, to use their Australian brand name in the Chinese market for their services offered.

“We had an agreement with an accounting firm (partnership agreement) back in
**Australia and licensed us as an Australian company to use the ‘company’ brand name in our work license or our infrastructure that of IP, intellectual property. We are actually set up in a local company here it’s a local company so we got Australian license so we get a license from the Australian company” (Case 12: Accounting Co).**

One of the SMEs investigated who was a WOFE, had a different business in Shanghai for 10 years, and then had used that experience and knowledge to commence a completely different business operation in China (a vehicle warranty firm):

“**It’s brand new so we had another company based in China for the last 10 or 11 years so we’ve been watching the used car industry develop and evolve and we think last year was probably a good time to enter, and the timing was absolutely perfect.” (Case 13: Vehicle Co).**

**Rapid approach (International New Ventures)**

Out of the 35 SMEs investigated in this study, 14 had commenced their China operations within a short period of time after they had established their business domestically in Australia (less than three years) (four SMEs), or had directly entered the Chinese market without operating the business previously in Australia (ten SMEs). Table 4.2 provides details of the SMEs who had entered China very rapidly.

**Table 4.2: Characteristics of SMEs which utilised ‘rapid’ form internationalisation to China**
<table>
<thead>
<tr>
<th>Case No</th>
<th>Pseudonym</th>
<th>Year Started</th>
<th>Year entered China</th>
<th>Actual Years</th>
<th>Evidence of why rapid approach</th>
<th>Business Type</th>
<th>Entry Mode</th>
<th>International Experiences</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Biotech Co</td>
<td>1986</td>
<td>1987</td>
<td>2</td>
<td>Entered China between two to four years after establishment</td>
<td>Service Research Service</td>
<td>WOFE - entry via Hong Kong</td>
<td>Operate around world as a NGO. China operations are more commercialised – other countries; it’s a welfare organization</td>
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<tr>
<td>WOFE – Mainland China</td>
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<tr>
<td>9</td>
<td>Biotech Co</td>
<td>2007</td>
<td>2011</td>
<td>4</td>
<td>Entered China between two to four years of establishment</td>
<td>Service Business Service</td>
<td>WOFE in mainland China</td>
<td>China (and Hong Kong) and Germany</td>
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<td>2</td>
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<tr>
<td>#</td>
<td>Company</td>
<td>Year in China</td>
<td>Year in Establishment</td>
<td>Years Established</td>
<td>Establishing Strategy</td>
<td>Services Provided</td>
<td>Foreground Relationship</td>
<td>Background Relationship</td>
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<tr>
<td>20</td>
<td>Architect Co</td>
<td>1998</td>
<td>2002</td>
<td>4</td>
<td>Entered China between two to four years of establishment, customer driven</td>
<td>Service Building Service</td>
<td>WOFE (Australian Company). Works with Chinese, Australian and International clients.</td>
<td>China only. The owner is Chinese (Beijing born) and familiar with mainland China.</td>
</tr>
<tr>
<td>24</td>
<td>Milk Co</td>
<td>2004</td>
<td>2007</td>
<td>4</td>
<td>Entered to China between two to four years of establishment-opportunity seeking</td>
<td>Product Food Producer</td>
<td>WOFE in mainland China.</td>
<td>All over Asia including China and online too.</td>
</tr>
</tbody>
</table>

**Born-in-China – Hong Kong**

<table>
<thead>
<tr>
<th>#</th>
<th>Company</th>
<th>Year in China</th>
<th>Year in Establishment</th>
<th>Years Established</th>
<th>Establishing Strategy</th>
<th>Services Provided</th>
<th>Foreground Relationship</th>
<th>Background Relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td>31</td>
<td>Arbitration Co</td>
<td>2011</td>
<td>2011</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Business Service</td>
<td>WOFE - entry via Hong Kong. Operate via Hong Kong office as well.</td>
<td>Born in China. Owner has more than 15 years’ experience in China.</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Year Started</td>
<td>Year Ended</td>
<td>No. of Employees</td>
<td>Ownership Structure</td>
<td>Description</td>
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<tr>
<td>32</td>
<td>Marketing</td>
<td>2007</td>
<td>2007</td>
<td>1</td>
<td>WOEF - Sole Proprietor Hong Kong Based Company</td>
<td>Firm started in China by Australian national, no parent company back in Australia. Owner has experience in China (and Hong Kong) and also some Asian countries (Japan and Korea).</td>
<td></td>
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<tr>
<td>33</td>
<td>Investment</td>
<td>2010</td>
<td>2010</td>
<td>1</td>
<td>WOFE - Hong Kong</td>
<td>Firm started in China by Australian national, no parent company back in Australia. Born in China.</td>
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<tr>
<td><strong>35</strong></td>
<td>Shop Co</td>
<td>2012</td>
<td>2012</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Supplier</td>
<td></td>
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<td></td>
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<td></td>
<td>WOFE - entry via Hong Kong. Operate via Hong Kong office as well.</td>
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<td></td>
<td></td>
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<td></td>
<td></td>
<td>Born in China. Clients from Europe and Asia (Japan). One partner is Chinese and the Australian partner has more than 30 years' experience in China.</td>
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**Born-in-China – Mainland**

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<tbody>
<tr>
<td><strong>26</strong></td>
<td>HR Consult Co</td>
<td>2001</td>
<td>2001</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Business Service</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td>Wholly-Owned Foreign Entity (WOFE). Co-founder reckons establishing the business in China is serendipity.</td>
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<td></td>
<td></td>
<td></td>
<td>Born in China. Co-founders have working/living experience in China. Serendipity involved</td>
</tr>
<tr>
<td>#</td>
<td>Company</td>
<td>Year Started</td>
<td>Year Ended</td>
<td>Size</td>
<td>Firm Description</td>
<td>Service Description</td>
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<td></td>
<td>Business Service</td>
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</tr>
<tr>
<td>28</td>
<td>Consult Co</td>
<td>2011</td>
<td>2011</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service</td>
</tr>
<tr>
<td></td>
<td>1</td>
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<td>Business Service</td>
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<td></td>
<td>Company Type</td>
<td>Year Established</td>
<td>Year in China</td>
<td>Firm Description</td>
<td>Business Service</td>
<td>Ownership Structure</td>
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<tr>
<td>29</td>
<td>Consulting Co 2</td>
<td>2006</td>
<td>2006</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Business Service</td>
</tr>
<tr>
<td>30</td>
<td>Finance Co</td>
<td>2006</td>
<td>2006</td>
<td>1</td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Business Service</td>
</tr>
<tr>
<td></td>
<td>Firm started in China by Australian national, no parent company back in Australia</td>
<td>Service Building &amp; Construction</td>
<td>WOFE - Shenzhen</td>
<td>Born in China</td>
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<tr>
<td>34</td>
<td>Architect Co 3</td>
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<tr>
<td></td>
<td>2001</td>
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</tbody>
</table>
It was evident that the SMEs who were rapid internationalisers had spent less than four years with local and/or international operations before entering the Chinese market. Some were also classified as being ‘born in China’, which meant that the internationalisation process to China for these SMEs was rapid. They did not have adequate time to gain knowledge and experience operating as a domestic business and/or an international business prior to entering China.

The results showed that one SME had been in existence for a maximum of two years, and three SMEs had spent four years in the domestic market prior to internationalising to the Chinese market. The remainder were classified as ‘born in China’ (BIC) SMEs. According to Knight and Cavusgil (1996), a rapid international or ‘born global’ firm has spent a maximum of two years in its local environment before it decides to internationalise. Accordingly, the results of the study closely support Knight and Cavusgil’s (1996) findings that SMEs spend a maximum of two to four years in the domestic market.

Further, the results indicate that owners/managers of BIC firms (seven out of the ten) had prior knowledge and experience in China. Some owners/managers of these SMEs were Australian Chinese, for example, they were either born in China or were of Chinese background. Some managers/owners had worked in China for longer periods of time, for example, the longest was up to 30 years. The quote below indicates how the manager’s international experience and knowledge impacted on him setting up another business in China:

“I looked at our industry and I’ve actually been dealing with China for pretty close to 30 years now. In a previous life I was managing a factory for a family business and we started importing from Taiwan 40 years ago although they didn’t become cost effective so the Taiwanese companies started moving to China to build plants over here and we started dealing with China then” (Case 35: Shop Co).
Wicramasekera et al. (2003) identified that a significantly high proportion of managers in the rapid international firms had often had previous international working experience. The current study findings support Wicramasekera et al.’s (2003) view that owners/managers of seven BIC SMEs and one SME internationalised within four years of establishment, and had previous knowledge and experience in China.

One more notable result in the study is that the majority of rapid form SMEs (seven out of ten, BIC SMEs, and three out of four WOFE SMEs) were in the service sector. This may suggest that when an organisation is in the service sector, they are capable of using a rapid internationalisation approach. The perceived risk is low in service provider firms as they do not require capital investment (Menzies & Orr, 2012), and managers’ experience, skills and knowledge can be used as key resources for their internationalisation. Again, the cost associated with delivering the service is not high in-service provider firms.

The above features of service provider firms encourage them for rapid internationalisation. One SME, not in the service sector in the BIC category, was a shop-fitting company, which acted as a designer, supplier and installer of shop fittings, not as a manufacturer. The other SME not in the service sector was a food product company, which was acting solely as a distributor in the Chinese market. According to Rodrigues (2007), most ‘rapid’ international companies are in the service sector. The cases suggest that the managers or partners started up the majority of the service type SMEs, mainly employing their skills and knowledge as the key resources. The results of this study clearly support these characteristics and, notably, all except two (eighty percent) SMEs listed in Table 4.2 are service providers. The reason why SMEs may be service sector WOFEs is because service organisations often require lower capital investment or lesser resource commitment to become established in overseas markets (compared to a manufacturing
company which would require significant capital and human resources in establishing in a foreign country).

Summary
The Research Questions 1a and 1b sought to examine the applicability of two main internationalisation theories: stage theory (Johanson & Vahlne, 1977); and the rapid international (INV/born global) approach (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994). It was found that both theoretical approaches had relevance for the internationalisation of innovative SMEs, with the majority of firm’s (21) subscribing to the stage model, and the remaining 14 subscribing to the rapid international approach. This was interesting as it demonstrated that both theories were relevant for the internationalisation of innovative SMEs, but that the firms displayed different characteristics.

Research Question 1c: Do different entry modes display different internationalisation processes?

Stage approach
The results of the study indicate that SMEs which followed the ‘stage’ approach had used different modes in entering the Chinese market such as importing, exporting and WOFEs (via Hong Kong or the Chinese mainland) which include project or case-by-case operations (fly-in-fly-out), licensing, joint ventures, partnerships, subcontracting) and BIC modes. Each of the entry modes and its respective internationalisation process will now be discussed.

Importing and Internationalisation
As Table 4.1 specifies, three SMEs operated as importers, either as manufacturing firms or wholesalers as in the case of Furniture Co. For the manufacturing SMEs, their main business in
China was to purchase materials for their production facilities in Australia. The SMEs’ main driver for internationalisation was the cost advantages that China can offer, for example, firms can make savings associated with sourcing the key materials required for their products at a cheaper price in China. In addition, the shipping costs and delivery times did not pose a problem to the SMEs due to the existence of efficient and economical shipping and freight forwarding services between China and Australia. As a result, this situation promotes importation between China and Australia:

“If we’re talking historically, I think the driver was just from a product sourcing perspective. My understanding is it was just more competitive to get the products from there directly so that’s why they started. From an export position it was just the opportunity came about and the distributors were able to find a market for our products and they currently sell through their channel” (Case 3: Chemical Co).

Similarly, other SMEs were importing products that they could not efficiently produce themselves:

“We import products that we can’t produce ourselves. If we can produce it ourselves we usually will, but the market in Australia isn’t big enough to support endless capital investment. For instance, if we have got to spend two or three million dollars on a production line for a market that’s only going to return around a couple of million a year in turnover, it’s illogical to make any investment. Obviously, the Chinese market is looking for very competitive pricing” (Case 2: Rubber Co).

In addition to importing, one of the importers above also exports their products to China as well as to some other countries. One SME had not dealt with any country other than China at this stage and the other SME had a factory in Malaysia. Three importers had spent significant time
in their local and international operations prior to entering the Chinese market; one had indicated that they had no intention of committing more resources to the China operations, and cost seems to be a driving factor for such intention, as indicated below:

“Probably our future strategy for China is trying to get an alternative to China, is probably the strategy moving forward. Now, whether that's achievable or not I'm not 100% sure. The cost of China is going up” (Case 1: Furniture Co).

The other SME which also exported was looking for opportunities to establish their business offices in China at a later time:

“We just export and import, though nothing (office) has been set up there yet. We use agents as well as we communicate locally directly” (Case 3: Chemical Co).

The above quote also suggests that ‘firm strategy’ and what the firm wants to achieve may be influencing factors in whether to internationalise further through the stage model (Johanson & Vahlne, 1997). In light of this, it is not always the case that a firm has more experience and knowledge, so it makes further commitments to the market. Similarly, it was interesting to note that none of the importing firms was classified as rapid international because those internationalisation types did not lead to sales presences in international markets (Knight & Cavusgil, 1996; Oviatt & McDougall, 1994).

**Exporting and Internationalisation**

This study investigated four different exporters (Table 4.1) and all were service organisations. They provided consultancy services to clients in China on a project basis, hence they did not need offices in China. One of these exporting SMEs, had prior international experience, and had been involved in Asian and Middle Eastern countries in the same manner (on a project and
case basis) before entering the Chinese market. Two of these exporters had indicated their intention of establishing a WOFE in China soon, and another two firms were happy with the way they have currently been operating, as indicated in the quote below:

"We don't have any activities in China but we do have a number of clients who are Chinese businesses so we don't have any physical business in China. The business that we run is based in Australia and the Chinese clients we provide services to them but from Australia, we started a number of clients in the last five years from China ... we don't have any plans at the moment” (Case 7: Biotech Co 3).

These SMEs had entered the Chinese market for the purposes of opportunity seeking given the limited market for their specialised services in Australia. They had a narrow market segment in Australia, hence the lack of opportunity for growth and the ability to survive. These SMEs intended cutting costs associated with their entry strategy, which is characteristic of the very small SMEs who experience ‘resource poverty’ and have very limited resources. This is evidence that ‘resource poverty’ and saving costs may be a factor that influences the choice of entry mode and/or the internationalisation strategy. The qualitative comments of the SMEs in this group indicated they were also involved with importing from China, and had experience with other international markets prior to entering the Chinese market. According to Johanson and Vahlne’s (1977) stage theory, importing and/or exporting are the first steps of the internationalisation process and, as a result, it is not likely that these SMEs will have prior international experience or knowledge involving the first step of internationalisation.

The exporters provided some mixed results, with two out of four showing no indication of committing more resources to their Chinese business and moving to the next steps of internationalisation (export/import to FDI or WFOE). However, two other SMEs indicated their
willingness to establish a WOFE business in China, and to devote further resources to the venture. A lack of adequate resources is a key reason for SMEs preferring not to make further commitments to the Chinese market. This was because the services offered by these exporting SMEs relied upon the specific experience, knowledge and skills of individual staff, and it was difficult to utilise them further in China once they were engaged full-time on specific projects and when they were needed to attend to other issues in the firm. Again, ‘resource poverty’ had limited the further expansion of these SMEs:

“The reason we looked to China is because in Australia we have a lack of funds for what we do, lack of investment capital, and we have a lot of good research, so there’s big opportunity to productize that research and get it into China with Chinese capital” (Case 22: Medical Equipment Co).

In a similar vein, an SME equipment service provider company who provided industrial automation services to the equipment manufacturing industry, had been involved with the Chinese market since the early 1990s. However, they were still waiting to establish a significant partnership with a Chinese firm prior to establishing a WOFE in the Chinese market, and as a result had no intention to establishing an office in China until that happens:

“We sub-contracted in and out of China for the ’90s and up until 2009 and we were really just working for other companies within China. In 2009 we saw the opportunity but there just hasn’t been the demand for automation and I think until we actually develop a significant partnership with a Chinese company then we probably won’t be establishing an office until that time” (Case 5: Man Control Co).
The above quotation implies the difficulties of finding the right partnership in China, which may hinder further investment in research and prevent firms from obtaining sufficient resource commitment. It also suggests that SMEs do not always follow the stage approach and commit more resources to the market just because they acquire more market knowledge and experience by operating internationally. The SMEs still experience resources restrictions, and require local (China) support in terms of resources and/or partnerships to access resources that they need. These resource limitations would be a key reason why SMEs cannot commit more resources, even though they have gained the necessary knowledge and experience in the Chinese market over a longer time.

**Importers and exporters**

Notably, all these importers/exporters SMEs followed the stage theory by Johanson and Vahlne (1977) in the process, to a certain extent, however, they preferred to stay with the entry mode that they were currently using, which had been successful for them (until present). This was because their current entry mode served the purpose for which they had entered the Chinese market, for example, cost advantages for importers or to overcome the limited opportunities in the local markets for exporters. Therefore, these firms had no reason to move forward in international stages, for example for market growth purposes. The following quotation is evidence of this:

“Import of material from China from other manufacturers - Price is the main driver. Deal with people that can meet quality” (Case 2: Rubber Co).

Or, as the following quote indicates:

“I think the driver was just from a product sourcing perspective. My understanding is it was more competitive to get the products from there directly so that's why we started”

(Case 3: Chemical Co).
Wholly-Owned Foreign Entities (WOFE) and Internationalisation

Except for those importers and exporters discussed above, all other SMEs in the ‘stage’ approach category (14) were operating as WOFEs in China or Hong Kong. Nine out of 14 of these SMEs did have international experience with other countries before entering China. China was another destination for expanding their business operations.

Five SMEs in WOFE category, however, had no prior internationalisation exposure and China was the first country they internationalised their businesses to. The owners (managers) of three of these five SMEs were very familiar with overseas business operations in their previous jobs, therefore, their knowledge and experience of international businesses had influenced the internationalisation of these SMEs to China. One of these five SMEs, a vehicle warranty provider, had actually run a different business in China for some time before and, as a result, had considerable knowledge and experience of the Chinese market prior to establishing their new business venture. An architecture firm entered the Chinese market using a joint venture arrangement with a Chinese company, with an already existing job in hand. They had then established a WOFE after spending some time in the market once they had gathered some knowledge and experience about doing business in China from their partner:

“... 15 years ago ... To create new business. so that comes about as a result of a client in China coming here, we look at something for them, we work on it from here and so that creates an opportunity for us to open an operation in China, and that's pretty well the kind of way that kind of connection works” (Case 34: Architect Co 3).

Two consultancy businesses had entered China via Hong Kong without any prior internationalisation experience. The reasons for internationalisation to China by the SMEs
utilising WOFEs are varied. Case 13 entered for growth purposes and Case 10 had entered for survival:

“The company wants to grow and evolve and the firm has been doing a fantastic job in Australia adding business units and buying others” (Case 13: Vehicle Warranty).

“One thing that is difficult for our business in Australia is the market is very small so it’s a very saturated market, it’s almost impossible to expand. So China is kind of unexplored territory such as computation or biotechnology and also we think to start a business earlier. We think it’s better to install a company in China, although probably not as many businesses as we expected, but in five years’ time I’m sure there will be, so it’s easier” (Case 10: Biotech Co 4).

These service providers/consultancy firms, however, believed that they must be present in China for strategic reasons, as China is going to be the centre of the Asian and global market:

"We sell around the world. The China market is developing very fast and if you want to talk about the long-term future of course, pharmaceutical industry, if you don't look into the China market I think you made a mistake” (Case 10: Bio Tech Co 4).

Some SMEs had followed their competitors and entered China to maintain their global competitive position in respect to larger MNEs:

“Our end game was not to just move all our manufacturing from Australia to here, but it was to leverage what we already have in Australia and put it on a more global basis because we do compete with global companies on what we do. We know from a price basis, we cannot compete from Australia” (Case 21: Box Co).
One SME, an architecture firm, claimed that they operated their business in China using 100 per cent local staff, and the firm is managed by local managers in a Chinese way, although they use the Australian parent company’s name in their business operation (a licence arrangement).

“It's all local staff ... there are people that have come from here (Australia-Chinese Australians) and they now live in China but it's 100% local” (Case 34: Architect Co 3).

All SMEs operating from Hong Kong were established as WOFEs, and some of them run offices in mainland China in addition to a Hong Kong office. Due to regulatory/institutional effects it was much easier for SMEs to deal with business related issues in Hong Kong:

“Using the Hong Kong registration, it makes things easier to deal with but actually is a Chinese registered manufacturing company - not as a wholly-owned foreign entity- there's a lot of difficulties in the system. Doing it through Hong Kong is just a lot easier. it's easier to run the business, easier to deal with banking and the systems in Hong Kong and then having the Chinese registration makes it a legal entity, and that way it's easier to operate” (Case 17: Metal Frame Co).

Overall, it appears that the firms which became WOFEs did in fact follow the stage approach, where they built knowledge and experience over time, and had the resources to internationalise. Interestingly, the firms that did have WOFEs were generally larger in terms of employee size with an average of 124 employees working for them, whilst importing firms had an average of 25 employees, exporters 73, and BIC firms had 29. This suggests that size and, hence, resources may explain why these firms internationalise using particular entry modes. The above findings suggest that the stage model (Johanson & Vahlne, 1977) of the firm is explanatory for this type of WOFE firm’s internationalisation process.
Internationalisation process and entry modes for rapid approach SMEs

The results indicate that SMEs which followed the ‘rapid’ approach had used WOFEs in entering the Chinese market, and some had entered a partnership arrangement prior to establishing a WOFE business in mainland China or Hong Kong. Notably, five SMEs entered via Hong Kong (similar to some of the SMEs in the ‘stage’ approach), as the following quotes specify:

“We actually set up a company structure in Hong Kong which in actual fact when we sat back and thought about our pathway for establishing ourselves in China, we set up our Hong Kong office which ultimately will have two WOFEs hanging off it in mainland China” (Case 8: Biotech Co 1).

“We’ll do business internationally through our Hong Kong Company. So, to do serious business in China, you need to have a Chinese company. Internationally everything will go through Hong Kong and it’s not an issue” (Case 35: Shop Co).

One of the SMEs in the Hong Kong entry category had established their business in Australia prior to entering China, however, they also entered China within one year of establishing their Australian business. Therefore, these SMEs can be placed into the category that Knight and Cavusgil (1996) suggest, that a rapid international is a firm that has spent a maximum of two years in its local environment before it decides to internationalise. Four of them are BIC SMEs. One of these SMEs has operations around the world and can be considered a rapid international firm:

“The business model for us long-term in China would be significantly different than how the Institute operates in other countries in the region, where we still operate in a fairly traditional aid and development context, whereas in China in a few years’ time commercialized this first product” (Case 8: Biotech 1).
The remainder of the SMEs only had operations in the Chinese market. The owner of this SME is an Australian national with Chinese background; the owner purposely visited China establishing his business after a short time after it had been established in Sydney.

“The company has been running in China for 11 years now and we came back in 2002 and we set up some of the groundwork and we had a couple of potential clients and then everything we were running was basically in Sydney and setting up the office in China was a much better and quicker way to deal with the customers” (Case 34: Architect Co).

A majority of BIC SMEs demonstrate similar characteristics. The owners (or managers) of seven of the SME ‘BIC firms’ had significant exposure to Chinese markets (including Hong Kong), and some also had wider experience in other part of Asia, for example, Japan and Korea. The owner of one of these SMEs dealt with China for close to thirty years in previous jobs (as an employee), but also had a different business in Australia for a number of years. The China business runs with a partner who is a local Chinese, as the following demonstrates:

“I had my own business in Australia; I had my own factories in Australia for a number of years. Then I sold that business a few years ago, managed another shop fitting company for a while and then set up their offices over here in China and that didn’t work out for me, so I decided to leave and do my own business again. So, I’ve set up our own business over here (China)” (Case 35: Shop Co).

A BIC SME, which is an arbitration firm, believed that the owner’s knowledge on Chinese laws and his experience in China had encouraged him to establish the business:

“The idea behind this business was that because I lived in China for a few years, I know the mainland law a little bit more than some people. There are a lot of lawyers in Hong
Kong that do a lot of mainland work but don’t know anything about mainland law. I did my LLM up there because I was tired of hearing lawyers say, yes, we can do that, though they don’t know how to do it really” (Case 31: Arbitration Co).

Whereas, for a Social Media Co, the owner had come from Australia looking for opportunities, and found a business to acquire:

“The firm is here (China) to create value to the sports, entertainment and tourist industries by creating new technologies and innovations that help these international clients develop their businesses in China” (Case 27: Social Media Co).

Notably, all SMEs had significant experience in China, and some had come to China on a whim, and had serendipitously (Crick & Spence, 2005) set up their business. Two of the BIC SMEs are quite different to the others, for example, the HR Consultancy Co. and the para legal and finance firm. The owners of these SMEs visited China for a short stay and decided to establish a business after an opportunity had been presented to them serendipitously. Others had attended a business seminar in Melbourne on ‘the mystique of the Chinese market’.

Another, an English language teacher in China, discovered an entrepreneurial opportunity to provide English language training services to Chinese businesses. Serendipity played a role in many of these cases as they had had no intention of establishing a business in China at the time they visited. Their situations varied but often they were people coming to China for a short leisure stay, as the following indicates:

“I was just travelling around the world, got to China, got a job within one internet session, teaching English, which I then spent three months working in and then quit. But that got me started and the guy that knocked on my door, the very first guy that I met, foreign face, literally knocked on my door. Then three months later we thought, let’s set up our own business. So, we did. We just happened to fall into doing it and we just
happened to meet each other by accident” (Case 11: Recruitment Co.).

Another individual had a similar story: the owners of this SME had international exposure though serendipity, and were involved with advising on commencing business in China. “Mine is a very strange story. I’d worked in industry and in academia, back and forward. I took a full-time contract with the French business school and enrolled in a PhD in Paris, on the way I stopped for six weeks to work at a university in China, and that was eight or nine years ago and I’m still here, so I didn’t finish my PhD. When I came, I had some ideas, I’d worked in industry quite a bit, I’d worked in the region quite extensively... and really liked what I saw in China and so I tried to do something in China” (Case 30: Finance Co).

It is interesting to note that international business can come about through these rather unplanned events (Crick & Spence, 2005), whereas, another entrepreneur stated that he had spent a number of weeks/months in China looking for a business to acquire (Social Media Co). He then found a social media company based in Shanghai, and had never looked back, and was operating a successful business there, indicating rapid internationalisation and establishment of the business:

“The firm is here (China) to create value to the sports, entertainment and tourist industries by creating new technologies and innovations that help these international clients develop their businesses in China” (Case 27: Social Media Co).

So, overall, the BIC firms were more likely to use a rapid approach to internationalisation, and rapidly internationalise. BIC firms were more likely to be established by entrepreneurial owners who have a Chinese background, or Chinese experience and networks in international
markets, and are more likely to be established through serendipity.

Research Question 1c explored the role of different entry modes in the internationalisation process. Results indicate distinct differences in how internationalisation occurred for these entry modes. In particular, innovative SME importers were less likely to want to internationalise further using the stage model (Johanson & Vahlne, 1977), therefore, the theory that as a firm builds up experience, knowledge and time in a market it will lead them to further internationalization, may not be explanatory. Rather, the strategic direction of the firm and its focus is more influential. On another note, there was evidence from exporters that they were interested in further internationalisation although they lacked the resources to do it, mainly due to their small size. This influence was poignant for one exporter who stated that they would like to further internationalise to China, however did not have the resources to do so, and needed a partner to do it. It was apparent that most WOFEs had internationalised in a step-by-step approach, as per the stage approach, with some SMEs following the stage theory (Johanson & Vahlne, 1977) strongly. It is also noted that these SMEs seemed to have more resources in general, as measured by employee size, to devote to internationalisation, and therefore did not face the liability of smallness, that other SMEs faced. The role of experience, knowledge and time in the market was highly beneficial for the WOFE SMEs. BIC SMEs were entrepreneurs who had established their business in China and had no parent company firms in Australia, but were run by Australians, some of whom had a Chinese background. These innovative SMEs were more likely to start quickly, their managers were entrepreneurial, they seized opportunities quickly, and luck and serendipity often played a role. In addition, a lot of these individuals had Chinese experience, knowledge and contacts in a previous organisation or career, which they used to establish their new BIC SME. Rapid international firms did not rely on low-commitment entry modes to the same extent (Knight & Cavusgil, 2004), instead, the
most appropriate entry mode was determined by the firm’s product and its ability to meet client needs (Taylor & Jack, 2013).

Summary of Chapter

The internationalisation process for the innovative SMEs varied between either the stage model or the rapid international approach. It is also shown that the entry mode had some influence on the internationalisation of the firm, and on the behaviours and the characteristics of the firms. The main findings were that WOFEs displayed the characteristics of the stage model, importers were not interested in further internationalisation, exporters faced the LOS as a barrier, and the BIC firms internationalised via a rapid international approach and were entrepreneurial.
Chapter 5: Innovation Adoption by SMEs in the Chinese Market

Overview of this Chapter

This chapter presents the results of Research Question two, which deals with the role of innovation in the internationalisation of Australian SMEs to China. The chapter will also concurrently discuss the results in relation to past findings in the literature, and what is new or interesting offered by this research. According to the results, Australian SMEs utilised four types of innovation in the Chinese market – product or service, process, market and business or paradigm innovations – which comply with the Australian Manufacturing Council (AMC) classifications of innovation. Most of the SMEs utilised more than one type of innovation, however, based on the context, it was apparent that one innovation type always dominated the other, so SMEs are categorised into the four categories based on the most dominant type. A detailed analysis is undertaken of the various types of innovations that SMEs used in their internationalisation, and how this helped them to be successful in China.

Research Question 2a: What types of innovation do the SMEs use in the Chinese environment?

Product or Service Innovation

Product or service innovation is defined in literature as “the development and market introduction of a new, redesigned or substantially improved good or service, includes a new invention; specification and quality improvements; or the inclusion of new components, materials or desirable functions into an existing product or service” (OECD, 2017). According to the results, eleven SMEs utilised product and/or service innovation, four SMEs were purely product innovative, and two were services innovative: Table 5.1 shows product or service innovative SMEs.
Table 5.1: Product or Service Innovative SMEs

<table>
<thead>
<tr>
<th>Type of Innovation</th>
<th>Pseudonym</th>
<th>Why it is one</th>
<th>Entry Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product Innovation</td>
<td>Furniture Co</td>
<td>Increased product range</td>
<td>Importing</td>
</tr>
<tr>
<td></td>
<td>Rubber Co</td>
<td>Develop new moulded products</td>
<td>Importing</td>
</tr>
<tr>
<td></td>
<td>Chemical Co</td>
<td>Improved and new products for the dry-cleaning industry</td>
<td>Importing</td>
</tr>
<tr>
<td></td>
<td>Box Co</td>
<td>Segmentation and new products creating metal boxes</td>
<td>WOFE</td>
</tr>
<tr>
<td>Service Innovation</td>
<td>Architecture Co 2</td>
<td>Optional design solutions for town planning</td>
<td>WOFE</td>
</tr>
<tr>
<td></td>
<td>Architecture Co 3</td>
<td>Multiple architectural services under one roof</td>
<td>BIC</td>
</tr>
</tbody>
</table>

The other five of the eleven SMEs in this product or services category, as listed in Table 5.2 below, were innovative in both products and services and offered a mix of products and services to their customers/clients.

Table 5.2: Product and Service Innovative SMEs

<table>
<thead>
<tr>
<th>Type of Innovation</th>
<th>Pseudonym</th>
<th>Why it is one</th>
<th>Entry Mode</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Service Innovation</td>
<td>Pneumatic Co</td>
<td>System integration using electronics: Offering integrated solution and hardware products</td>
<td>Exporting</td>
</tr>
<tr>
<td>Company</td>
<td>Description</td>
<td>Type</td>
<td></td>
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<tr>
<td>-------------------------</td>
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<td></td>
</tr>
<tr>
<td>Security Co</td>
<td>Patent for optical fibre: Design and install security systems using fibre optic cables</td>
<td>Exporting</td>
<td></td>
</tr>
<tr>
<td>Man Control Co</td>
<td>Leading edge manufacturing control equipment: Supply and service purpose-built equipment</td>
<td>Exporting</td>
<td></td>
</tr>
<tr>
<td>Metal Frame Co</td>
<td>Structural steel solutions; design and erect steel frame systems</td>
<td>WOFE</td>
<td></td>
</tr>
<tr>
<td>Printing Co</td>
<td>Service range and new products: Offering printing solutions for different product ranges (clothes, surf boards)</td>
<td>WOFE</td>
<td></td>
</tr>
</tbody>
</table>

**Product Innovation**

Importers and WOFE firms used product innovation and in more particular all of the importers were looking for innovative and/or new products to import, as Furniture Co had highlighted:

“We are not self-innovative; we’re innovative from the point of view that we’re actively looking for innovation around the world from our suppliers. We need to work in conjunction with our suppliers to be innovative; also quite aware of the price of innovation we bring to the table” (Case 1: Furniture Co).

Similarly, Rubber Co. was always looking to develop and source new products based on client demands, they did not innovate themselves; they made components for large auto manufacturers. Innovation was their focus, however, they did not use the Chinese market as a place to sell their innovation, rather a place to save on costs. The importers had engaged in
product innovation to sell to the Australian domestic market and gain a competitive advantage. They were seeking to do this at a cheaper cost by sourcing supplies from China. A representative from a metal box manufacturer (Box Co, Case 21) stated:

“Innovation, a lot of our stuff changes, particularly direct segment products. We’ve recently partnered with a company based here to make what we call smart power rail solutions, we’ve designed to go into racks, the thing is networked into your network and can actually look and monitor. This is a new product for Australia and overseas market segments” (Case 21: Box Co).

In the example above, the firm was developing new products, and was trying to achieve a competitive advantage in the global market place. The firm was using China as a location to produce innovation at lower costs. One interesting aspect of this SME was that most of the innovation-based activities, including R&D, occurred in Australia, where the company deliberately employed highly-educated individuals. Apart from their internationalisation to Suzhou, China, the company was trying to train up and transfer this innovation-based mentality to their Chinese staff, which at the start was lacking. The Chinese staff had to build up their skills and knowledge for innovation. However, the company’s goal was to transfer the innovative practices to the Chinese subsidiary so that they could not only manufacture innovations but also develop them. They had also utilised the Chinese market as a global and low-cost supplier to the world.

**Service Innovation**

The firms in the service innovation category were offering unique and differentiated services in the Chinese market. Interestingly, the architectural firm below had mentioned their unique designs:
“The things we can do best compared to lots of overseas offices in China, from America, Japan, or from Europe, is that we use it as a contemporary design to interpret traditional Oriental culture, that’s how it’s the best that we can do, it has a heritage design to comply with law sometimes and that sort of ideas, think that is our strength” (Case 34: Architecture Co 3).

This firm used their own innovative design in developing customised solutions for the Chinese market. Similarly, another Architecture Co’s innovation was based on their design philosophy:

“I think it probably is the design philosophy (Case 20: Architecture Co 2).

The firms in the service innovation category were either utilising the WOFE or BIC entry mode. This suggested that the SME’s business had to be located in the market to offer their innovative services, which is similar to the findings from the international service-based research which argue, that for hard services, the firms need to be located within the market (Erramilli & Rao, 1990).

Product and Service Innovation

Firms in this category were either in exporting or using WOFEs. These firms were providing servicing and products in an integrated manner, for example, Security Co was an innovative security perimeter fencing company, offering high-tech and sensitive fencing to government agencies, businesses and organisations. The product/services were provided in conjunction with other systems integrators, which included large multinationals, who they would partner with to provide product/services to Chinese clients:

“We took some innovative approaches to fibre sensing, including early patents on some areas that were well known that’s in pre-optical fibre days in optics, and also in the
optical fibre era, and developed those techniques and patented them to come up with a sort of unique algorithm to that. Because we were the first company in the world that could take a cable that was fibre, we not only developed algorithms to detect intrusions and bit by bit improved them, but we were able to make very, very innovative use of two-way laser” (Case 4: Security Co).

Print Co targeted differences in customer needs and were innovative with customising products accordingly, and as per their view, many Chinese factories had difficulty with customizing, but they were able to do it. They were also innovative from the perspective of buying new capital equipment that other competitors did not have, which had advanced technologies, setting themselves apart from the competition, as the following suggests:

“...Innovation or our main advantages would be able to customise what people want. I know a lot of Chinese factories have difficulty with that. So with our digital printing we’re able to offer the customised prints in the highest quality on to textile, and that’s a real major advantage because with that we’re able to develop new things. We’re even doing surfboards with digital prints in them that have never been seen before - we’re playing with different products that have never been made before” (Case 23: Print Co).

As a result, this SME was able to offer services to clients that other competitors were not able to offer which gave them advantage. The firm also had an innovative approach towards marketing, customers can place their orders online, and they can deliver quickly, as per their customer requirements. This suggests that when a firm is innovative from one perspective, that they may also be innovative on other fronts, leading to a multitude of benefits and success.

Table 5.3 summarises the product or service innovative SMEs, and their key information,
which includes business type, other areas of innovation, entry mode and their internationalisation approach.

Table 5.3: Internationalisation Approaches of SMEs using product or service innovation
<table>
<thead>
<tr>
<th>Case no.</th>
<th>Pseudonym</th>
<th>Business type</th>
<th>Other innovative areas</th>
<th>Entry Mode</th>
<th>International approach</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Importing</td>
<td>‘stage’</td>
</tr>
<tr>
<td>Importing</td>
<td></td>
<td></td>
<td></td>
<td>Importing</td>
<td>‘stage’</td>
</tr>
<tr>
<td>1</td>
<td>Furniture Co</td>
<td>Manufacturer/Distributor</td>
<td>Process supplier chain improvements</td>
<td>Importing</td>
<td>‘stage’</td>
</tr>
<tr>
<td>2</td>
<td>Rubber Co</td>
<td>Manufacturer/Distributor</td>
<td>Technological Use current technology</td>
<td>Importing</td>
<td>‘stage’</td>
</tr>
<tr>
<td>3</td>
<td>Chemical Co</td>
<td>Manufacturer/Distributor</td>
<td>Market New markets</td>
<td>Importing</td>
<td>‘stage’</td>
</tr>
<tr>
<td>Exporting</td>
<td></td>
<td></td>
<td></td>
<td>Exporting</td>
<td>‘stage’</td>
</tr>
<tr>
<td>4</td>
<td>Security Co</td>
<td>Supply and installation service</td>
<td>Technological In house research</td>
<td>Exporting</td>
<td>‘stage’</td>
</tr>
<tr>
<td>5</td>
<td>Man Control Co</td>
<td>Supply and maintenance service</td>
<td>Market Segmentation: high end customers</td>
<td>Exporting (Subcontracting)</td>
<td>‘stage’</td>
</tr>
<tr>
<td>6</td>
<td>Pneumatic Co</td>
<td>Supply and install hydraulic systems</td>
<td>Technological</td>
<td>Exporting</td>
<td>‘stage’</td>
</tr>
<tr>
<td>WOFE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>----------------</td>
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<td>------------------</td>
</tr>
<tr>
<td>17</td>
<td>Metal Frame Co</td>
<td>Construction service</td>
<td>Technological</td>
<td>WOF E</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Segmentation: foreign clients</td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Printing Co</td>
<td>Digital Printing service</td>
<td>Process</td>
<td>WOF E</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Technical process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Architecture Co 2</td>
<td>Design Service</td>
<td>Technological</td>
<td>WOF E</td>
<td>‘rapid’</td>
</tr>
<tr>
<td>21</td>
<td>Box Co</td>
<td>Manufacturer/ Distributor</td>
<td>Market</td>
<td>WOF E (outsourcing)</td>
<td>‘stage’</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BIC</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>34</td>
<td>Architecture Co 3</td>
<td>Design Service</td>
<td>None</td>
<td>BIC</td>
<td>‘stage’</td>
</tr>
</tbody>
</table>
Ten out of the eleven SMEs in the product or services category appear to be innovative in other areas such as marketing (three), technological (five) and process (two) innovations. As the following quote indicates:

“If you’re focusing on a market as a market then it tends to be you’re very, very outwardly focused, whereas, if you focus on the industry or consider your relationship with another group of organizations, so, you can focus on both what you do and what they need you to do and that gives you more scope for innovation. If you’re strictly market focused then you’re like a marketing company, I’m worried about my brand and the perception and stuff like that, which doesn’t lead to much thought in the way of innovation” (Case 1: Furniture Co).

Except for one SME, all SMEs internationalised to China in a ‘stage’ approach. The SME which did not use the ‘stage’ approach is an architecture firm, which is owned by a Chinese-born Australian, who entered the Chinese market with a project in hand which had been awarded by an Australian client.

**Process Innovation**

Process innovation is defined as the implementation of a new or significantly improved production or delivery method, including significant changes in techniques, equipment and/or software (OECD, 2017). Five SMEs in the study utilised process type innovation. They were engaged in exporting activities, WOFE type operations and one WOFE was a BIC. Table 5.4 below summarises the process innovative SMEs’ key information, including business type, innovation adopted, other areas of innovation, entry mode and internationalisation approach. Notably, four of these SMEs used marketing innovation as a secondary innovation.
Table 5.4: International Approach for SMEs using Process Innovation

<table>
<thead>
<tr>
<th>Case no.</th>
<th>Pseudonym</th>
<th>Business type</th>
<th>Process Innovation</th>
<th>Other innovative areas</th>
<th>Entry Mode</th>
<th>International approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WOFE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Resources Co</td>
<td>Mining Product Supplier</td>
<td>Transport and distribution process</td>
<td>Market</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>25</td>
<td>Meat Co</td>
<td>Producer/Distributor</td>
<td>Supply chain process</td>
<td>Market</td>
<td>WOFE (Export)</td>
<td>‘stage’</td>
</tr>
<tr>
<td>10</td>
<td>Biotech Co 4</td>
<td>Research services</td>
<td>Service delivery process</td>
<td>Product</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>24</td>
<td>Milk Co</td>
<td>Producer/Distributor</td>
<td>Distribution process</td>
<td>Market</td>
<td>WOFE</td>
<td>‘rapid’</td>
</tr>
<tr>
<td><strong>BIC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Finance Co</td>
<td>Legal and Finance service</td>
<td>Delivery process</td>
<td>Market</td>
<td>BIC</td>
<td>‘rapid’</td>
</tr>
</tbody>
</table>

Most of the SMEs in this category were seeking to reduce the costs of production in China. The processing of their raw materials was improved using the China operation by Resources Co below. The SME made a large cost saving by shipping raw materials to China and bagging them there where labour costs were much cheaper:
“We were planning our innovation strategy for our whole company from the perspective of how do we become more innovative, rather than here’s a particular product or technology that we want to develop. Bagging in China is an innovation over the last 10 years or so, rather than in the past we would bag products in Australia, and the bagging costs and then container shipping from Australia all up were, say, $140 a tonne, whereas, we can ship it bulk from Australia for $40 a tonne and then bag it in China for $20. So it’s a labour offshoring but also not just that, we’re more efficient with our shipping in as much as you can ship in bulk by conveyors rather than containers” (Case 15: Resources Co).

This example provides evidence that firms can use process innovation in China, to more efficiently do business in the Chinese market and/or globally. Two SMEs had used a ‘rapid’ internationalisation approach, and the other three had internationalised through the ‘stage’ approach. The following quotes are indicative of the types of process innovations that firms used:

“We try to innovate around process, that’s our main thing. We felt, here, one of the things was that competitors tend to approach in a very reactive way. We try to deliver via innovating around process. So we use some technology to do that and we’re probably the only firm of our size, the bigger ones would though” (Case 30: Finance Co).

This firm was of the opinion that innovation is improving the efficiency of the process, reducing costs to be competitive. They believed that it was:

“Going about the opposite way than what is happening now if they’re trying to innovate from the bottom up” (Case 30: Finance Co).
For firms utilising process innovation, it was about how they can do things more efficiently and cost effectively. They used new or significantly improved delivery methods to be competitive in their market sectors in the Chinese market by delivering better quality goods/services for competitive prices. SMEs in this category experienced process innovation providing not only efficient solutions for their businesses but also giving them cost advantages to keep them competitive in China, and across the world. Noticeably, only the WOFE and BIC firms engaged with process innovations. The results further indicate that the location benefits of China had given added advantages to the SMEs locating there.

**Market Innovation**

Market innovation can be defined as a new marketing method which involves significant changes in product packaging, product placement, product promotion or pricing (OECD, 1997). Eight SMEs had utilised market type innovation, and Table 5.7 summarises the information for SMEs who were using market innovations. These WOFEs or BIC firms located in China suggested that those firms can probably design and develop more appropriate marketing strategies for the market, because they know the market better. The following quote from Processing Co highlights how they focused on a particular market segment to be innovative:

“The market is very cyclical and small compared to other major base metals, so it does have much more severe cycles. We have 35% of the world’s market share for our product and about the same in China. We sell on a spot and a short-term contract basis so we have to be flexible and adaptable. We’re staying a step-in front of our competitors by monitoring what they do, got second-step plan if they follow us. We discuss product quality, pricing, delivery terms, in very early stages. So, we subscribe to some magazines, industry papers, and trade journals to find out new customers and employed consultants to do market studies for us. We
“go to conferences and meet with as many as attendees and learn their businesses” (Case 16: Processing Co).

Table 5.5: Entry modes and International Approach for SMEs using Market Innovation

<table>
<thead>
<tr>
<th>Case number</th>
<th>Pseudonym</th>
<th>Business Type</th>
<th>Market Innovation</th>
<th>Other Innovative Areas</th>
<th>Entry Mode</th>
<th>International Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>WOFE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Biotech Co 1</td>
<td>Research</td>
<td>Different market model</td>
<td>Product</td>
<td>WOFE</td>
<td>‘rapid’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Services</td>
<td></td>
<td></td>
<td>Partnership</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Biotech Co 2</td>
<td>Research</td>
<td>New markets</td>
<td>Product</td>
<td>WOFE</td>
<td>‘rapid’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Office Co</td>
<td>Property</td>
<td>Market segmentation</td>
<td>None</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Processing Co</td>
<td>Mining</td>
<td>Customisation</td>
<td>Process</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Build Co</td>
<td>Construction</td>
<td>Partnering with local firms</td>
<td>Process</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>BIC</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Consult Co 1</td>
<td>Business</td>
<td>Market representation</td>
<td>Process</td>
<td>BIC</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Service</td>
<td></td>
<td></td>
<td>Hong</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Kong based</td>
<td></td>
</tr>
</tbody>
</table>
Marketing Co was classified as an innovative marketing firm because they were marketing themselves by using their creative flair and relationship-based approach at local Chamber events to draw in potential customers. These relationships had provided many benefits to this SME, such as word-of-mouth referrals. Build Co’s innovation was also a marketing one, as they offered different elements in their services, which included safety, quality and environmental management services. Only seven SMEs in this category appeared to be innovative in other areas which were process (4) and product/service (3) innovation.

**Business or Paradigm Innovation**

Business or paradigm innovation is an organization's process for introducing new ideas, workflows, methodologies, services or products (OECD, 2017). In this study, business innovation is defined as the introduction of new ideas/business models. Eleven SMEs utilised business innovation in the Chinese market. Remarkably, a majority of innovative business firms were BIC firms. Social Media Co was the most interesting example of this category. They had sought to bring together different social media platforms in the West, versus what

<table>
<thead>
<tr>
<th>29</th>
<th>Consulting Co 2</th>
<th>Business Service</th>
<th>Value added process introduction</th>
<th>Process BIC</th>
<th>'rapid’</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Marketing Consultants Co</td>
<td>Business Service</td>
<td>Creativity</td>
<td>Product (service)</td>
<td>BIC Sole Proprietor Hong Kong Based</td>
</tr>
</tbody>
</table>
existed in China, by translating the social media accounts of foreign-owned firms into Chinese social media platforms:

“Let’s say you’re the Melbourne Demons football team and you want to talk in Chinese to Chinese people and Chinese social media, instead of hiring an agency, PR firm or a local team, you can pay as little as $200 a month. Our firm can do your Facebook page with this technology and actually grab it all, firm package it to China and then publish it into your brand in Chinese social media accounts and then you have access to see everything in English. So that’s obviously an innovation that we’ve introduced” (Case 27: Social Media Co).

Table 5.6 below summarises the business innovation that SMEs engaged in.

Table 5.6: Entry Modes and International Approach for Firms using Business Innovation

<table>
<thead>
<tr>
<th>Case number</th>
<th>Pseudonym</th>
<th>Business Type</th>
<th>Business Innovation</th>
<th>Other Innovative Areas</th>
<th>Entry Mode</th>
<th>International Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exporting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Biotech Co 3</td>
<td>Clinical trials (service)</td>
<td>Business Philosophy</td>
<td>Product</td>
<td>Exporting</td>
<td>‘stage’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WOFE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Recruitment Co</td>
<td>Mining Business Services</td>
<td>Niche market</td>
<td>Product</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>No.</td>
<td>Company Type</td>
<td>Business Model</td>
<td>Business Concept</td>
<td>Business Philosophy</td>
<td>Product</td>
<td>Process</td>
</tr>
<tr>
<td>-----</td>
<td>--------------</td>
<td>----------------</td>
<td>------------------</td>
<td>---------------------</td>
<td>---------</td>
<td>---------</td>
</tr>
<tr>
<td>12</td>
<td>Accounting Co</td>
<td>Business Service</td>
<td>Business Concept</td>
<td>Process</td>
<td>WOFE – Partnership</td>
<td>‘stage’</td>
</tr>
<tr>
<td>13</td>
<td>Vehicle Co</td>
<td>Business Service</td>
<td>Business Philosophy</td>
<td>Product</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>19</td>
<td>Architect Co</td>
<td>Construction service</td>
<td>Business Model</td>
<td>Technological</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>22</td>
<td>Medical Equip Co</td>
<td>Research Service</td>
<td>Business Philosophy</td>
<td>Product</td>
<td>WOFE</td>
<td>‘stage’</td>
</tr>
<tr>
<td>BIC</td>
<td>HR Consult Co</td>
<td>Education &amp; Training service</td>
<td>Business Philosophy</td>
<td>Process</td>
<td>BIC - Licensing</td>
<td>‘rapid’</td>
</tr>
<tr>
<td>27</td>
<td>Social Media Co</td>
<td>Business Service</td>
<td>Business Model</td>
<td>Product</td>
<td>BIC</td>
<td>‘rapid’</td>
</tr>
<tr>
<td>35</td>
<td>Shop Co</td>
<td>Supplier</td>
<td>Business Model</td>
<td>Process - transport solutions</td>
<td>BIC - Partnership, Hong Kong based</td>
<td>‘rapid’</td>
</tr>
<tr>
<td>31</td>
<td>Arbitration Co</td>
<td>Legal Service</td>
<td>Business Concept</td>
<td>Market</td>
<td>BIC - Hong Kong Based</td>
<td>‘rapid’</td>
</tr>
</tbody>
</table>
All these SMEs were innovative in other areas including products (5), process (4), market (1) and technological (1).

**Discussion of Research Question 2a**

Australian SMEs used innovation in their internationalisation process (to China) and adopted different types of innovation. Researchers have argued that firms with international activities were more likely to invest in innovation relative to firms that serve only the domestic market, and were more likely to be successful in terms of innovation output (Siedschlag & Zhang, 2010; Doloreux & Laperrière, 2014; Ripolles Melià et al. 2010; Harris & Li 2008). Doloreux and Laperrière (2014) also support these findings. For instance, SMEs will use different types of innovation in the internationalisation process and results of the current study demonstrate this as well. The results indicate that not only Australian SMEs utilise innovation entering the Chinese market but they did adopt innovation in their internationalisation process but apparently not in their domestic operations, and their success or survival in the Chinese market heavily relied upon innovation adoption. Some Australian SMEs developed new products or services to offer the Chinese market, or introduced an optional products or services range in entering the Chinese market. Australian SMEs who adopted process innovation in the Chinese market developed supply chain or distribution processes and the
majority of them used marketing innovation as a secondary innovation. SMEs categorised into market innovation mainly adopted market segmentation or customisation in the market. New business concepts, models and/or philosophies were being utilised by some Australian SMEs in China in their entering and surviving strategies. Doloreux and Laperrière (2014) suggest firms who develop international activities tend to engage more in different innovation-related activities (Moreira et al., 2013; Ripolles Melià et al., 2010; Harris & Li 2008).

Accordingly, the results support Siedschlag and Zhang’s (2010) and Doloreux and Laperrière’s (2014) findings. Further, the results of the study by Doloreux and Laperrière (2014) support the view that SMEs use different types of innovation in internationalisation processes, and the results of the current study demonstrate this feature as well. According to Doloreux and Laperrière (2014), product and process innovations are the dominant types of innovations, most likely due to the fact that the firms must adapt themselves to new markets. A significant number of SMEs (16 out of 35 firms) used products/service and/or process innovation as their primary innovation; the other sixteen as secondary innovation, which supports Doloreux and Laperrière’s (2014) view. Therefore, product or service innovations help businesses sell their interesting and new products in international markets, which assists with a range of things such as profitability, increased sales, and economies of scale.

The strongest innovation-productivity link appears to be for firms with process innovation (Siedschlag & Zhang, 2010). The innovative process SMEs in the study had indicated that process innovations make efficient and effective business systems, which then result in productivity improvements. Based on the results, it appears that innovation did matter for firms operating in international markets.
Research Question 2b: What types of innovation do various entry modes use, and why, in the Chinese market?

An analysis was conducted on the types of entry modes and the types of innovation used by the SMEs, which are summarised in Table 5.7. It was found that there were some patterns in terms of the innovation type, and the entry modes that these firms used.

**Table 5.7: Entry Modes and Innovation**

<table>
<thead>
<tr>
<th>Mode</th>
<th>Product</th>
<th>Process</th>
<th>Market</th>
<th>Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Importing</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td>Exporting</td>
<td>3</td>
<td>-</td>
<td>1</td>
<td></td>
<td>4</td>
</tr>
<tr>
<td>WOFE</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>18</td>
</tr>
<tr>
<td>BIC</td>
<td>1</td>
<td>1</td>
<td>3</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>5</td>
<td>8</td>
<td>11</td>
<td>35</td>
</tr>
</tbody>
</table>

As Table 5.7 demonstrates, all SMEs who were engaged in importing were using product innovation. Similarly, all exporters except one SME (business innovation) were utilising product innovation. SMEs engaged in WOFE utilised all forms of innovation including product, process, marketing and business. Similarly, the BIC firms utilised all forms, but were more predisposed to utilising market and business innovation. Based on these findings, it can be concluded that SMEs utilising product innovation, did use various entry modes, therefore, product innovation was not peculiar to any type of entry mode. Four out of five SMEs involved with process innovation were utilising WOFEs, the other firms were classified as a BIC. Main entry modes for the SMEs utilising market innovation were WOFE (four) and BIC (three), suggesting that those SMEs using marketing innovation were more likely to use high commitment modes rather than low commitment modes such as
importing/exporting. Five SMEs in business innovation used WOFE entry mode, and five were BIC. The others used exporting modes to enter the Chinese market. Therefore, if the company was engaging in business innovation, it was either engaging in WOFE, or was a BIC.

Each of the entry modes will be discussed in more detail to examine the innovation that they have used.

**Importing Mode**

The results indicated that three importers were actively looking for innovation in their products or services. Furniture Co, as indicated below, did not innovate themselves, they were on the lookout for new innovative products that could give them a competitive advantage. Rubber Co was involved in product innovation, and was always looking to develop new products based on client demands. So, whilst innovation is their focus, they did not use the Chinese market as a place to sell their innovation, rather a place to save on costs. Similarly, Chemical Co’s sole reason to be in China was to import cheaper chemicals and to be involved in product innovation, based on customers’ needs:

“All we can do is keep on trying to understand where there are opportunities to innovate or to create some differences. We also get feedback from customers, they provide us with gaps and opportunities to develop or improve and innovate” (Case 3: Chemical Co).

In conclusion, the importers engaged in product innovation to be competitive in the Australian market by sourcing cheaper supplies from China. Innovation had also assisted these firms with taking pressure off pricing and costing so that they could be more
competitive. Importer SMEs used suppliers for products to hedge the risk, and wanted to be innovative with their supply chain activities in order to reduce production costs.

**Exporting Mode**

Three exporters utilised product innovation as their main innovation, and the other business innovation. Pneumatic Co, a hydraulic tools manufacturer, believed that their innovation was the integration of a hydraulic system with the associated services. They believed that their innovation was to develop customised designs to deliver customer solutions. They planned to sell this innovation to the Chinese market but, at the time of interviewing, they were actually unsuccessful as potential Chinese customers could not understand what they were selling. This finding suggests it is not always easy to translate Western services and innovations for the Chinese market.

Security Co offered security perimeter fencing to the Chinese market, which was an innovation they had a patent on. This was a product/service innovation, as they provided their product in conjunction with other systems integrators. The systems integrators included large multinationals whom they would partner with to provide the product to Chinese clients. So, in summary, their innovation was to sell into the Chinese market but they experienced a range of issues associated with that.

An exporter SME, subcontracting to China on a project basis, provided computer-controlled plant and equipment solutions for manufacturing industries (pharmaceutical and food and beverages). They stated that the product and service they provided was innovative because each job is customised. They originally provided services to large multinationals, and some Chinese firms, but realised that they needed to develop their own status in China. As the
products they offered in China were for automation, they were finding it difficult to sell their products because most factories in China rely on labour, not automation. In this instance, innovation may not always be beneficial for success, and the demand for their service was reasonably low:

"Because of the work involved, it has to be innovative because the firm provides services to manufacturing areas. Most customers are the top-tier MNEs and, if not ahead of the rest of the clan, then the firm does not have any business” (Case 5: Man Control Co).

This is an interesting finding as it suggests that innovations and improvements can only be successful when the context permits it to be successful, suggesting a contingency approach to the internationalisation of these innovations. The firm adapted its service and products in the Chinese market to suit the customer/client requirements. For example, it was difficult for them to address the differences in expectations of the levels of price and quality in the Chinese market environment compared with Western expectations, which was critical for their success in the Chinese market.

Biotech Co 3’s business innovation was in engaging in clinical trials and research services to Chinese clients. However, difficulties arose in running clinical trials in China because of the red tape and institutional framework. In summary, all exporters were offering innovative products or services, but found particular challenges in the Chinese environment which affected their ability to export their products or services there.

**WOFE Mode**

The sample had a total of 18 SMEs in the WOFE category, using all forms of innovation: product (4), process (4), market (5) and business (5).
**WOFE and Product Innovation**

Box Co, a manufacturer, developed innovative products in Australia, using China to engage in cheaper production and to service the world from China. As a result, a WOFE was needed to perform these activities. Metal Frame Co needed a WOFE because they directly serve Chinese clients and were innovative in the sense that they developed new designs as per their clients’ requirements. They also incorporated local opinion when developing their designs, which provides better outcomes in terms of client satisfaction. For example:

“When we first came to China, steel structure was an innovation; to come here and do steel structure, we were like a market leader” (Case 17: Metal Frame Co).

In addition, this SME had used advanced software design when developing and presenting designs, which was not commonly used in the Chinese market. It had given them an added advantage against the competition and assisted with making them successful.

An Architecture Company had stated that their business was innovative because of the way in which their product or service was offered. They wanted to run a WOFE using 100% Chinese management and staff, giving them full autonomy with minimal control from the Australian parent company except for the necessary technical assistance (design philosophy). As a result, this firm appeared to be ‘local’ in the Chinese market, also reducing the potential overhead costs associated with engaging expatriate staff locally. Similarly, another architecture SME’s innovation was based on their design philosophy: “I think it probably is the design philosophy” (Architect Co 2).

Printing Co had a WOFE mode operation in the Chinese market and targeted differences in customer needs. They believe physically meeting with clients was necessary for them to
understand the differences, and that many of the Chinese factories had difficulty with customising their innovative products.

In summary, WOFE product innovative firms demonstrated the characteristic of recognising the importance of physical presence in servicing the Chinese market. Some were using China as a base to source cheaper production or gain Chinese know-how, whereas others were offering products/services that might not necessarily be an innovation in the Australian market. Therefore, the SMEs saw themselves as market leaders/pioneers in the Chinese market.

**WOFE and Process Innovation**

Four WOFE SMEs identified themselves as engaging in process innovation. They included, Resources Co, Meat Co, Milk Co and Biotech Medical research firm. Most SMEs were operating in China (WOFE), and were seeking to reduce the costs of production by being located in China. For example, Milk Co was innovative in the sense they were not constrained by bureaucratic company policies and principles, which meant they could innovate distribution processes in China that suited the firm and the Chinese environment, which assisted them in being successful:

“We’ve got this growing organisation where people within it aren’t constrained by rules around ‘this is the distribution model we have to follow because that’s the way it’s always been done’. We don’t know, so we just go and find out how we can do this.”

*(Case 24: Milk Co).*

Similarly, Meat Co had set up a WOFE in Hong Kong to assist with exporting agricultural products such as organic beef. Their main innovation was the development of a supply chain
which ensured quality throughout, which they believed gave them a competitive advantage in the market place, as no other firms were doing it:

“The firm was very innovative, perhaps 20 years ago, in regard to establishing a vertically integrated supply chain. So, while we don’t own the properties, we don’t own the abattoir, we’ve developed a supply chain to assure the quality control and safety all the way through the chain and, while we can say now everyone does that, well they didn’t do those 20 years ago” (Case 25: Meat Co).

In summary, these SMEs used new or significantly improved delivery methods to be competitive in their market sectors in the Chinese market, delivering better quality products or services for competitive prices. It appears that SMEs in this category believed that process innovation not only provided efficient solutions for their businesses but also gave them cost advantages to keep them competitive in China, and across the world.

**WOFE and Market Innovation**

Five SMEs in the sample were engaged in market innovation as WOFEs, which included two Biotech firms, Build Co, Processing Co and Office Co. All these firms were operating in China, and their innovations were linked to physical presence. Office Co believed that their innovation was to introduce market segmentation by offering services to high-end customers:

“We don’t focus on all of the businesses. We have a very particular market segment because we are, in terms of service, definitely not the cheapest in the market. So we have a client base that appreciates that kind of service and that, essentially, is already on some sort of path of success” (Case 14: Office Co).

Build Co’s (construction management SME) innovation also stemmed from marketing, by offering different elements in their services, which included safety management, quality management and environmental management. Biotech Co was engaging in scientific
discovery to solve medical problems that face society, and also to deliver solutions to developing countries where they were most needed, such as China. They also worked on large-scale health programs that are funded by the Australian and local governments. Their innovation included the products they created such as medical diagnostics, but mainly on how to deliver them. The Medical and Biotechnology SMEs have two reasonably large research facilities in China, that were used to engage in research, mainly targeting overseas customers not Chinese. This was done because the Chinese market was not mature enough for the SMEs’ services.

**WOFE and Business Innovation**

Five WOFE SMEs in the sample were engaged in business innovation, which included Recruitment Co, Accounting Co, Architect Co, Medical Equip Co and Vehicle Co. Vehicle Co was providing an innovative business model issuing warranties for second-hand cars sold in China. Whilst this service is not an innovation in Australia, it was an innovation for the Chinese market, as this service was not available to a large extent. Accounting Co in this category was innovative in their provision of Chief Financing Officer (CFO) services (i.e., an online CFO Service), so that other predominantly Australian SMEs did not have to employ a full-time CFO. Recruitment Co is a niche provider of recruitment services in the mining industry, and was of the opinion that they were innovative because no other recruitment company was providing a similar service. They also believed that surviving in the Chinese market required focus not only innovation:

“And I’ve seen big companies fail who have been innovative because it’s just so big. *My personal golden rule isn’t about being innovative but it’s about focus*” (Case 11: Recruitment Co).
**Born-in-China SMEs**

There was a total of 10 BIC SMEs in this study, and most were ‘business & property services’ SMEs. These SMEs were predominantly engaged in business and market innovation with eight in those categories, one utilising product innovation, and one utilising process innovation.

**BIC SMEs and Product Innovation**

The only BIC SME categorised in product innovation, Architecture Co, was innovative as a result of their architectural design products, which required having a variety of professionals on board:

“Planners, urban designers, landscape architects, architect actually working on a job, as opposed to just having landscape guys or a planning guy or whatever (Case 34: Architect Co 3).

This example demonstrates that having a mixture of professionals is important for developing the innovative capacity of the firm, so that they can offer their clients a range of innovative services. They get competitive advantage over competitors as their innovation helps them with being diversified and, flexible.

**BIC SMEs and Process Innovation**

One BIC SME in the process category was a finance firm which provides consulting advice to SMEs who were internationalising from Australia to China and other parts of the world, using innovative approaches about how to enter China. They also used innovative processes around client care, which assisted them with developing good relationships with their clients.

**BIC SMEs and Marketing Innovation**
Three SMEs, Marketing Co, Investment Co, and Consultancy Co, were engaged in marketing innovation. These SMEs had internationalised to China from Australia and other parts of the world:

“In regards to our marketing reach to the Australian SMEs community, we’re being innovative by encouraging them to look at the China market whereas they may never have thought about doing that. The China market is full of stories that were historically true but are no longer, so how we innovate is we’re trying to break into that mindset and say open up your thinking and just allocate a bit of time to learning. Go to our ACBC seminars, just have a listen to what people are saying about this market and how quickly it’s changing, how quickly it’s going through normal maturity phases that take much longer, and what that represents for your business if you would position yourself and thinking about committing some resources. We have some internal tools we take our clients through in terms of trying to ascertain their vision, and then step back and say how we get there” (Case 28: Consult Co 1).

Investment Co had used a different market approach by providing their potential clients with critical information to get their interest for the proposed investment opportunity:

“When you present to your potential client, you want to give them, like, a very brief overview of an opportunity that we found for them, might be very synergistic to their company and it’s not necessarily marketing. We’ve actually identified a potential target investment opportunity for them that they may not necessarily know about, particularly in China because of issues with confidentiality. It’s done on a no names basis and provides them with a very high sort of top level summary. It’s still a summary overview but it’s really in-depth, a lot of free pictures and graphics and visuals are very important. The fewer words the better, the more bullet points, it’s not just the information we give them it’s actually the concept delivery, how we
deliver it. It makes a huge difference and that seems to be something quite unique to us. So, we’ve been working closely with our partners over there to identify some good target companies for the Chinese and becoming quite successful at doing it” (Case 33: Investment Co).

**BIC SMEs and Business Innovation**

Five WOFE SMEs were engaged in business innovation, including HR Consulting Co, Shop Fitting Co, Investment Co, Arbitration Co and Social Media Co. The manager of Arbitration Co discussed how he found his niche in the market, from an innovative perspective:

“The unique thing about this is that because so many of the Chinese lawyers have very limited experience in international arbitration, they tend to lose and they tend to think that they’re losing because the foreign parties are biased, or the arbitrators are biased because they’re Chinese, which is not really true. They lose because they just don’t have adequate experience” (Case 31: Arbitration Co).

They understood that Chinese law firms were expensive, with some of the top ones more expensive than the biggest US and UK firms. The key gap they found is that Chinese law firms are more expensive although many are inexperienced in Arbitration practice. It is common that smaller firms cannot afford the fees of international firms or Chinese lawyers as Chinese law firms are expensive:

“The idea behind this business was that it’s a one-stop-shop then for a whole lot of international law, different languages, different legal skills and you don’t always have to employ a whole law firm. You can employ an individual to assist you because mostly you don’t need a whole law firm to assist you, eventually one person can review your documents or your strategy. So they can keep their costs down by just hiring an
individual and having them assist the Chinese team. I call, we are sort of a bridge, tailored services” (Case 31: Arbitration Co).

The following provides an example of HR Consultancy Co in the training sector who stated that their innovation came from being “a very practical company in what they were doing.” This required them to be creative and innovative, which they referred to as their “fast fail mentality”. They believed that identifying problems early on and responding to those issues in innovative ways was the best way to do business. Having innovation entrenched into the mindset of the company was extremely important:

“I’ve stepped away and our innovation hasn’t stopped. In fact, it’s actually grown exponentially because people have realized that the business isn’t driven by the person, the person on the top, it’s driven by everybody, so we have new ideas and it normally starts with a little bit of a test. That is where we’ve been pretty innovative” (Case 26: HR Consult Co).

A summary of the main findings is given in Table 5.8 below.

**Table 5.8: Summary of the Main Findings of Research Question 2b**

<table>
<thead>
<tr>
<th>Entry Mode</th>
<th>Main Findings</th>
</tr>
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<tbody>
<tr>
<td>Importers</td>
<td>Mainly imported cheap supplies from China which they used to develop innovative products for the Australian market.</td>
</tr>
<tr>
<td>Exporters</td>
<td>Tried to offer their innovative products/services to the Chinese market but found difficulties due to cultural and institutional differences.</td>
</tr>
<tr>
<td>WOFE</td>
<td>SMEs were utilising product innovation to sell to the Chinese market, to access cheaper production costs or gain access to</td>
</tr>
</tbody>
</table>
Chinese know-how. Some of these product/service innovations may not be new in Western markets, but will be novel in the Chinese market. Some SMEs were engaged in process innovation, where they sought to become more efficient and reduce the cost of doing business, and some used market innovation in the way of customisation and segmentation. They do also use business philosophy changes in new approaches or business models seeking opportunities in the Chinese market.

| BIC          | In the main, the BIC firms engaged in business innovation, mainly using different business models. |

**Discussion of Research Question 2b**

One noticeable fact is that all importers and the majority of exporters (three out of four) used product/service innovation. This was interesting in the sense that importers/exporters were only using product innovation, but not the other forms. Eighty percent of SMEs in the process innovation category entered the Chinese market as WOFEs, one was a BIC SME. More than sixty percent of SMEs who utilised marketing innovation used WOFE as their mode of entry, 40% of them however were BIC SMEs. A significant number of SMEs in the business innovation category entered China with partnership arrangements, however, they all had established a WOFE, and about 45% of them were BIC SMEs.

It was found that the current literature regarding innovation and internationalisation focuses on the relationship between exporting and innovation of firms, and most of them argued that innovative firms tend to export and/or exporting promotes innovation (Love & Roper, 2015). The evidence of recent research (Love & Roper, 2015) indicates clear synergies between
innovation and exporting and the importance of considering them jointly when attempting to maximise their joint performance benefits. Higon and Driffied (2010) undertook a study understanding the relationship between innovation activities and export performance of SMEs, and found that businesses that export are characterised by high levels of innovation activity (43 per cent of exporters innovate in products, 27 per cent innovate in process, and 21 per cent innovate in both), and both product and process innovation impact positively on the decision to export. Higon and Driffied (2010) further mentioned that there was no robust evidence that process innovation increases the probability to export beyond product innovation. They also confirm the importance of innovation policies that aim at providing incentives for SMEs to engage in product innovation, which is a key factor in helping them to overcome the barriers to entry into foreign markets that they may face due to their size.

Products and/or process innovation appear to be the subject of innovation and internationalisation studies. However, the study results indicate that more than fifty percent of firms investigated used innovation other than products/services and process. Fifty percent of BIC SMEs used business innovation, followed by market innovation (30%). It was evident that the relationship between other internationalisation modes (for example, WOFE) and innovation had not been extensively researched. The results of the current study indicate that the SMEs that used WOFE mode utilised all four types of innovation. Further, the results suggest that business or market innovation is utilised mainly by WOFE and/or BIC firms (not exporters or importers). It appears that market or business type innovation supports WOFE and BIC firms in the Chinese market rather than product or process innovation.

SMEs that were categorised in the market innovation category were using new marketing methods that involved significant changes in product placement, or product promotion. The
majority of these SMEs had no other areas of innovations and used the WOFE mode to enter and do business in China. Notably, some entered via Hong Kong and some used partnerships in entering the Chinese market. It is evident that the current literature provides no adequate information relevant to the WOFE mode of internationalisation and market innovation. SMEs in this category used innovation in establishing business opportunities and some undertook their business operations in different forms from their competitors, which helped them to be competitive. SMEs that used business innovation used all modes except the importing mode. Five firms used WOFE mode and five used BIC, with one exporter in this category. Again, no adequate literature was found in regard to how business innovation and mode of internationalisation are related.

Research Question 2c: Do innovation types vary with stage or rapid internationalisation approaches?

In terms of whether SMEs had used the stage or rapid internationalisation approaches according to the type of innovation, it is evident that SMEs in the ‘stage’ internationalisation category used all four types of innovation. However, they mainly used product and process type innovation (Figure 5.1).

**Figure 5.1: Types of Innovation by the ‘Stage’ Internationalisation Approach**

![Figure 5.1: Types of Innovation by the ‘Stage’ Internationalisation Approach](image)
Similarly, SMEs in the ‘rapid’ internationalisation category again used all four types of innovation; however, these were mainly business and market innovation types (Figure 5.2).

**Figure 5.2: Types of Innovation by the ‘Rapid’ Internationalisation Approach**

![Pie chart showing types of innovation](chart)

The results demonstrate that there is a relationship between stage internationalisation and product and process innovation and, again, a relationship between rapid internationalisation and marketing and business innovative approaches. There is no previous literature supporting or opposing any of these relationships. Due to their nature, product or process innovation will not happen in a short time, but they demand a significant time for research and introduction to the market, hence the relationship between the stage approach and product and process innovation is explicable to a certain extent. On the other hand, marketing or business innovations are conceptual and do not demand a long time before their introduction or implementation, hence marketing and business innovation adaption by rapid international approach firms is a possibility.
Research Question 2d: What degree of innovation do innovative Australian SMEs use in China, and Why?

The results indicated that 29 out of the 35 SMEs studied demonstrated that they had adopted ‘incremental’ innovation, where they kept changing existing business activities progressively irrespective of the type (product, process, market or business) of innovation they did adopt:

"From an innovative perspective we run clinical trials early stage for commercial sponsors. Also from that perspective there's a level of innovation but it's probably incremental" (Case 10: Biotech Co 4).

From a resourcing perspective, it may be more manageable for SMEs to conduct incremental innovations, as they are not so timely or costly to implement. The rest of the SMEs (6) were categorised into ‘radical’ innovation, as they adopted innovation in more disruptive ways.

Degree of Innovation and Innovation Type

Table 5.9 below provides the number of SMEs that used ‘incremental’ and ‘radical’ innovation with the types of innovation they used in the Chinese market.

Table 5.9: Degree of Innovation and Innovation Type

<table>
<thead>
<tr>
<th></th>
<th>Product</th>
<th>Process</th>
<th>Marketing</th>
<th>Business</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>11</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>29</td>
</tr>
<tr>
<td>Radical</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

According to Table 5.9, ‘incremental’ innovation was used by the majority of SMEs investigated. Further, all products and process innovative firms did adopt ‘incremental innovation’. This approach is appropriate given the nature of product and process innovation which generally require significant time prior to the introduction or improvement of a new
product/service or a process. The results also indicate that SMEs using marketing innovation also adopted an ‘incremental’ approach, leaving only one SME to adopt ‘radical’ innovation. One notable fact from the results is that around fifty percent of SMEs used business innovation which was introduced in a ‘radical’ innovation format. The SMEs who adopted business innovation introduced new business models or philosophies, and did not spend a long time introducing new business models, rather, they accepted the risks associated with the new business model. Hence, they complied with the radical innovation approach.

The SMEs who adopted ‘incremental’ innovation were, in general, focused on improving competitiveness within their products, processes and markets. It appeared that these SMEs focused on cost or feature improvements in existing products or services, processes, marketing or business models in order to get a ‘cost’ or ‘differentiation’ advantage in the market in which they do business. They did not change their business model around too much hence the level of uncertainty was quite low. Firms using innovation in this approach focused on improving the products/services or introduction of new products/services, sometimes in a similar area to their products or services.

The SMEs who adopted ‘radical’ innovation, in general, focused on business model innovation and new technology or processes innovation with unprecedented performance features, and created a dramatic change that transformed existing markets, or created new business model. They did explore new technology although the level of uncertainty was high for them. For the SMEs who were classified as using ‘radical’ innovation, they had used a new business concept in the market which they had applied in the Chinese market, and that helped them with establishing a successful business in the Chinese market:
“We’ve always changed steps. You do it for a while and then you start to work out where you want to be and it’s quite a big change. So we’ve evolved our business model in a big step, where we moved away from being a provider of services to others, to closing the doors and now licensing in technology and raising our own capital and doing it for ourselves. So that was a big change” (Case 22: Medical Equipment Co).

Discussion of Research Question 2d

The research literature points to the question of whether firms use radical innovation, or more incremental innovation. Popular press suggests that it is difficult for firms to develop the next ‘hot shot, ground breaking’ innovation due to the fact that it is expensive for firms to invest in R&D (Deeb, 2014). Innovation is also a risky business, because organisations and venture capitalists may invest significant sums of money in projects, which do not produce successful outcomes (Deeb, 2014). Therefore, firms have less of an appetite for investing in R&D and, as a result, innovation is stifled, and this becomes even more pronounced for SMEs that face LOS. However, as the above literature and cases have highlighted, there are pay-offs from innovation, and innovation does not always mean investing huge amounts of money into new products, or processes. It can also be about innovating the everyday things, for example, as Milk Co stated, “We are always open to trying new things”.

An analysis of the research data demonstrates that SMEs investigated in this study utilised either ‘incremental’ or ‘radical’ approaches (Henderson & Clark, 1994) in their application of innovation in the Chinese market. The above findings are interesting, as they concur with the topical news (Deeb, 2014; Charam & Lafley, 2008).

‘Incremental’ innovation concerns an existing product/service, process, or method whose performance has been significantly enhanced by introducing changes progressively (Gallouj,
It can be considered as a series of introduced improvements which helps maintain or improve a firm’s competitive position over time. On the contrary, a radical or disruptive innovation is one that has a significant impact on the economic activity of firms in the market the firm is located, and it concerns complete disruption to the existing operations and requires a change in the business model (Gallouj, 1994; Gadrey et al., 1995). Radical innovation entails the introduction of radical new products, but also high uncertainty and high risks, and innovation that is mostly new to the market sector. The SMEs who adopted ‘radical’ innovation focused on business model innovation and new technology or processes innovation with unprecedented performance features, and created a dramatic change that transformed existing markets, or created a new business model. They explored new technology although uncertainty was high for them as Chinese people were reluctant to accept new ideas and technology. SMEs who were classified as using ‘radical’ innovation had used a new business concept in the market and applied these new business concepts or models to the Chinese market, which helped them with establishing a successful business.

Innovation has traditionally been seen as radical, for instance; game changing disruptive new products or technologies that are on offer. However; later research increasingly emphasises incremental innovation (Tidd et al., 1997). The focus has increasingly been on small changes or incremental innovations, which are often adaptations of existing products or a new way of delivering a service. Service firms in particular develop by making such small changes (Gallouj, 1994; Sundbo, 1998a).

In summary, the SMEs investigated in this study utilised mostly ‘incremental’ approaches to innovation, as opposed to radical approaches (Henderson & Clark, 1994). As previous research indicates, firms, and more specifically SMEs, are less likely to engage in radical
innovation because it is costly and requires a lot of resources. However, what is probably more manageable for SMEs is engaging in ‘incremental’ innovations so as to improve products, services, and processes. As suggested by a number of participants, any innovation is a good innovation. Research indicates that progressive changes can significantly increase business performance (Sundbo, 1998). It can be considered as a series of improvements introduced which help maintain or improve its competitive position over time. On the contrary, a radical or disruptive innovation is one that has a significant impact on the economic activity of firms in the market where the firm is located, and it concerns complete disruptions to the existing operations and requires a change in the business model (Gadrey et al., 1995). Radical innovation entails the introduction of radical new products, but also comes with high uncertainty and high risks. However, despite this, the study results do not confirm this observation. They demonstrate that radical innovation is being adopted by SMEs who are offering innovative services to the Chinese market. An incremental innovation approach was adopted by SMEs who using all innovation types, products, process, marketing and business, however, notably and interestingly, ‘radical’ innovation was adopted mainly by SMEs introducing business service innovations.

**Research Question 2c: Do SMEs standardise or adapt their innovations to the Chinese market, and how does this help with being successful there?**

A common theme throughout the interviews was that the SMEs’ innovations were not necessarily accepted by the Chinese market for a range of reasons. Either the firms found it difficult to offer the innovation to the Chinese market, which meant the innovations were unsuccessful, or the innovations were required to be adapted. The following quote provides an example of the difficulties in internationalising an innovation to China. This was unsurprisingly for product innovations to the Chinese market.
“There's a degree of discomfort with accepting something that no-one’s used before, whereas, in the Chinese market you might say this is leading edge, more than you’ll get out of the standard product. So that’s your basis of sale, but here it’s almost working against them. All the potential customers we’ve been and seen say that, here in China, is still behind the rest of the world and they actually don’t know what the end requirement is, so there’s a definite market space there for someone to come in and offer a solution to help them work out what they need, what they want” (Case 21: Box Co).

The importers did not need to do any adaptations, as they were only selling products/services to Australians. Two of the exporters (Security Co and Man Control Co) had difficulties with implementing their innovative products/services to the Chinese market because of the differences in the Chinese context, and the fact that Chinese technology did not meet the standards of the products offered by Security Co. As per the comment below, the technology needed to operate effectively:

“So, we do see more stated technical performances claimed in China that aren’t backed up by practical reality that you probably don’t see elsewhere. That might happen elsewhere but probably not some of the markets we’ve seen, and we’ve seen a lot” (Case 4: Security Co).

Medical Equip Co SME mentioned that innovation in China was risky. According to them, local firms/consumers are not willing to go out of their comfort zones to be innovative or to purchase innovative products/services:

“Innovation can be seen as risky in China if it has not been done before here. I think it really comes down to the people seeing innovation as risky and, if it is more expensive, I think it really challenges some people to push for it because they probably don’t want to go out of their comfort zone and take that risk” (Case 22: Medical Equip Co).
A few SMEs found that it was almost impossible to be innovative with their products/services as the majority of their Chinese clients/customers did not appreciate innovation but they did appreciate lower prices and shorter delivery times. Incorporating environmentally-friendly and sustainable features into their products/services that provide long-term benefits was not acceptable to the Chinese clients and customers:

“So (design) innovation is very hard to actually get in China because they work on the theory that if I change how I build something then it’s going to take me longer to build, and it will cost me more money at the beginning. So they’ve been rabbiting on about it being a dream, great buildings, and that is all rubbish. They’re not interested in spending money because they know they can sell it anyway, so introducing innovation into design is actually quite hard because they don’t really see the value in it” (Case 19: Architect Co 1).

This firm is operating in China with this understanding, hence their design solutions mainly focus on cost and time effectiveness. Another BIC SME architect firm, successfully adapted innovation in the Chinese market. A SME in the medical research area claimed that medical research and the pharmaceutical industry in China had not matured yet compared with the rest of the world. Thus, this SME found that marketing their products and services in China was a challenge:

“In the pharmaceutical industry, especially in China, there is still serious lack of real innovation in terms of technical knowledge” (Case 9: Biotech Co 2).

According to the firm, a lack of innovation in the Chinese market provided them with an opportunity to introduce innovative processes without significant competition from the local market. Another SME involved with an automation business had to face the challenge of finding a market for their product/service (demand for automation) in a relatively cheap
labour market in China. They believed that demand for the same product or service would be different from the customer’s point of view in China in comparison to other developed countries:

“The typical wash plant in China, it’s a lot larger footprint, it probably uses different equipment which is seen as probably not high tech or what is available on the market but it is very common in China. It’s looking at different areas of the wash plant” (Case 16: Processing Co).

Three out of five WOFE firms adapted their innovation according to Chinese market requirements, however, Office Co and Medical and Biotech SMEs who were involved in the global market did not adapt innovation in the Chinese market as their services have a standardised global approach. The SME below was of the view that if you have an innovative solution, it might not be something that the Chinese buyer even wants or is interested in, therefore, it is important to do research before trying to sell to the Chinese market:

“I do think that if you have an innovative solution, it might not be something that the Chinese buyer even wants or is interested in. Large corporations have proven it in so many case studies when setting up or kind of coming up with a new product for China. So, I think research is really important, knowing what is needed here and knowing that there is a market around” (Case 14: Office Co).

**Discussion of Research Question 2e**

The study indicates that Australian product/service innovative SMEs experience different issues internationalising and implementing their innovations in Chinese market. Some SMEs were of the opinion that innovation in China was risky, as local firms/people/consumers in general were not willing to go out of their comfort zones to purchase innovative products or use innovative services. Accordingly, firms take a risk in introducing innovative products or
services, as customers are not necessarily willing to accept such products or services immediately.

In addition, Chinese consumers sounded as though they were risk-averse, which is supported by Hofstede’s concept that Asian cultures score high on uncertainty avoidance (Hofstede, 2017). It was interesting that innovations may not always make a firm successful in the Chinese market. Innovation would be expected to make the SME more successful in the market, but this did not appear to be the case. For example, past research (Love & Roper, 2015) often highlights the relationships between exporting-innovation-performance, and whether they are positive, negative or non-existent. However, the mechanics of how foreign firms offer innovative products or services to foreign markets is rarely explored. It was found in this instance that innovative products/services were not always welcomed or accepted by the Chinese market, and that cultural/institutional contexts influenced the ability to provide innovative services/products to the Chinese market. Future researchers are encouraged to investigate these issues to determine whether this is relevant for other contexts, or whether this is a context-specific Chinese issue.

Chapter Summary
In summary, the results indicate that all SMEs investigated used innovation in their internationalisation process to the Chinese market. As the literature indicates, a number of advantages accrue to firms when they have on offer various types of innovation. The findings also demonstrate that taking an innovative approach assists them, whether it be their approach, their products, their processes or other aspects. The results suggest that there is an important role for these firms played by innovation in their internationalisation. The results also provide evidence that innovation and internationalisation are closely linked and depend on each other. The implementation of innovation in the Chinese market could be problematic.
because of the non-acceptance of new ideas/products or new features of products, by Chinese firms and/or consumers. On the other hand, innovations may be seen as a liability of foreignness, which causes difficulties for firms trying to sell their products to local markets. Therefore, it is important for firms to do appropriate research on the conditions in a foreign market to determine whether their innovation will be accepted by the foreign market, given the different cultural and institutional conditions. SMEs should hence take a contingency approach when internationalising their innovations to the Chinese market.
Chapter 6: Role of Networks

Overview of this Chapter

This chapter explores the role of networks in the internationalisation of innovative SMEs, and seeks to answer in particular whether ‘networking’ activities vary between the different entry modes, through the following research question:

Research Question 3: What is the role of networks for the internationalisation of innovative Australian SMEs to China?

Types of networks

The role of networks was described extensively by the participants in the study. All of the SMEs had utilised networks or connections (guanxi) not only in entering China but also in running their businesses. A Construction Management representative believed that networks should be treated as a priority for firms wishing to enter China:

“I think in China currently networks and guanxi is definitely priority. Maybe it’s the culture” (Case 18: Build Co).

SMEs investigated in this study were of the opinion that networks have a significant influence in the internationalisation process. Networks provide opportunities to meet partners or other contacts which helps with creating opportunities in international markets and supports the findings of Anderson (1994). Networks helped SMEs entering China to survive and to find opportunities in the market. Similar to Mainela and Puhakka (2011), networks provide information on business opportunities and partners in international markets, and assist with transferring general market knowledge. Networks provide introduction and access to unknown possible business partners. Networks create access to international marketing
networks, such as distribution networks, and legitimate the firm in the market. Networks provide a basis for interacting with others, thus making it possible for a firm to learn and develop the skills needed in internationalisation. Finally, networks may also inhibit the international growth possibilities for the firm.

The SMEs investigated used different types of networks: formal to informal, government agencies to personal contacts. The literature suggests that SMEs engage in several types of networks, each with different degrees of involvement (Seifert, Child & Rodrigues, 2011). Lechner and Dowling (2003) identify five different types of networks that firms use at different development stages: social networks; reputational networks; “coopetition” (cooperating with competitors); marketing networks; and knowledge, innovation, and technology. Varamaki and Vesalainen (2003) provide five different types of networks that differ in their degree of cooperation, ranging in order from loosest to tightest cooperation. These are: development circle; loose cooperative circles; project group; joint venture; and a joint unit. The results of the current study suggest that not only formal business relations but also personal or social relationships play a key role in the internationalisation process, as shown by Case 23: Printing Co, Case 25: Meat Co, and Case 33: Investment Co who entered the Chinese market using personal level contacts. Some researchers (Chetty & Wilson, 2003; Lechner & Dowling, 2003) have highlighted the importance of social relationships in SME networks. Social relationships provide SMEs with information, finance, access to other networks and reputation. SMEs rely routinely on network relationships to help them overcome the obstacles associated with entering new markets. Networks can offer some degree of protection against the risks associated with foreignness, newness and smallness. These new insights have stimulated enquiry into social capital, which may be defined as social relationships that confer an actual or potential benefit (Naphiet & Ghoshal, 1994). The
theory of social capital suggests that firms create, and are embedded in, a web of relationships which may offer access to resources and opportunities of different natures (Naphiet & Ghoshal, 1994). Different meanings have been attached to social capital. Some researchers view it in terms of resources which may be available to the firm through participation in networks (Coleman, 1988; Nahapiet & Goshal, 1998), while others conceive it in terms of the unique characteristics that define loosely-connected social structures (Bourdieu, 1980; Coleman, 1988; Putnam, 1993). Several sources indicate how social capital can trigger and foster internationalisation (Johanson & Mattsson, 1988). The role of networks in the internationalisation of SMEs focused on the benefits of such networks, with only a few (e.g., Chetty & Agndal, 2007; Coviello & Munro, 1995) addressing the potential downside of networks in the context of SME internationalisation.

Interestingly, one SME was of the opinion that the Chinese concept of guanxi (i.e., networks or connections) was not so important in today’s environment in China, and that the role of guanxi has reduced as the Chinese have become more Western in their approach:

“*That networking side of things five to ten years ago was extremely important in China although networks are probably not as important as they used to be now*” (*Case 1: Furniture Co*).

It is evident that most SMEs are able to reach international markets only through the help of third parties, which vary from personal connections, to individual agents, to institutions that provide formal support for export activities. These involve the government Trade and Investment bodies, Chamber of Commerce, and industry associations. Government advisers, in turn, although noted as promising, have in practice been seen in only minor roles (e.g., Crick & Jones, 2000). Two importers, two exporters, six WOFEs and four BIC firms used
government or industry association support in entering the Chinese market. One common way in which SMEs may access foreign markets is through piggy-backing on MNEs (Child & Rodrigues, 2008), both Case 4: Security Co and Case 18: Build Co had entered the Chinese market with the help of MNEs they did business with. Case 6: Pneumatic Co also entered the Chinese market with support from their customer firm. It is argued that existing business relationships make it possible to identify and exploit opportunities, and this can have a considerable impact on the particular geographical market a firm will decide to enter, and on which mode to use (Nordman & Tolstoy, 2016). Based on these findings, certain roles for networks in the internationalisation of firms can be identified, such as providing information about the foreign market, directing strategy and transforming the firm (see also, Harris & Wheeler, 2005).

Some SMEs used agents/brokers in entering and operating in the Chinese market (Case 22: Medical Equipment Co); an important role in entrepreneurial networks is played by brokers linking the members of different networks (Aldrich & Zimmer, 1986, cf. Granovetter, 1973).

What has not been explored well in the literature is whether different entry modes use different networking approaches. A detailed analysis of the results will now be undertaken of the way innovative SMEs used networks in their internationalisation process according to entry mode. Details are presented in the following section.

**Networks used by Importing SMEs**

All three SMEs involved with importing activities assumed that networking and connections were a vital element in their businesses in China. Table 6.1 summarises the use of
networks/connections by importers in entering and operating businesses in the Chinese market.

Table 6.1: Network Adoption by Importer SMEs

<table>
<thead>
<tr>
<th>Case</th>
<th>Pseudonym</th>
<th>Business type</th>
<th>Network in Entry</th>
<th>Network in Operation</th>
<th>Role of Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Furniture Co</td>
<td>Manufacturer/Distributor</td>
<td>Initial contacts via Austrade, State council</td>
<td>Use local Agents</td>
<td>Facilitate entry, connect with local manufacturers</td>
</tr>
<tr>
<td>2</td>
<td>Rubber Co</td>
<td>Manufacturer/Distributor</td>
<td>Initial contacts via trade shows and exhibitions</td>
<td>Link with the innovative networks</td>
<td>Connect with local manufacturers</td>
</tr>
<tr>
<td>3</td>
<td>Chemical Co</td>
<td>Manufacturer/Distributor</td>
<td>Initial contacts via super trade mission of Victorian Government</td>
<td>Use local agents</td>
<td>Facilitate entry, connect with local manufacturers, important to have physical contacts</td>
</tr>
</tbody>
</table>

Some of the key themes identified by the importers in regard to networks included the ‘important role’ in developing physical networks of the fact that ‘Australian origin’ had provided network capital. Most of the importers had used government agencies as support, and had agents that assisted them in China.

**Importance of developing physical networks**

A chemical products importer SME deemed that physical visits were vital in their networking:
“Talking physical networks, it is important in finding contacts. For instance, we often visit factories physically to meet those who can either work with us, either to supply or to distribute” (Case 3: Chemical Co).

The representative suggested that the firm could not just do importing from Australia, and that they had to develop ‘physical networks’ and presence with the people that they dealt with. Once these networks had been developed, then importing could occur from Australia.

**Australian origin developed network capital**

The importer SMEs found that their ‘Australian origin’ had provided them with initial social capital, on which they could build business networks. Furniture Co stated that Australians had an added advantage because Australians were well accepted by local (Chinese) people:

“Certainly, within China relationships are a very big part of business. They like Australians, they like the way we do business and a lot of the priorities you get within a company in China are through the relationship that you have with them” (Case 1: Furniture Co).

The similarities between the cultures seemed to play a role in relationship building, and the Chinese nationals have a positive attitude towards Australians which acts as motivation for developing relationships. The Chinese perception of Australian products/services (quality, standard) and way of conducting business gave the Chinese great trust in Australians, which was helpful in developing relationships.

**Government agencies were used for developing networks**

Importing SMEs were also of the belief that state agencies provide networking opportunities for new firms entering China: Two out of three importer SMEs used state-based government
support to help in finding connections when they made their first entry into China. One used Austrade, and another importing SME received support from the super trade mission of the Victorian Government when entering China. The other importer SME used trade shows and exhibitions to find suppliers. All three importers entered the Chinese market using contacts via Australian authorities or contacts made via attending trade exhibitions.

**Agents**

The importers made strong use of agents in the Chinese market mainly local agents or links with local network services. The agents provide initial support to SMEs by providing essential information about potential Chinese business partners and the opportunities available in the Chinese market, which is otherwise beyond the knowledge of the importers. According to Rodrigues et al. (2012), most SMEs are able to reach international markets only through the help of third parties, which can vary from individual agents to institutions that provide formal support for international activities. Firms may belong to different types of networks which are more or less independent or which could also overlap in their specialties. Relevant networks for SMEs include agents, distributors, suppliers, professional and industry associations, and customers such as multinational corporations. The governmental trade and investment bodies, Chambers of Commerce, and industry associations may also be included (Rodrigues et al., 2012).

Two of the importers used agents in China for their business activities. Ellis (2000) found that firms tend to be reliant on local agents (or similar) for information because of the lack of available formal data, particularly in less developed markets. In addition, for firms that did not have any market-orientated activities, such information was important. Rauch (2001) highlighted the role of local agents in connecting foreign firms to domestic networks and
informing them about opportunities in the domestic market. Ellis’s (2000) and Raugh’s (2001) findings were confirmed later in a study by Agndal et al. (2008), who found that agents or similar play an important role in providing foreign companies with information beyond their knowledge. Most of the SMEs believed that relationships with key actors, such as agents, customers and institutions at home and abroad, helped them to avoid incurring unnecessary costs. Since most of the firms affirmed that they knew little about China and its business environment, finding the appropriate partners, agent or representatives was also crucial. Building a trustful relationship with them became essential to avoid various types of risk: institutional, financial and agency (Child & Rodrigues, 2004). Finding a partner or agent was also important to obtain information about the market. Regarding this aspect, only specialised agents/representatives were able to help. Many companies also had to rely heavily on partners and agents to make sense of legislation and tax systems. The partners or agents were also useful in dealing with sensitive matters that the SMEs wanted to avoid, such as bribery and other ethical issues.

Networks used by exporting SMEs

Table 6.2 below summarises the use of networks/connections by exporting SMEs in entering and operating businesses in the Chinese market.

<table>
<thead>
<tr>
<th>Case number</th>
<th>Pseudonym</th>
<th>Business Type</th>
<th>Network in Entry</th>
<th>Network in Operation</th>
<th>Role of Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>Security Co</td>
<td>Supply and installation service</td>
<td>Entered via network opportunity</td>
<td>Built strong relationships and trust at</td>
<td>Facilitate entry, marketing (sales promotion) support</td>
</tr>
<tr>
<td></td>
<td>Company</td>
<td>Supply/Service Details</td>
<td>Initial Contact Method</td>
<td>Support Service for Entry and Marketing</td>
<td></td>
</tr>
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<td>-------------------------------------------</td>
<td>------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Man Equipment Co</td>
<td>Supply and maintenance service</td>
<td>Trade missions and VECCI consultants in China</td>
<td>Use network groups to get contacts to get involved</td>
<td>Support service for entry and looking for marketing support with network groups (not successful though)</td>
</tr>
<tr>
<td>6</td>
<td>Pneumatic Co</td>
<td>Supply/install hydraulic systems</td>
<td>Entry via (customer) connection</td>
<td>Use innovative networks such as high-tech parks, professional groups</td>
<td>Facilitate entry, marketing (sales promotion) support</td>
</tr>
<tr>
<td>7</td>
<td>BioTech Co 1</td>
<td>Clinical trials (service)</td>
<td>Initial contacts via Trade</td>
<td>Word-of-mouth, attending trade shows</td>
<td>Support service for entry and looking for work via</td>
</tr>
</tbody>
</table>
Four exporters in this category used different networking approaches, two used trade shows, trade missions and exhibitions, the other two used existing business relationships (client or customer facilitation), in establishing initial contacts in the market. Two exporting SMEs used innovative networks in running their business, while other exporters used high-tech parks and word-of-mouth and personal level contacts in running business operations in China. Innovative hubs are not on their list though.

**Trade shows/exhibitions**

As exporters were developing their market in China, there was strong evidence that they used trade shows, missions and exhibitions in establishing initial contacts in the market:

“Our initial contacts were through trade shows, exhibitions, occasionally through internet. No local partners or representative” (Case 6: Pneumatic Co).
Exporters get access to a wider range of customers/products/services locally available via trade shows and exhibitions, and can also establish first-hand contacts with local business communities in their industry sectors.

**Innovative hubs/networks**

Exporting firms had also used innovative networks such as professional groups and high-tech parks in building relationships with local businesses, and believed that relationships with local authorities were helping to establish their business. However, when interviewed, this firm was still experiencing a lack of success, which may be due to the fact that they had lacked networks and customers, or the fact that their business offering was just not clear to the local Chinese:

“We sought to link in or build into any relationships with Chinese innovative networks, we just involved with a lot of high-tech parks and things like that throughout China - what I’ve also done is being involved in a couple of professional groups, network groups with the concept of forming clusters and getting involved in local organizations that way, but that hasn’t gained any traction either” (Case 6: Pneumatic Co).
According to Rodrigues and Child (2012), in the case of internationalising SMEs, the partners they seek out in their domestic environment can include export promotion agencies and other members of export clubs. In the foreign environment they can include agents, distributors and local equity-sharing partners. The research showed that the network perspective provides a framework for understanding how an intermediary organisation can impact on internationalisation. Despite the fact that some SMEs may be very experienced players, they may still suffer from the liability of newness when entering into an unfamiliar market. Liability of newness and being a new exporter or new to the market exposes SMEs to “embedded risks” in foreign countries (Rodrigues & Child, 2012).

SMEs are looking to secure both information and protection through developing trust-based relationships within these networks (Rodrigues & Child, 2012). Rodrigues and Child (2012) argued that building ties with large players can be very important to reduce costs, to adjust for asymmetry of information, and to cope with the other liabilities SMEs face in international environments. It could, for example, use its connections with MNEs in other countries to access an as yet unfamiliar market, or alternatively use one of its own sales agents. SMEs may find out that the less costly and risk-averse strategy to assess a new market is through an indirect route, using relationships it already has with partners and agents elsewhere, or through joining a consortium as a means of risk-sharing (Rodrigues & Child, 2012). Obtaining security of sales through membership in the supply chains of large players can be a big premium for SMEs, but it also creates the risk of becoming highly dependent (Rodrigues et al., 2012).

*Draw on similarities to promote relationships*
The exporting SMEs were of the belief that drawing on the similarities between the Chinese and Australian cultures was useful, and this should be encouraged in building good relationships. One of the exporting SMEs had entered China via a ‘connection’ they had (customer driven), and another entered the Chinese market using a network or connection with one of their MNE clients:

“We’ve looked at innovation networks in China, but we’ve never really seriously thought to go that way. We were approached by some of our clients (MNE), we’ve done work there (China) for them (client)” (Case 4: Security Co).

According to Child and Rodrigues (2008), “client/customer piggy back” is more frequent in customer-supplier conditions where SMEs have to follow the geographical movement of MNEs in order to survive. It is also evident that client or customer type relationships provide support to SMEs by providing not only information but resources in the initial stage of the exporting process.

This SME was of the opinion that they did build strong relationships in the early stage of sales, and that developing relationships in China was far more complicated than in Western countries.

An Equipment Service firm assumed that there is no straight way of jumping into the market without connections:

“You don’t get anything done in China unless you involve yourself with other people within China, because the whole market is really developed around relationships with people. There is no straight way of jumping into the market. It’s not what you know, it’s who you know” (Case 5: Man Control Co).
It was evident that Pneumatic Co (Case 6) was struggling to establish itself in the Chinese market, which may have been the result of incorrect networking or connections. They entered the market using a customer as a facilitator, however, after establishing in the market business became difficult for them without appropriate connections in the market. They tried using innovative networks in establishing the business, however, this was not successful as a proper connection in the market. This highlights that the ‘right’ connection, not any connection is important in helping SMEs to be successful in China. According to Burt’s (2004) structural hole theory, opinion and behaviour are more homogeneous within than between groups. Thus, people connected across groups are more familiar with alternative ways of thinking and behaving, which gives them more options to select from and to synthesize new ideas which emerge. Brokerage across the structural holes between groups provides a vision of options otherwise unseen, which is the mechanism by which brokerage becomes social capital (Burt, 2004). The findings of Galkina and Chetty (2015) also show how entrepreneurs network with interested partners, instead of carefully selecting international partners according to pre-defined network goals.

**Government Agencies**

It was evident that the exporting SMEs used super trade missions with the Victorian Government and were assisted by VECCI. Another exporter attended trade shows by Australia-China authorities in developing networking, although they commented it was a slow process:

“We’ve done a trade mission and Austrade. I think maybe there’s always been a big promise of a lot of relationships developing from China but it’s been very slow, so it’s not a market that we see is going to be a big game-changer for us in the immediate term” (Case 7: Clinical Trials).
Exporting SMEs use existing connections and/or trade mission support entering and then making formal and informal connections in running their businesses in China. According to Rodrigues and Child (2012) in the case of internationalising SMEs, the partners they seek out in their domestic environment can include export promotion agencies and other members of export clubs, and in the foreign environment they can include agents, distributors and local equity-sharing partners. SMEs are looking to secure both information and protection through developing trust-based relationships within these networks (Rodrigues & Child, 2012).

Recent research argues that connections and relationships (networking) both at home and abroad can be crucially important for SMEs seeking to export or invest abroad (Harris & Li, 2005). Despite the fact that some SMEs may be very experienced players, they may still suffer from the liability of newness when entering into an unfamiliar market. Liability of newness - being a new exporter or new to the market - exposes SMEs to "embedded risks" in foreign countries (Rodrigues & Child, 2012). Austrade and other Australian government bodies play a key role as facilitators of networks for SMEs. It is apparent that exporters are promoted by government agencies or trade missions for exporting to China by providing necessary information and initial contacts. However, the support extended by government authorities or trade mission organisations sounds limited, providing general information rather than specific information or the specific network facilitation required by different businesses prior entering to specific market sectors. Hence the SMEs did not always benefit from trade missions and government agencies and meeting the right networks. O’Gorman et al. (2011) identified that export promotion organisations (EPOs) played an important role in information mediation, that is, identifying foreign opportunities and customers, facilitating introductions to international customers, providing foreign market knowledge, and as a resource provider developing the firm’s export capacity.
**Word-of-Mouth Introductions and Reputational Effects**

Another exporting SME was of the opinion that word-of-mouth recommendations help them with securing jobs:

“I guess a lot of it is word-of-mouth, so we’ve worked with a number of consultants who act on behalf of several Chinese clients and they recommend us. Primarily it’s through word-of-mouth or having worked with clients before”

*(Case 7: Clinical Trials).*

Johanson and Vahlne (2009) also argued that, first, internationalisation depends on a firm's relationships and networks, and good relationships with important partners who are committed to developing the business will assist in the internationalisation. The firm is also likely to follow a partner abroad if that partner firm has a valuable network position in one or more foreign countries (Johanson & Vahlne, 2009).

**Networks used by WOFEs**

Table 6.3 below summarises the use of networks/connections for the WOFE SMEs in entering and operating businesses in the Chinese market.

**Table 6.3: Network Adoption by WOFE SMEs**

<table>
<thead>
<tr>
<th>Case</th>
<th>Pseudonym</th>
<th>Business Type</th>
<th>Network in Entry</th>
<th>Network in Operation</th>
<th>Role of Networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>BioTech 1</td>
<td>Research Services</td>
<td>Austrade provided networking opportunities for new entrants</td>
<td>Developing both personal and institutional type networks</td>
<td>Facilitate entry, provide references</td>
</tr>
<tr>
<td>No.</td>
<td>Company</td>
<td>Industry</td>
<td>Method of Entry</td>
<td>Assistance</td>
<td>Support</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------</td>
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<td>------------</td>
<td>---------</td>
</tr>
<tr>
<td>9</td>
<td>Biotech Co 2</td>
<td>Research Service</td>
<td>Use connection in China (with an academic institute)</td>
<td>Austrade and Victoria state government and a personal connection</td>
<td>Support to enter, provide references to potential clients</td>
</tr>
<tr>
<td>10</td>
<td>BioTech Co 4</td>
<td>Research services</td>
<td>seems relationships with universities</td>
<td>Did spend some time in China before setting up a business</td>
<td>Entry and running information sources</td>
</tr>
<tr>
<td>11</td>
<td>Recruitment Co</td>
<td>Mining Business Services</td>
<td>Not used (enter via Hong Kong)</td>
<td>Has networks around the world with other companies</td>
<td>International firm having connections</td>
</tr>
<tr>
<td>12</td>
<td>Accounting Co</td>
<td>Business Service (finance)</td>
<td>Entered via own network (Australia referral)</td>
<td>Maintain relationship with existing clients also expand relationship in the Chinese market.</td>
<td>Facilitate entry, provide job opportunities</td>
</tr>
<tr>
<td>13</td>
<td>Vehicle Warranty Co</td>
<td>Business Service (warranty)</td>
<td>Networks helped them establishing new business</td>
<td>Not used.</td>
<td>Entry and establishment, not much in running</td>
</tr>
<tr>
<td>14</td>
<td>Office Co</td>
<td>Property service</td>
<td>AustCham helped</td>
<td>Maintain relationships with</td>
<td>Assistance to enter, use local</td>
</tr>
<tr>
<td></td>
<td>Resources Co Mining Product Supplier</td>
<td>Used connection entering</td>
<td>Used conferences, member of Aust-Cham</td>
<td>Facilitate entry, use networks for marketing</td>
<td></td>
</tr>
<tr>
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<td>--------------------------</td>
<td>----------------------------------------</td>
<td>---------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Processing Co Mining Service Austrade and AustCham</td>
<td>Participating conferences aiming networking opportunities. relationships covering a wide range including different geographical locations</td>
<td>Facilitate entry, use networks for marketing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Metal Frame Construction Service Joint Venture with Chinese company helped entering and establish in the market</td>
<td>Use Chinese professional for local dealings. Developing relationships with government and local companies</td>
<td>Facilitate for entry, help business operation matters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Build Co</td>
<td>Construction Service</td>
<td>Contacts via Clients (MNEs)</td>
<td>MNEs, looking into the local market-Use expos, presentations at forums and chambers of commerce hold events for network building</td>
<td>Facilitate entry, help finding jobs</td>
</tr>
<tr>
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</tr>
<tr>
<td>19</td>
<td>Architect Co</td>
<td>Construction Service</td>
<td>Opportunity comes as a result of a client in China coming here in Australia</td>
<td>Being social, make friends and those friends employ them.</td>
<td>Facilitate entry, job opportunities by references</td>
</tr>
<tr>
<td>20</td>
<td>Design Co</td>
<td>Design Service</td>
<td>Australian government help</td>
<td>No use</td>
<td>Entry support</td>
</tr>
<tr>
<td>21</td>
<td>Box Co</td>
<td>Manufacturer/Distributor (outsourcing)</td>
<td>Relationships with Board of AusIndustry Group</td>
<td>Austcham occasional trade shows.</td>
<td>Entry support and marketing support</td>
</tr>
<tr>
<td>22</td>
<td>Medical Equipment Co</td>
<td>Research Service</td>
<td>Used Brokers</td>
<td>Professional networks,</td>
<td>Entry support and references</td>
</tr>
<tr>
<td>No.</td>
<td>Company Type</td>
<td>Role</td>
<td>Experience</td>
<td>Networks with</td>
<td>Support Services</td>
</tr>
<tr>
<td>-----</td>
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</tr>
<tr>
<td>23</td>
<td>Printing Co</td>
<td>Digital Printing Service</td>
<td>Worked for AustAsia Company</td>
<td>Networks with Australia (75%), developing in China and well connected with China.</td>
<td>Entry support and finding jobs</td>
</tr>
<tr>
<td>24</td>
<td>Milk Co</td>
<td>Producer/Distributor</td>
<td>Initial contacts via QLD Government office, Austrade, and Australia Chamber of Commerce</td>
<td>Use professional organisations advice (e.g. Workshops by Australian Institute of Company Directors).</td>
<td>Facilitate entry, operational support</td>
</tr>
<tr>
<td>25</td>
<td>Meat Co</td>
<td>Producer/Distributor</td>
<td>Personal level connections</td>
<td>Use distribution networks available building long-term relationships, good networks</td>
<td>Facilitate entry, operational support</td>
</tr>
</tbody>
</table>
Networks are important

All eighteen SMEs in the WOFE category stated that networks were crucial and they had used them when entering the Chinese market. However, an architect’s firm argued that networking, connections or relationships are not always the best way to win business; rather it's the quality and price competitiveness of the product or service offering. Results indicate that SMEs took an active role in government and professional associations to increase the level of benefit that they gained as well as the number of organisations with which they came into contact. This approach was quite different to the lower investment form SMEs (importer and exporter SMEs) which were passive consumers of government support, and the BIC SMEs which were more selective in their involvement with institutional forms of support. These WOFE SMEs also extended their network engagement activities to involvement in conferences, as well as the development of informal relationships, particularly guanxi. WOFE firms identified guanxi as a different form of networking to the approaches that they were familiar with in their home country (Australia).

According to a medical research and biotechnology WOFE, relationships were important and without good relationships it was difficult to survive or to think of having a future in business:

“One of the very strong differences in a business sense is that people in Australia will happily do business with people they don’t get along with, but that just doesn’t happen in China. It’s all built on having a good relationship and then you may or may not do business. It’s a matter of making sure that those relationships are good or else there is no future” (Case 8: BioTech Co 1).
The SME also believes that appreciating the Chinese culture is a good way of building strong relationships, and trust is another factor which requires SMEs to build good, trusting relationships in business dealings:

“In all seriousness, having somebody who understands the value of relationships and relationship building, and the importance of sitting down over a meal and showing appreciation for Chinese culture” (Case 8: BioTech Co 1).

SMEs in WOFE category indicated that networks were crucial irrespective of industry. They believed that foreign business in China is built on having good relationships with local people or firms, and those relationships are critical not only for assuring the flow of jobs but also expanding networking capabilities and finding opportunities. According to Xia et al. (2007), networking is the most valuable resource for foreign firms’ competitiveness in the Chinese market.

**Networks from previous relationships**

Another important form of networks are contacts from prior working places. The manager of the Architect Co below indicated that the network that had of local contacts through a previous job assisted them to enter the Chinese market:

“So that comes about as a result of a client in China coming here, we look at something for them, we work on it from here and so that creates an opportunity for us to open an operation in China, and that’s pretty well the kind of way that kind of connection works” (Case 19: Architect Co).

Another SME involved in structural steel construction activities entered the Chinese market with a connection they made in a previous job. As a result, this SME highly valued local contacts:
“Initially, we got invited about 30 years ago to get involved in a project in Dalian, and co-operated with a firm which was an Australian company and a company from Hong Kong, so three of them had a bit of a consortium” (Case 17: Metal Frame Co).

SMEs were of the view that connecting with the correct people who are decision-makers in other organisations is important to effectively use connections for business operations. They believe that what makes a successful business in China really is presence, and are, as a result, seeking to build long-term relationships and good networks. The SMEs are of the opinion that it is not easy to maintain relationships with government bodies as an individual or as a small firm, so some consultancy firms in China do help in that sort of thing.

**Location choices influence networks developed**

Expertise and location choices, such as setting up in innovation hubs, were also factors which can influence the development of networks, according to the participants. One participant found that their expertise was a key factor in developing their business networks. They believe that some people develop things by being social, making friends and those friends will employ them. However, an architectural firm thought that it was more about expertise, someone comes to them to look at a problem and that creates an opportunity:

“Architecture, it’s usually a contact is made where somebody perceives you have an expertise. They approach you over that expertise and then we grab a hold of that opportunity and work on it. Some people develop things by being social people and they make friends and those friends employ them. That’s not really how we’ve done it”
(Case 19: Architect Co).
Location factors can also influence the relative effect of social networks, compared to business networks for internationalisation success. One participant suggested that this is due to the different cultures in the different regions in China. They believed that different parts of China had cultural differences and this affected relationship building and how these relationships worked:

“So, in the south-east part of China it’s more, the culture there is more important so where you say definitely personal relationship is the key. But like in Shanghai or the south, the network is important but the network doesn’t have to be very personal network, you don’t have to build the personal relationship to do business. But if you go further inland, I agree the personal relationship is a key” (Case 9: Biotech Co).

These conditions would lead to constant tension within the organisation between the culture in the host country and the home country culture, requiring an effort to maintain an understanding of the local culture in order to maintain credibility and eligibility for local networks.

**Conferences/industry associations were helpful**

Participation in conferences and on industry boards was another approach taken by some of the SMEs to connect with appropriate customer groups. SMEs did participate in conferences aiming to get networking opportunities.

In addition to developing business networks, the participants were of the opinion that social relationships (guanxi) were essential for a continual flow of jobs:

“There are still areas where you need some guanxi. We got a contract because we knew someone that we developed a relationship with, who knew someone else who we had to trust” (Case 17: Metal Frame Co).
They, however, commented that dealing with China government offices can be done without any connections as there are formalities to follow. Also, they suggested that it was optimal to use Chinese professionals to manage local dealings.

Generating business opportunities was an important function for the networks of this group of participants. The more sophisticated organisations represented in the study developed network strategies and divided their networks into channels. An Accounting and Finance Consultancy firm assumed that networks generated business referrals and further network opportunities. They believed that building network channels was the biggest challenge:

“We generate our business referrals and network. We are going to the networks and we are using different strategies” (Case 12: Accounting Co).

They believe that social relationships, guanxi, is the main information source for foreign businesses. Developing social networks, however, seemed to be a slower process than the development of business opportunity networks, as the following quotation demonstrates:

“We want to expand our relationship in the Chinese market. I think we will spend another at least half a year or even a year to build a network here and get ourselves known to the market” (Case 12: Accounting Co).

This is interesting as it suggests that firms and SMEs will spend time developing and building social networks. Print Co used their owner’s connections whilst working for another Australia-Asia firm when entering the Chinese market with his new printing business. The SME established the Chinese side of the business using a partner who is well-connected with Chinese market. This SME was of the opinion that it is essential to understand how things are running in China, as people’s relationships are very complex:
“It’s good to understand how things are running in China; even people’s relationships are very complex here” (Case 23: Printing Co).

However, some participants expressed the view that networks are not required for dealing with the Chinese government as the process is formalised. According to Spence (2000), trade associations and government bodies assist SMEs in internationalisation. Mort and Weerawardena (2006) find that, through networks, SMEs can develop opportunities, and utilising networks such as AustCham, Austrade, or ACBC may assist Australian SMEs with resource deficiency (Mort & Weerawardena, 2006). The research findings are consistent with those of Xia et al. (2007) who determined that networks contain valuable resources which improve the performance of foreign firms in the Chinese market, and are also consistent with Spence’s (2000) finding that trade associations and government bodies can assist SMEs in internationalisation. Further findings are consistent with Mort and Weerawardena’s (2006) finding that government and business association networks help SMEs to take advantage of opportunities.

Accordingly, findings suggest that the WOFEs were the form of internationalised SME in China which gained the broadest benefit from business networks.

**Networks assist with developing reputation and trust**

According to a Resources Co, relationships help with building trust, but developing a reputation, however, requires connecting with the correct people in other organisations:

“I just described I feel a lot of it is top-down approach and you don’t get at a high enough level, then it’s exactly what you said, you have to fly under the radar and find a solution that goes under the radar” (Case 16: Processing Co).
According to the SMEs, guanxi for the Chinese is not just a superficial connection, it is trust and long-term understanding. Indications of credibility and strength are also important in developing business networks in China. Many of the participants followed the Chinese practice of establishing impressive premises in order to support the development of their networks. In Australia the way to build up credibility is through time and relationships; however, the way to build credibility in China is to show that you have substance:

“I guess, particularly in our industry, the more we see as the way to build credibility in China is to show your cash, to show that you are something of substance rather than just a maybe pretend” (Case 13: Vehicle Warranty Co).

**Personal contacts/connections assisted with initial business development**

To initiate the development of social networks, many of the WOFE SMEs relied on personal connections. An organic (baby food) products SME used personal connections when entering the market and used existing distribution networks (baby chain stores in China):

“I’d actually had a friend that we knew up here and she moved over to Pudong and she was really interested in helping us out, so she kind of did a bit of legwork, went through trying to find good people to talk to there” (Case 24: Milk Co).

**Innovative hubs were important**

Some SMEs believed that innovative hubs in China were network opportunities for them which linked them together, and also noted there are lots of them. A medical equipment SME was of the opinion that innovative hubs in China are network opportunities:
“It’s (Innovative hubs) certainly something we’re looking at and there’s a lot of those. They’ve been presented to us, these hubs and innovation zones and high technology zones, and they’re promoted pretty heavily. So, through the Chamber that’s how we found them” (Case 22: Medical Equipment Co).

**Government connections (Chinese/Australian) are important for WOFEs**

A Bio Nanotech SME believed that networking is not that important in China but that connections in the government sector were for them. The majority of SMEs investigated used Australian government support in their internationalisation process, particularly in finding networks or connections, although it was less common for these firms to receive any financial assistance from Australian government bodies. Most if not all WOFE SMEs were of the opinion that networking with government members, whether they be Australian or Chinese government, were vital in China. Government support was also utilised by WOFE SMEs in this study as contact information, and to provide some social capital (due to the status of government connections in China) with which these organisations could build their business networks. A Resources Company, a member of AustCham, said they received a little bit of Australian government support in the early stages of internationalisation:

“We’re a member of AusCham we got Australian Government support a little bit in the early stages but not a great deal” (Case 15: Resources Co).

They entered the Chinese market with the support of Austrade and AustCham and assumed that networks with State Owned Enterprises (SOEs) were important. Their reputation as an international business helped them in getting a connection with SOEs in China. They were active in Austrade and AustCham and believe it was a good way to get connected with other companies.
Austrade provided networking opportunities for firms in the initial stage of business establishment; they then used personal level contacts in further developing their networking. According to them, relationships with agencies such as ACBC, AusBiotech, Austrade and other technical institutes were vital in entering China and establishing themselves in the medical research business sector. An agricultural product exporting SME with a WOFE in China indicated that they were given great support by Austrade, the Australian Chamber of Commerce and Queensland Government Office, which had assisted the business in establishing networks and entering the Chinese market. As a result, they believed government support is the key:

“I aligned myself with the Queensland Government office (in Hong Kong) called Trade Queensland, and also the Australian Chamber of Commerce is very important for providing networking opportunity” (Case 25: Meat Co).

Government and business association support was sufficient to enable some of these SMEs to connect with Chinese State-Owned Enterprises (SOEs), although reputation as an international business was also a contributor. This was very important for some of the SMEs, for whom SOEs were their major customer group. A resources supplier SME had entered the Chinese market with the support of Austrade and AustCham who introduced them to Chinese SOEs which was important. Their reputation as an international business helped them in getting a connection with the SOEs in China. As a result, they believed that networking was extremely important. One firm, however, was of the opinion that the Australian government’s help is limited to just introducing firms to the right people.
Networks used by BIC SMEs

The BIC SMEs used different kinds of relationships or connections when entering China including Austrade services, connections with Australian Institutes in China, entrepreneur organisations, local and global groups, Australian government institutions (e.g., Australian Chamber of Commerce) and personal connections. BIC SMEs have relationships with Australian government institutes and were routinely members of home country business associations in China. Some of the BIC SME participants noted experiencing a high level of support from senior home country government officials for the initial development of their networks, and also chose to take senior management roles in business associations located in China. Some SMEs commented that the Austrade Commissioner had provided great support in getting them tapped into networks, and some firms believe it would probably be useful to get on the board of the Australian Chamber of Commerce when developing networks/connections. Apparently, they received some support from the Chamber with developing their connections prior to entering China. The owner of a marketing consultant BIC firm was the Chairperson of the Media & Marketing Committee of the Australian Chamber of Commerce, which helped in building connections, which then helped him with entering the market. BIC SMEs were of the opinion that the connections provided the SME with jobs and new opportunities, hence networking and relationships are considered an important part of their business operation.

Table 6.4 below summarises the use of networks/connections by BIC SMEs in entering and operating in the Chinese market.

Table 6.4: Network Adoption by WOFE Born-in-China (BIC)

<table>
<thead>
<tr>
<th>Case</th>
<th>Pseudonym</th>
<th>Business Type</th>
<th>Network in Entry</th>
<th>Network in Operation</th>
<th>Role of Networks</th>
</tr>
</thead>
</table>

250
<table>
<thead>
<tr>
<th></th>
<th>Company</th>
<th>Industry</th>
<th>Used Services</th>
<th>Developing Networks</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>26</td>
<td>HR Resource Co &amp; Training</td>
<td>Education &amp; Training service</td>
<td>Used Australian Chamber of Commerce support</td>
<td>Developing mainly informal networks</td>
<td>Facilitate entry, marketing in local market</td>
</tr>
<tr>
<td>27</td>
<td>Social Media Co</td>
<td>Business Service</td>
<td>Made contacts when establishing business.</td>
<td>All sorts of networking available in business: local to global</td>
<td>Marketing in local market</td>
</tr>
<tr>
<td>28</td>
<td>Consult Co</td>
<td>Business Service</td>
<td>Austrade (networks introduction)</td>
<td>Networks with focus clients (pro-human networking approach)</td>
<td>Entry support (network introduction). Recommendations to new clients.</td>
</tr>
<tr>
<td>29</td>
<td>Investment Co</td>
<td>Business Service</td>
<td>Entered the market without any networks</td>
<td>Firmly believe do not need to rely on guanxi if running a good</td>
<td>No specific role</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Department</td>
<td>Description</td>
<td>Entry Information Source, Recommendations and/or References</td>
<td></td>
</tr>
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</tr>
<tr>
<td>30</td>
<td>Management Consulting Co</td>
<td>Legal and Finance Service</td>
<td>Austrade is good in education space and help.</td>
<td>Do use guanxi in Australian context</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Entry information source, recommendations and/or references</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>Arbitration Co</td>
<td>Legal Service</td>
<td>Member of the Australian Chamber of Commerce</td>
<td>Build relationships with disputes resolution professionals in China and the world.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Facilitate entry, marketing</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>Marketing Co</td>
<td>Business Service</td>
<td>Involved with Committee of the Australian Chamber of Commerce</td>
<td>Develop networks or connections with other businesses.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>Entry information source, recommendations and/or references</td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>Investment Co</td>
<td>Property Service</td>
<td>Connection in Hong</td>
<td>Building contacts in different ways</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Facilitate entry, recommendations and/or references</td>
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<tr>
<td></td>
<td></td>
<td>Kong (a friend)</td>
<td>(functions, associations, government organisations etc.)</td>
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<td>------------------------------------------------------</td>
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</tr>
<tr>
<td>34</td>
<td>Architect Co Design Service</td>
<td>Not used</td>
<td>Not believing networks are beneficial - use guanxi with limits</td>
<td>No specific role</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>Shop Co Supplier</td>
<td>Austrade provided networking opportunities</td>
<td>Developing a network of suppliers and logistics firms around China.</td>
<td>Entry information source, recommendations and/or references</td>
<td></td>
</tr>
</tbody>
</table>

**Use of Government Networks**

The BICs in the study were substantial users of government, agency and personal contacts in the development of their networks. Some of these networks were extensions of their original networks in Australia. According to the results, BICs used Austrade services; some already had connections with Australian institutes in China and some had strong personal connections. A SME operating as a Management Consultancy stated that they do have good networks in China and also back in Australia.
“I’ve got a network back in Australia, I’ve got a small network over here in China too - we can help clients here and we have a pretty good network here” (Case 30: Management Consulting Co).

The BICs were more particular about the organisations which they allowed into their networks and how they were introduced. They used background checks and were also careful to use network building approaches with which they were familiar. Some of these SMEs preferred not to develop their networks using guanxi as they did not feel they had sufficient control to produce the correct outcomes. According to them, relationships are vital, however, SMEs need to be aware of who they are dealing with, which indicates that background checking is essential. They further commented that until they were on the ground in China it was not possible to develop good relationships. This SME claimed that it was better to avoid using guanxi in business operations in China.

This SME also believes the importance of relationships varies according to the industry type, marketing strategies and business model. However, relationships with government bodies, joining local associations, and participating in conferences were good ways of making business networks and they recommended them for other businesses. They all concurred, however, that relationships with government bodies, local associations and participating in conferences were important for the establishment of business networks. Despite the BICs’ formal approach to the establishment of business networks, the SME below, a HR consultancy firm in the training and education sector, assumes that informal networks are more relevant to their business success, hence the networks themselves did not need to be formal, as the following quotation indicates:
“I think informal networks are probably stronger and more relevant, more to the point” (Case 26: Human Resource Co).

Social Media Co had relationships with Australian government institutes and a member of AustCham. In addition, Shop Co was of the opinion that the Austrade Commissioner had provided great support in getting them tapped into networks, whereas, Arbitration Co believed it was useful to get on the board of the Australian Chamber of Commerce when developing networks/connections:

“In terms of connections, I think it would probably be useful for me to maybe get on the board of the Australian Chamber” (Case 31: Arbitration Co).

This would allow the firm to get known in the market, and develop their reputation. The owner of a marketing consultant firm was the Chairperson of the Media & Marketing Committee of the Australian Chamber of Commerce, which helped in building connections, and assisted with further developing the business:

“So, not only was I a member of the Chamber but I was a founding chairperson of their Media and Marketing Committee, and so it’s the networks that sort of an organisation helps you create - as an organisation that is interested in helping you create networks. I mean, the Chamber is a good starting point for anybody who’s coming into Hong Kong and needs to connect with other organisations, because they will facilitate introductions” (Case 32: Marketing Co).

**Business Associations**

According to some BIC SMEs, they developed connections with other businesses as it helps with running the business and facilitates introductions to other businesses. The sources of
network building used by the BICs included entrepreneur organisations, engagement with the boards and meetings of local and global groups, sponsoring conferences and events, informal community relationships, home country associations and commercial events. A social media SME had developed their business in China with the support of networks using all sorts of available networking in their business operation areas, such as entrepreneur organisations, local and global groups, Australian government institutions (e.g., Australian Chamber of Commerce) and many global and local events in developing networks:

“I’m a member of the EO, Entrepreneurs Organisation globally, and there are about 50 members in Shanghai, 8,000 in the world. EO has been very helpful because that’s a very exclusive network of people to join, so it’s quite expensive to join, you’ve got a requirement to join, it’s not easy to fulfil but once you’re in it’s an awesome network globally. I’m part of AustCham too” (Case 27: Social Media Co).

The owner of the SME was of the opinion that not only government relationships but also informal community relationships are vital in the Chinese market. This SME uses all sorts of forums to build publicity for their business. They also sponsor conferences to attract customers, however, they did not have any involvement with innovative hubs or science parks for networking purposes.

Noticeably, BIC firms did not choose to locate themselves in innovative zones such as innovation hubs or science parks, and did not rely on the proximity of other innovative organisations to build their business networks. Some of these SMEs even entered the market without prior networks or connections and built them during their start-up phase. An investment advisory SME, entered the market without any networks or prior connections. The networks established in this way were created over long timeframes, as the following
quotation indicates. However, the SME assumed that networks and contacts (or referrals) in China were important in getting a strong profile:

“Network is very important, built up over 30 years. Also, referral, networking here, word-of-mouth makes a difference. What we don’t have the time or the resources at the moment to do is to really exploit social media” (Case 28: Consult Co 1).

They also believe that it is vital for developing trust, which adds value to the business.

Supply chain relationships proved to be important for the BIC SMEs in the study, in many cases proving to be key network relationships for their organisation. The following SME believed that building relationships was not that easy a task; however, they managed to establish good relationships with the logistics companies and supplier firms which was key to their business operations:

“We’ve got good relationships with the logistics companies so they help us do it. But initially, when you start the ball rolling, it’s we don’t want to deal with those people, but once you start breaking the walls down and work together and they’re happy with what you deliver, the relationships get easier, but initially it’s a nightmare” (Case 35: Shop Co).

Social capital was again important for the development of these SMEs’ networks. In many cases, the social capital they developed provided them with unique opportunities, and connections which provided the SMEs with jobs.

According to a marketing consultancy SME, networking is important and firms must develop a connection with other businesses as it helps with running the business and facilitates introductions to other businesses. This BIC SME was of the opinion that without the correct
networks, it was impossible for them to do business in Asia, as networks were fundamental to successful business in Asia:

“Without feeling confident that I had the right networks, or at least a good network, I would not have gone out on my own. So, yes, I think networks in Asia are fundamental to anybody’s business” (Case 32: Marketing Co).

A study by Kenny et al. (2011) shows that not all networks have a significant impact, and offers empirical evidence on the link between network resources and international performance, thus providing insight into the types of network resources that have the potential to create value for the firm and those that do not. Therefore, not all network resources may be as effective as some of the literature in this area would indicate.

Some BIC SMEs were heavily involved with Australia-China sessions in Hong Kong and maintained a large list of contacts (thousands), and believed that they were capable of expanding business into every part of China, if required. They did meet a lot of people through different events held in Hong Kong, including AustCham and Alumni functions. According to this SME, it was important for them to maintain a relationship with the correct people otherwise the good name of the business or managers would be destroyed and would affect business performance. Freeman et al. (2006) identified that the born-global SMEs overcome constraints such as lack of resources and aversion to risk-taking by using networking competencies to develop a range of collaborative partnerships.

**Personal connections**

BIC firms use informal networks that are more relevant to their business success than formal ones and assume they are vital in the Chinese market. Zhou et al. (2007) suggest that
international business managers should consider social networks as an efficient means of helping internationally-oriented SMEs to go international more rapidly and profitably. Seen from the standpoint of the social dynamics of the internationalization process (Ellis, 2000; Harris & Wheeler, 2005), Zhou et al. (2007) argue that internationalisation orientations require such network ties to have a positive performance impact. Using survey data from SMEs in China, Zhou et al. (2007) found some support for the mediating role of social networks in the form of guanxi, where a mediating mechanism is attributed to three information benefits of social networks: knowledge of foreign market opportunities; advice and experiential learning; and referral trust and solidarity. This is so because internationalisation orientation alone may not necessarily bring about sufficient information and knowledge on the part of the internationalising firm to take risks and rapidly capture market opportunities at home or abroad. Therefore, it seems reasonable that internationally active entrepreneurs rely on readily available interpersonal ties and social interactions to obtain the particular information benefits (such as knowledge of potential market opportunities, personal advice and experiential learning, and referral trust and solidarity) that eventually lead to improved performance outcomes. These networks are important because the investment intensity and complexity of a foreign SME operation established in China may mean that an internationalisation orientation may not provide sufficient information and knowledge for the internationalising SME to capture the opportunities available in China. This will be even more important for the BIC’s rapid internationalisation process.

In a similar vein, a property investment SME had set up their business in Hong Kong using a personal connection, after meeting up with a friend on a trip to Hong Kong:
“I actually came to Hong Kong to visit a friend for six days and she has a business here with clothing for expat women, and she’s very successful and after six nights here I decided to come back within a month and set up a business” (Case 33: Investment Co).

Further, Zhou et al. (2007) argue that the role of social networks is likely to be more crucial in terms of speed and flexibility for the implementation of a born-global internationalisation strategy. Born-global SMEs that operate in the broader social networks are believed to enjoy a rapid and experiential learning advantage, and therefore find it relatively easy to achieve the performance consequences of early internationalisation. Indeed, in the context of born-global SMEs, network resources most suited for explaining firm internationalisation may not be about the use of established business networks, but about the rapidity and scope of informal social networks developed by the entrepreneurs from those firms (Chetty & Campbell-Hunt, 2004; Etemad, 2004; Harris & Wheeler, 2005). Zhou et al. (2007) confirmed that guanxi utilisation is relatively comparable to both directions of internationalisation strategies, especially in the context of China.

Other members of the BIC segment of the sample held different views about the value of networks for this type of organisation. They offered a pragmatic perspective in which a business network was primarily based on mutual benefit, rather than trust, knowledge and cooperation as the motivations. The following SME, an architect firm, was strongly of the opinion that networks are not beneficial, and it can be disastrous to put all of your eggs into one basket, so to speak. The SME commented that the fatal mistake a lot of companies make is they work on the same principle as they would in Australia. They believe that relationships are not that critical, no one will value relationships if no benefits accrue to them, so the quality of work and fees (competitiveness) are the key:
“I’m going to have lower fees and I’m going to develop relationships with developers and stuff and then, when I have a relationship, I’ll increase my fee, it doesn’t happen. They’re not interested in a relationship unless it benefits themselves. If it benefits you they’ll think they’re paying too much so your relationship is naff. It all comes down to money” (Case 34: Architect Co).

They further stated that businesses can use guanxi unless it would be considered bribery:

“In China you have guys who facilitate projects. They know a lot of people, they used to work in the government, say, or whatever, so their job now is to actually connect people, but that’s his job, so I’m happy to pay him a fee if he introduces me to a client, makes sure I get a reasonable fee, make sure the fees get paid, that sort of stuff” (Case 34: Architect Co).

This critical perspective offered in the above quotation reflects a more clinical perspective about networks and network reliance.

**Serendipity**

The results indicate that BIC SMEs were sometimes established because of serendipity and connections the owners had made by chance or in response to an unexpected opportunity. A study by Rodrigues and Child (2012) found that for approximately one-third of the rapid international companies, businesses were triggered through serendipity in the sense of fortunate, chance events. These events generated new social capital, but in a way that was not planned or even sought after. Significantly, serendipitous encounters could lay the basis for a trust-based personal relationship to support business in a new market.
**Overall Discussion**

The purpose of this chapter was to explore the networks that different entry modes used, and whether they varied by entry mode. As different entry modes have different activities and resource commitments, it would be expected that they would hence require different networks. The analysis of the results revealed ‘qualitatively’ that there were differences in the types of networks that the SMEs were using, and what they thought was important about it. To summarise the findings from each of the entry modes, the following typology presents how these entry modes differed (Figure 6.1). Interestingly, all entry modes were using government agencies to assist with their internationalisation/business establishment. The results indicated that there were differences in the types of networks that the entry modes used and, in addition, the importance placed on networks. This suggested that, overall, different entry modes need different network resources. This result has practical implications, that is, SMEs need to take the differences into account when developing their networking strategies. For example, if an SME is going to engage in importing it will influence the type of network they may need. In this case, the breadth of the networks is quite small, and the depth of the relationship is not that deep, although the results do indicate that even for importers it is important to develop the relationship. As Figure 6.1 indicates, the breadth and depth of relationships for SMEs became greater and deeper for exporters, and even more so for WOFEs, and then BIC firms. Although the BIC firms had less support from Australian government agencies, they gained more assistance from the business associations.
### Figure 6.1: Summary of Findings for Different Entry Modes for Networking

<table>
<thead>
<tr>
<th>Low Market Presence</th>
<th>Importing</th>
<th>Exporting</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Agencies</strong></td>
<td>Important to develop relationship</td>
<td>Trade Shows/Exhibitions</td>
</tr>
<tr>
<td>Agent</td>
<td>Innovative Hubs</td>
<td></td>
</tr>
<tr>
<td><strong>High Market Presence</strong></td>
<td>Wholly-Owned Foreign Enterprise</td>
<td>Born in China</td>
</tr>
<tr>
<td>Networks are important</td>
<td>Government Agencies</td>
<td>Government Agencies</td>
</tr>
<tr>
<td>Location choice influences networks developed</td>
<td>Business Associations</td>
<td></td>
</tr>
<tr>
<td>Networks from previous experience Conferences/Industry Associations Networking better in China/Hong Kong</td>
<td>Personal Connections</td>
<td></td>
</tr>
<tr>
<td>Networks/guanxi assisted with developing trust</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal connections</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovative Hubs were important</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Government Agencies</strong> (Australian, Chinese)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*The items highlighted in bold, are similar across the entry modes.*
Chapter Summary
The findings above confirmed the central role of networks in the internationalisation of the SMEs included in the study, and identified the importance of building networks for the success of each of the four identified forms of internationalised SMEs in China. However, the results indicate that there is a variation in approaches for the development and the purpose of networks for each group. The analysis also determined that the higher commitment mode SMEs (WOFE and BIC) had greater and stronger networks. This suggests these SMEs were more informed and concerned about network development and operation. Although some evidence found that network development for the importer and exporter SMEs was identified less in the responses, it indicates the WOFE and BIC SMEs had a more complex, critical and extensive approach to network building. The BIC firms had concerns about selecting the organisations in their networks and were the only SMEs in the sample that specifically mentioned conducting background checks of potential partners.

Noticeably, the importer and exporter SMEs appeared heavily reliant on the information that their networks provided, although they did have fewer options for identifying potential network members, which may have partly reflected their limited physical investment and engagement in China relative to the other two forms of SME. The greater attention and diversity of approaches by the WOFE and BIC SMEs may also have reflected the longer-term nature of their network relationships (some lasting 30 years) as well as the greater level of investment in their Chinese operations.

The use of Australian government support to identify potential network members was an approach taken by all four types of SMEs. The findings indicated, however, that Australian government support was limited, thus introducing a high level of social capital into the
network partner search process. The Australian government’s ability to target and provide information about the most appropriate network members in China was limited, which could have been being due to the large psychic distance between the two countries.
Chapter 7: Entrepreneurship Orientation of Innovative SMEs

Overview of this Chapter

This chapter presents the results of Research Question 4, which deals with the role of entrepreneurship orientation (EO) in the internationalisation of Australian SMEs to China. It identifies the primary themes and considers the factors the interview participants identified which made their entrepreneurial ventures successful. It also explores the motivation that encouraged them to initiate the venture in China, and the management style and focus that they adopted in their Chinese operations. The chapter also discusses the results in relation to past findings in the literature. The discussion section compares the findings to the literature, and also explains how the identified behaviours and decisions extend current understanding of SME entrepreneurship and the literature.

Research Question 4a: How does entrepreneurship orientation (EO) influence the innovative Australian SMEs participating in China?

The results of the research illustrated that entrepreneurship is an essential feature of the majority of the SMEs investigated. According to Mohammad & Filho (2009), entrepreneurs will stimulate the start of an international venture and entrepreneurial processes, in relation to the recognition and exploitation of international opportunities (Bruton et al., 2014).

Supporting these views, the majority of SMEs investigated entered the Chinese market initiated by the owner/manager of those SMEs, and this is discussed in detail later in this chapter.

According to O’Cass and Weerawardena (2008), firms adopting an international entrepreneurial posture display greater innovativeness, pro-activeness and risk-taking propensity in their strategic decisions. According to researchers in entrepreneurial studies, a
combination of the three dimensions of innovativeness, pro-activeness, and risk-taking are key elements of Entrepreneurship Orientation (EO). EO involves a willingness to innovate and rejuvenate market offerings, take risks to try out new and uncertain products, services, and markets, and be more pro-active than competitors toward new marketplace opportunities. Mohammedi and Schneppe (2015) suggested that a firm’s EO is considered to have a positive influence on the internationalising process. Glavas and Mathews (2014, p. 230) stress that EO is a multi-dimensional concept (Covin & Slevin, 1991) which can be considered both an individual and firm-level construct (Knight, 2001). It enables businesses to identify and exploit internationalisation opportunities (Mostafa, Wheeler & Jones, 2006; Slevin & Terjesen, 2011), reflects the firm’s overall pro-activeness and aggressiveness in its pursuit of international markets (Knight, 2001), and involves taking advantage of international market offerings and taking risks in international environments (Jantunen, Puumalainen, Saarenketo & Kylaheiko, 2005; Wang, 2008). Kusumawardhani et al. (2009) suggest that SMEs with higher levels of EO have been found to perform better than those which lack such orientation.

The results of the current study indicate that EO plays a key role in the SMEs investigated in their internationalisation process to China. Lan & Wu (2010) found that EO is positively related to the degree of internationalisation, particularly amongst SMEs. The results of the current study also indicate that, regardless of the industry type, all SMEs investigated adopted EO in the process of internationalisation to China. Javalgi and Todd (2011) claimed that EO is one of the key factors influencing the international success of SMEs, and there is a strong link between EO and the degree of internationalisation (Autio et al., 2000; Zucchella et al., 2007). Brouthers and Nakos (2014) theorised that EO capabilities are important in helping SMEs overcome the liabilities of foreignness the SMEs encounter when expanding to foreign
markets. Lan and Wu (2010) strongly suggested that in order to survive in international markets and grasp every development opportunity, SMEs should strengthen EO and cultivate and actualise innovativeness, risk-taking, and pro-activeness, which are necessary conditions of firms’ survival. However, Kusumawardhani et al. (2009) argue that although the dimensions of EO – innovativeness, risk-taking, pro-activeness – contribute to firm performance independently, they are considered insufficient for the SMEs to enter global markets successfully.

All the SMEs investigated in this study were innovative in their businesses and had adopted product, process, market or business innovation either in an incremental or radical form in their Chinese business ventures, as identified by Research Question 2 on innovation. Also, all these SMEs were pro-active in nature, and were actively entering China to sell their new products, and seeking market space or market leadership positions for their products/services in China. Approximately three quarters (77%) of the managers/owners of the SMEs investigated undertook somewhat risky ventures or were willing to pursue projects with uncertain outcomes. However, approximately more than half of the SMEs’ managers’/owners’ behaviour (54%) was non-aggressive in nature, as they wanted to grow slowly (organically). Only one-third of the SMEs were aggressively looking for fast growth and/or significant market share for their products/services in the Chinese market. This might be explained by the fact that these firms are SMEs, and have limited resources.

A detailed analysis, presented in the following section, will now be undertaken to understand why EO elements are important for the internationalisation process for innovative Australian SMEs to China. EO will be discussed here under the headings pro-activeness and senior managers’ attitudes towards risk and growth expectations (aggressive or not). Innovativeness,
an important dimension of constructing EO (Lan & Wu, 2010), has been discussed previously in this thesis under the innovation section, hence, SMEs’ pro-activeness and the attitudes (of senior managers of these SMEs) towards business risk and growth expectations are discussed below.

**Pro-activeness behaviour**

The results indicated that twelve (12) out of the thirty-five (35) SMEs demonstrated that they entered the Chinese market as a result of actively seeking new market places or opportunities. Eight (8) SMEs had entered the Chinese market seeking market leadership positions for their product or services, whereas, fifteen (15) SMEs were actively looking for new product spaces.

**Figure 7.1: SMEs Pro-active Behaviour**

SMEs looking for new market spaces had experienced restrictions in the domestic market when expanding their business. The Australian domestic market for their products/services is small and mature, as indicated by Vehicle Warranty Co, who was actively seeking a new market space for their products/services:
“We’d have to be very pro-active there. Our business model is great - not relying too much on anybody. The Australian market is, however, so mature compared to here (China)” (Case 13: Vehicle Warranty Co).

The above comment indicates that the SME used pro-activeness to tap into an immature market in China. In comparison, an Architecture firm’s reason for internationalising was for the purposes of surviving given the lack of adequate work in the domestic market, as the quote below indicates:

“We moved to China, it’s pretty simple, there’s no work here (Australia), so, in order to survive you’ve got to go somewhere else. Basically, in Australia it’s shrinking and we’re looking at maintaining it there and it’s an income producing thing” (Case 19: Architect Co).

Some SMEs investigated were looking pro-actively to develop market leadership domestically, and their business venture in China served their purposes, as the SME stated below:

“We just decided we’ll do all the manufacturing ourselves and that’s how we formed our factory, looking for ways to stay more competitive - a sort of competitive edge. We've got a Chinese registration and also a Hong Kong registration, so we’re using the Hong Kong registration - it makes things easier to deal with” (Case 23: Print Co).

An importer SME in the chemical industry was actively looking for a market in product sourcing in order to introduce competitive products, as described in the quote below:

“I think the driver was just from a product sourcing perspective. My understanding is it was just more competitive to get the products from there directly, so that’s why we started” (Case 3: Chemical Co).
Pérez-Luño et al. (2011) disaggregated the EO dimensions and found that pro-activeness was positively related to innovation generation and also internationalisation. The results indicate that the SMEs were pro-active for a number of reasons: (1) to enter a new marketplace due to a shrinking domestic market; (2) to seek market leadership positions using opportunities existing in China; and (3) seek growth opportunities by outsourcing domestic operations. They were looking for opportunities, in response to limitations in the domestic market, to achieve market leadership positions or growth using the opportunities available outside the domestic market, showing that the SMEs adopted high degrees of pro-activeness and that EO has influenced the SMEs’ internationalisation to China. According to Li et al. (2014), a high degree of pro-activeness increases a firm’s international scope, and the results of this study indicate that a number of the firms were pro-active, and were seeking to be in multiple international markets, making China just one location in their international scope. Li et al.’s (2014) results were also complementary to those found by Kreiser et al. (2013), who showed that in SMEs, pro-activeness displayed positive relationships with SMEs’ perceived sales growth. Assuming opposite positions with respect to the pro-activeness dimension can likewise be beneficial for international scope. That is, while being highly pro-active enables firms to identify as well as assemble the resources required to exploit opportunities overseas (Lee et al., 2001), being reactive helps them expand abroad by taking advantage of opportunities presented without assuming the search costs typically associated with identifying new opportunities (Coviello & Munro, 1995, 1997).

The results indicate that one key reason SMEs looked for opportunities in the Chinese market was the limited market size or lack of opportunities in the Australian market. Further, some SMEs are actively entering the Chinese market seeking new products space, and sourcing primary materials for their factories in Australia. As per Liu (2014), SMEs must look at
internationalising in order to remain solvent as local markets may not provide enough revenue for the product or service being provided (Patel et al., 2012). As per the results, SMEs did seek market opportunities purposely in responding to their problems in the domestic market and, as discussed in other sections, they did use a network approach in finding opportunities and use innovation as a means of entering Chinese markets. Chandra et al. (2009) suggest that even though firms cannot deliberately search for what they do not know exists, they can enhance the opportunity recognition process through the diversity of their existing knowledge base, their positioning in communication networks and their willingness to consider new possibilities.

**Attitudes towards Risks**

The results of the research indicated that 27 of the 35 SMEs demonstrated that they acted with risk-taking attitudes in entering and establishing their business in the Chinese market. In doing so, they were uncertain about the possible outcomes or potential market share for their products and services. Eight of the SMEs appeared to enter China with a risk-averse attitude, as they always acted with risk reduction or elimination approaches (see Table 7.2).

**Figure 7.2: SMEs Senior Managers’ Attitudes towards Risk**

![Pie chart showing 27% risk-taking and 77% risk-averse attitudes among SMEs]

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It appeared that taking risks, and not knowing the outcomes, was a key consideration for the managers of the SMEs. The managers of SMEs took risks in different forms: investing money, introducing new products/services, colliding with regulatory/legal/entry restrictions, and unknown market conditions for their products/services. The following quote indicates the risk-taking attitudes of the senior manager of an architecture firm, who had purchased a local business with unknown market conditions, which, they believed, became the firm’s main advantage:

“We have got where we are by taking a lot of risk, in reality. In our case, we took a big risk back then because when we bought out firm ‘AB’ it was a very flat market. So it was a very big risk to actually come and do it. You don’t know how much you’re going to get ripped off. I mean, we do take a lot of risks and work hard trying to get it to work. Our advantage I suppose was that we actually took the risk early enough. You are so taking a lot more risk to get stitched up on fees, because in China you will never win a law suit, whatever you do you cannot protect yourself” (Case 34: Architect Co).

The quote below indicates the SME’s risk in taking on a new brand introduction. They have to take risks associated with the local legal environment, local press and bribery related matters in dealing with local authorities when they are introducing a new brand to the market, and the outcomes can be uncertain:

“There’s been a huge amount of risk around introducing our brand and trusting where our brand is going to go, and how it’s going to be promoted. As I said, the local laws around promotion of formula as well, which is not permitted, and there’s recent stories in the press about companies like M denying and who had been caught up and been fined for bribing hospital officials. The problem when you come here is you don’t really know how you know what’s actually happening to a product once it’s left your custody” (Case24: Milk Co).
In the case of risk-taking, a majority of SMEs (around 74%) were willing to accept risks in the internationalisation process. Pérez-Luño et al. (2011) found that risk-taking was positively related to innovation generation and hence to internationalisation, although it was moderated by environmental dynamism to a certain extent. The current study results indicate owners’/managers’ high levels of risk-taking attitudes enhance the internationalisation of SMEs, although some SMEs (36%) act to the contrary (although not high–moderate risk-takers, they too took low risks), because without taking risks, the firm would not have internationalised. Li et al. (2014) suggest that moderate levels of risk-taking produce greater levels of international scope than do either low or high levels. It would seem important for SMEs to take moderate risks, as high levels of risk-taking raise the stakes of international activities, whereas low levels discourage venturing abroad altogether. The results of the current study do not support this view as the majority of SMEs acted with moderate risk-taking. To enter new foreign markets, firms must apply their limited resources towards pursuing opportunities in situations commonly fraught with risk and uncertainty (Knight & Cavusgil, 2004). As firms increasingly look to international markets as a way to reduce their dependence on domestic markets (Musteen et al., 2013), it is important to understand what enables them to venture into foreign markets (Li et al., 2014).

**Aggressive or non-aggressive behaviour towards growth**

The results indicate that 16 senior managers from the 35 SMEs demonstrated that they acted aggressively when entering and establishing their business in China. These managers seeking growth opportunities acted aggressively within China, that is, they wanted to grow rapidly. The other SMEs investigated appeared to have entered the Chinese market in a non-aggressive way, and wanted to grow organically and not fast-track their approach.
For the SMEs who were behaving in aggressive ways, they did do it in different forms. Some marketed their new products aggressively; some were competing with other businesses aggressively and some were aggressive about achieving rapid growth. The quote below is an example of a firm’s growth expectations:

“A lot of people suggested that we need to go much faster and harder in China. Our company wants to grow and evolve and adding business units and buying other. So, our legal advice right now is to grow, grow our business I guess under the radar a bit”

(Case 13: Vehicle Warranty Co).

The following WOFE SME indicated they wanted to grow organically, without major capital investments:

“We grow organically, no major capital investment or anything. China works on very small margins so it’s like feeding a dragon, for the future we still need to promote our manufacturing side. We want to look at doing our own products, our own branding, our own labels which will take time, but I think we must do that because China is only going to get more expensive and we need to be ahead of that” (Case 23: Print Co).
According to these results, competitive aggression plays an important role in the internationalisation process, however, not all the firms were highly aggressive, in fact most were non-aggressive and trying to grow organically. As Orengo (2012) states, competitive aggressiveness is one of the components of the EO construct reflected by all of the cases as a mechanism to maintain foreign operations and to reach new ones (Lu et al., 2001). The SMEs who acted aggressively supported this view, however, not all the SMEs investigated demonstrated aggressive behaviour towards growing faster in the Chinese market. The owners/managers that aggressively looked for growth opportunities were firms looking for new product spaces and had market limits in their domestic market. On the other hand, the majority of owners/managers are willing to be non-aggressive because they believed that there was heavy competition and future cost increments in the market, hence they were wanting to grow organically instead of investing heavily, to reduce their risk. These different attitudes of the owners/managers indicate a kind of characteristic difference of owners/managers which is discussed in the literature as passive and active entrepreneurial approaches, for instance, Avlonitis and Salavou (2007), who suggest that active entrepreneurs, unlike passive entrepreneurs, adopt a more aggressive orientation characterised by the willingness to undertake actions with high risk. This research has not collected any data verifying owner/manager characteristic difference, hence verifying the above theory is not possible.

**Research Question 4b: How do the entrepreneurial behaviours of SMEs vary according to their entry mode?**

In order to answer the above research question the data was further analysed, as per SMEs’ entry modes in the following section.
EO and Importing SMEs

Table 7.1 below summarises EO and the importers’ behaviour. Two of the SMEs involved with importing activities entered China as the result of actively seeking market leadership positions in their domestic markets (see Table 7.1). The other importers entered new markets for product sourcing. The managers of two of the importers indicated their risk-taking attitudes, the managers of the other one, had acted in a more defensive manner, and hence were more risk-averse. The managers of the importing SMEs demonstrated non-aggressive behaviour, particularly with growing their businesses in China:

“We had many overtures over the years to join into joint ventures but just wouldn’t consider it” (Case 2: Rubber Co).

Table 7.1: EO and Importing SMEs

<table>
<thead>
<tr>
<th>EO Elements</th>
<th>Number of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Innovativeness</strong></td>
<td></td>
</tr>
<tr>
<td>Products and incremental</td>
<td>3</td>
</tr>
<tr>
<td><strong>Pro-activeness</strong></td>
<td></td>
</tr>
<tr>
<td>Actively entering new product spaces</td>
<td>1</td>
</tr>
<tr>
<td>Seeking market leadership positions</td>
<td>2</td>
</tr>
<tr>
<td><strong>Attitudes towards Risk</strong></td>
<td></td>
</tr>
<tr>
<td>Risk-taking</td>
<td>2</td>
</tr>
<tr>
<td>Risk-averse</td>
<td>1</td>
</tr>
<tr>
<td>Behaviour towards growth</td>
<td></td>
</tr>
<tr>
<td>Non-aggressive</td>
<td>3</td>
</tr>
</tbody>
</table>
EO and Exporting SMEs

Table 7.2 below summarises EO and the exporters’ behaviour. Two of the exporting SMEs entered China as a result of actively seeking market leadership positions and the other two were looking for growth opportunities. Another exporter entered China because everyone else was doing it, and the size of the Chinese market was much greater than Australia’s offering many opportunities in a larger market. They were looking for growth opportunities in a large market environment like China. For instance, the Equipment Service SME was actively looking for new market spaces for their services and realised the potential in the Chinese market, however, their plans for market growth were relatively slow:

“So now we believe the market is starting to demand automation so we’re going to export services to China. We have a strategy for a five or a ten-year plan to get in, basically establish ourselves, and engage Chinese partners and then move on” (Case 5: Man Control Co).

The attitudes of two SME managers in the exporting category demonstrate their risk-taking attitudes; they entered the new market with their products and services although they were uncertain about outcomes. A Pneumatic Co, on the contrary, had risk-averse attitudes, which mainly stemmed from the owners of the firm, as the quote indicates:

“We’re more risk-averse than the Chinese. Apart from the fact that everyone’s a bit financially challenged, it’s still a risk. It’s just like if you start up at any stage there’s that risk (Case 6: Pneumatic Co).

The managers of two exporting SMEs (Security Co: Case 4, and BioTech Co 3: Case 7) were acting aggressively in marketing their products, the other two SME service providers were behaving in opposite ways and wanted to grow slowly. This non-aggressive behaviour was
evident as the owners/managers continued to change their business model before entering the unknown market and waited a longer time to do that.

Table 7.2: EO and Exporting SMEs

<table>
<thead>
<tr>
<th>EO Elements</th>
<th>Number of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td></td>
</tr>
<tr>
<td>Products Incremental</td>
<td>3</td>
</tr>
<tr>
<td>Business Incremental</td>
<td>1</td>
</tr>
<tr>
<td>Pro-activity</td>
<td></td>
</tr>
<tr>
<td>Actively entering new product spaces</td>
<td>1</td>
</tr>
<tr>
<td>Seeking market leadership positions</td>
<td>2</td>
</tr>
<tr>
<td>Seeking growth opportunities</td>
<td>1</td>
</tr>
<tr>
<td>Attitudes towards Risk</td>
<td></td>
</tr>
<tr>
<td>Risk-taking</td>
<td>2</td>
</tr>
<tr>
<td>Risk-averse</td>
<td>2</td>
</tr>
<tr>
<td>Behaviour towards growth</td>
<td></td>
</tr>
<tr>
<td>Aggressive</td>
<td>2</td>
</tr>
<tr>
<td>Non-aggressive</td>
<td>2</td>
</tr>
</tbody>
</table>

EO and WOFEs SMEs

Table 7.3 below summarises EO and the WOFEs’ behaviour. All eighteen SMEs in the WOFE category had entered the Chinese market as a result of actively seeking new market spaces or business opportunities and/or business growth. Eleven WOFEs had entered China as a result of actively seeking new market spaces or growth opportunities due to the limited market space in the domestic market place. The other seven SMEs entered the Chinese
market to seek market leadership positions, and the other five firms actively entered for new product spaces.

The quote below is a good example of the SME attitudes towards business growth in the Chinese market. The SMEs indicated they looked for opportunities to grow in different possible forms including JV agreements with other businesses. They were suggesting that they prefer growing organically, and they might need to be more aggressive to be more international:

“We are in the process of expanding right now. We’re aggressively also looking at putting on other people to consider a broader involvement, whether it’s business development, joint ventures. We have 35% of the world’s market share and we have about the same in China so we didn’t want to get too far into, we didn’t want to become too overweight in China, sometimes it might go up to 40, or down to 30. I think it’s a balanced approach and our shareholders would be thinking if we had 50% or 70% of business in China we’re too overweight, so we have to be cautious” (Case16: Processing Co).

Again, only the managers of four SMEs in this category acted in an aggressive way in establishing and running their businesses in China. The behaviour of the managers of the other fourteen SMEs can be considered non-aggressive.

An agricultural product exporter SME was also seeking new market spaces for their “first to market” product, and tried marginalising risk by entering many markets:

“We see that almost 100% of our manufacturing goes into America, we think that’s risky. We would love to be selling our trim to other markets around the world. So we were the first organic beef producer in the world that we are aware
of that had attained Chinese organic certification. That was in 2012” (Case 25: Meat Co).

Similarly, an accounting firm wanted to grow slowly, however, they were of the opinion that market research should be undertaken prior to establishing their growth strategy:

“We need to do a lot of research. We want to know what our core strategy is but we need to find out a way to do that and what are the competitive advantages we’ve got in the China market. For the future our target is firstly of course we want to grow, we do have a budget plan here and we don’t want to have a rush grow” (Case 12: Accounting Co).

BioTech Co 1 (Case 8) stated that they are entrepreneurial and taking risks investing in the medical research field in the Chinese market. This assumes that the Chinese are greater risk-takers compared with Australians. A Medical Equipment Supplier was also actively looking for new market spaces mainly for funding their research, and they assumed that Chinese investors were willing to take a risk funding their research without knowing the outcome benefits. The owner/manager behaviour towards business expansion can be classified as aggressive (investing heavily on risky research activities). It is interesting that even though WOFEs were investing money in their WOFE in China, the majority of them were quite risk-averse.

Table 7.3: EO and WOFE SMEs

<table>
<thead>
<tr>
<th>EO Elements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td></td>
</tr>
<tr>
<td>Products: Incremental</td>
<td>4</td>
</tr>
<tr>
<td>Process: Incremental</td>
<td>4</td>
</tr>
</tbody>
</table>
### Market: Incremental

<table>
<thead>
<tr>
<th>Business: Incremental</th>
<th>5</th>
</tr>
</thead>
</table>

### Pro-activeness

<table>
<thead>
<tr>
<th>Actively entering new product spaces</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Seeking market leadership positions</td>
<td>2</td>
</tr>
<tr>
<td>Seeking growth opportunities</td>
<td>11</td>
</tr>
</tbody>
</table>

### Attitudes towards Risk

<table>
<thead>
<tr>
<th>Risk-taking</th>
<th>14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-averse</td>
<td>4</td>
</tr>
</tbody>
</table>

### Behaviour towards growth

<table>
<thead>
<tr>
<th>Aggressive</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-aggressive</td>
<td>14</td>
</tr>
</tbody>
</table>

### BIC firms

Table 7.4 below summarises EO and the BIC firms’ behaviour. Eight out of ten SMEs in this category entered China looking for opportunities in new market spaces although they were uncertain about the outcomes. The other two SMEs were looking for market leadership. The following Management Consultancy firm was seeking opportunities (market space) for selling their service, most probably not possible in the domestic (Australian) market due to the nature of the service and the target customers/clients:

“So, the concept today is we get to operate in a smaller space here (China) and we probably couldn’t do the same thing back in Australia. This is probably exclusively an arrangement here. The reason of survival is simply because of the imperfect market structure. We’ve had to take a change in the business because of circumstance and our future is in specialisation” (Case 30: Management Consulting Co).
The results indicate that the attitudes of the managers of eight out of the ten SMEs in the category are risk-taking and were also aggressive in their growth expectations. The quote below from a social media SME also indicated that the firm took risks at the very beginning by entering into the market, and then invested in the market despite the uncertainty on outcomes:

“We take a lot more risks, yes, far more risks. We just launched a business, from idea to launch two months, full web up, products up, deals brokered with and then a dozen deals on the table with Chinese partners, in 60 days. A little bit of reinvestment for the business to do new things, and the way we structure things now is we have a holding group and underneath that holding group we have a service business” (Case 27: Social Media Co).

A Human Resource consultancy SME was established as a result of serendipity, and had been actively looking for growth opportunities throughout. The owner/manager of this SME demonstrates his risk-taking attitudes, as the following quote indicates. The firm introduced a culture of change, thus taking on a significant amount of risk:

“We’ve had a few people join the company and they’re very timid, they don’t want to try new things because they’re going to fail and so we encourage them to have this mentality of start, do, notice, and think. Don’t worry about the outcome, just get it started and we will readjust” (Case 11: HR Consulting Co).

Although the majority of SMEs’ (managers’) attitudes towards risks indicate they willingly take risks, some of the SMEs were acting oppositely: they did not want to make risky investments, and they always looked for risk elimination or minimising methods in their business ventures. However, the attitudes of managers of two SMEs in this category appeared to be risk-averse, they were reluctant to invest in the market, and were as a result operating
with minimal risk profiles (one SME, a media consultancy firm, was running the business with two partners without employing any staff).

The quote below indicates that the WOFE finance consultancy SMEs’ attitudes towards risk are different, they did not want to take risks, and were more interested in eliminating or minimising the impact of risks. They did believe that ‘testing the water’ is important before entering and establishing any business in a new market:

“There are 1.3 billion people so actually they’re very entrepreneurial. They do have a very entrepreneurial country. You need to come with a very risk-reduced approach to the market, don’t come in and meet someone at a dinner and go OK I’ll give you $100,000 – well that’s not very smart, understand the basic steps that need to happen and if you do that, have a good product, you end up with a good partner and you do things the right way and the correct way. So it’s a very good risk-reduction process and you basically put your toe in the water and then see how it goes and then you can internalise. So that’s the knocking on the door approach” (Case 12: Accounting Co).

From an opposite perspective, the following SME indicated that they did not want to get bigger: “I like to do things my way in my time. But I don’t think I’d ever want to make it bigger. I don’t think I’d want to go into partnership with anyone” (Case 32: Marketing Co).

Table 7.4: EO and WOFE SMEs Born in China

<table>
<thead>
<tr>
<th>EO Elements</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td></td>
</tr>
<tr>
<td>Product (1), Process (1), Market (2): Incremental</td>
<td>4</td>
</tr>
<tr>
<td>Market (1) and Business (5): Radical</td>
<td>6</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
<td>----------</td>
</tr>
<tr>
<td>Actively entering new market spaces</td>
<td>8</td>
</tr>
<tr>
<td>Seeking market leadership</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Attitudes towards Risk</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk-taking</td>
<td>8</td>
</tr>
<tr>
<td>Risk-averse</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Behaviour towards growth</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggressive</td>
<td>8</td>
</tr>
<tr>
<td>Non-aggressive</td>
<td>2</td>
</tr>
</tbody>
</table>

**Discussion of Research Question 5b**

**Importers**

All three importers are product innovative, and used incremental innovation. The importers seek new products and market leadership positions which encourage them to internationalise to China. The different approaches to pro-activeness are caused by the purpose of importing activities, such as SMEs sourcing raw materials for their production facility in Australia, and the other two importers expecting to become market leaders (in Australia), as a result of their sourcing activities in China. The attitudes towards risk-taking were varied, however; they all acted in a non-aggressive way towards business growth. SMEs that were expecting market leadership were willing to accept risks associated with the internationalisation process, however, the SMEs just sourcing materials had no intention of absorbing any risk, and limited the scope to just sourcing cheaper raw materials for their production facility in Australia.

**Exporters**
Previous research indicates that EO is a managerial attitude that enhances exports (Fernández & Alegre, 2015). Three exporters are product innovative and the other business is innovative, all exporters, however, adopted incremental innovation. The exporters seek not only new products space and market leadership positions, but also growth opportunities which encourage them to internationalise to China. The attitudes towards risk-taking are varied, where some were aggressive and some were risk-averse.

**WOFEs**

SMEs used all four innovation types: products (4), process (4), market (5) and business (5). SMEs in this category entered the Chinese market mainly for growth opportunities (11 out of 17 firms). Further, their owners’/managers’ risk-taking attitudes are high (13 out of 17) which is consistent with pro-activeness seeking growth opportunities. However, more than 75% of these firms behave non-aggressively and want to grow organically rather than rapidly. One other noticeable thing is that the firms that operate from Hong Kong are looking more towards growth seeking and risk-taking but are non-aggressive in their behaviour in the EO dimensions.

**BICs**

Ten SMEs in this category use all four types of innovation and also adopted both incremental and radical approaches. Eight out of ten SMEs in this category entered the Chinese market actively looking for new market spaces, and were willing to accept high risks associated with their investments. These SMEs’ risk-taking attitudes significantly support their business establishment in the Chinese market. These firms behave aggressively towards business growth. Only two firms in this category acted differently, with risk-averse attitudes and non-aggressive behaviour towards growth.
The results summary of EO and mode of entry is given in Table 7.5 below.

### Table 7.5: Summary of EO and Mode of Entry

<table>
<thead>
<tr>
<th>EO Elements</th>
<th>Importers</th>
<th>Exporters</th>
<th>WOFEs</th>
<th>BICs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pro-activeness</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actively entering</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>8</td>
<td>15</td>
</tr>
<tr>
<td>new product spaces</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seeking market</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>8</td>
</tr>
<tr>
<td>leadership positions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seeking growth</td>
<td>1</td>
<td>11</td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>opportunities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Attitudes towards risks</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-taking</td>
<td>2</td>
<td>2</td>
<td>14</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>Risk-averse</td>
<td>1</td>
<td>2</td>
<td>4</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td><strong>Behaviour towards growth</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Aggressive</td>
<td>2</td>
<td>6</td>
<td>8</td>
<td></td>
<td>16</td>
</tr>
<tr>
<td>Non-aggressive</td>
<td>3</td>
<td>2</td>
<td>12</td>
<td>2</td>
<td>19</td>
</tr>
</tbody>
</table>

According to Antonie and Feder (2005), international entrepreneurship integrates, on one hand, the general sense of internationalisation, as a firm-level activity which expands international borders (Jones & Coviello, 2005), and on other hand, the features of EO, as innovation, pro-activity and risk-seeking activities (Covin & Slevin, 1989). Therefore, international entrepreneurship is a combination of innovative, pro-active and risk-seeking behaviour, expanding national borders with the intention to create value in the organisation.
The SMEs investigated support this view that EO acted as a vital factor in the internationalisation of SMEs to China. Internationalisation of SMEs in this research appears to be entrepreneurial behaviour over time, based on a composition of innovation, pro-activity and risk-seeking activities (Covin & Slevin, 1989; Jones & Coviello, 2005).

Table 7.5 summarises EO features as per mode of entry. In the pro-activeness aspects, SMEs seek product space and growth opportunities rather than leadership positions by internationalising to the Chinese market. However, the majority of SMEs’ managers’ attitudes towards risk were positive and they were ready to take risks exploring opportunities in the Chinese market. This implies that the risk-taking attitudes of managers were vital factors in internationalisation to the Chinese market. Managers’ behaviour towards growth of the business in the Chinese market was almost equally divided, although non-aggressiveness is marginally higher.

Results of this research show that owners’ or managers’ international orientation influences a firm’s decision to pursue the international strategy of the firms, and owners'/managers’ high EO (pro-activeness, risk-taking attitudes and growth expectations) encourages their internationalisation process. Okpara and Koumbiadis (2007) argue that firms’ strategic choice to enter the export market is associated with EO, and entrepreneurs with high export orientation were more involved in the export market than entrepreneurs with low export orientation. The results indicate that lower international EO cases did not initiate export activity. According to Taylor (2013), SMEs with high EO are better able to innovate, leapfrog competitors and make calculated risks to successfully service customers in international markets, than their counterparts with low EO. These SMEs develop the
organisational capabilities and international experience to do well in international markets irrespective of the challenges that may seek to constrain their efforts in their domestic market environment, thus EO is a significant factor for the success of SMEs (Kropp et al., 2006; Wang, 2008; Wu & Leung, 2005).

The review of the literature suggests that domestic environmental conditions moderate the relationship between EO and international performance of SMEs (Lee & Chu, 2011). As per the results, it is fact that some SMEs proactively entered the Chinese market due to restrictions or limitations on their growth in the Australian market. The importers entering China were seeking raw materials for their production facilities in Australia, in order to be competitive in the domestic market. Exporters were seeking growth opportunities for their business as the domestic market size was too small for their capacity, and/or the products/services offered had matured in their domestic market. BIC firms also assume they have greater opportunities in the Chinese market rather than their domestic market.

SMEs who entered China with new product/services were actively seeking market opportunities. Some firms took high-risks introducing their products, however, some acted with risk-averse attitudes and undertook a lot of research prior to introducing their products/services to the Chinese market. Nonetheless, pro-activeness contrary to risk-taking is found to be an important contributor to the performance of new products introduction (Avlonitis & Salavou, 2007). Regarding the differences across product innovativeness dimensions on EO profiles, the evidence shows that active and passive entrepreneurs differ significantly in one dimension of product innovativeness, namely, new product uniqueness.

**Chapter Summary**
The findings above confirmed the central role of EO in the internationalisation of the SMEs included in the study. All the SMEs investigated in this study had adopted some form of
innovation; product, process, market or business innovation either in an incremental or radical form in their Chinese business ventures. The results also indicate that SMEs were proactive for a number of reasons: to enter a new marketplace due to a shrinking domestic market or to seek market leadership using opportunities existing in China and to seek growth opportunities. However, the results indicate that there is a variation in approaches of owners’/managers’ levels of risk-taking attitudes, majority (64%) of owners’/managers’ took high levels of risk which enhance their internationalisation although some of the SMEs (36%) act to the contrary. This results suggests competitive aggression plays an important role in the internationalisation process, however, not all the firms were highly aggressive, in fact most were trying to grow organically. The table below summarises the role of EO in the internationalisation process of Australian SMEs to the Chinese market (Table 7.6).

Table 7.6: Trends of EO and Mode of Internationalisation

<table>
<thead>
<tr>
<th></th>
<th>Importing</th>
<th>Exporting</th>
<th>WOFEs</th>
<th>BIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovativeness</td>
<td>Incremental</td>
<td>Incremental</td>
<td>Incremental</td>
<td>Radical</td>
</tr>
<tr>
<td>Pro-activeness</td>
<td>Leadership</td>
<td>Leadership</td>
<td>Growth</td>
<td>New product</td>
</tr>
<tr>
<td>positions</td>
<td>positions</td>
<td>positions</td>
<td>Opportunities</td>
<td>spaces</td>
</tr>
<tr>
<td>Risks attitudes</td>
<td>Risk-taking</td>
<td>Risk-taking</td>
<td>Risk-taking</td>
<td>Risk-taking</td>
</tr>
<tr>
<td>Non-aggressive</td>
<td>Aggressive</td>
<td>Non-aggressive</td>
<td>Non-aggressive</td>
<td>Aggressive</td>
</tr>
<tr>
<td>Attitudes</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Chapter 8: Conclusion

Overview of this Chapter

The purpose of this chapter is to provide the conclusions from the study, based on the major findings discussed in previous chapters. The chapter also sets out the contributions of the study and the implications of the conceptual development and findings for both academics and managers and/or owners of SMEs, and for the Australia-China business community. In addition, the chapter provides a commentary on potential future research areas related directly to Australian SMEs’ internationalisation to China or Asia, and highlights the limitations of the study.

Major Findings of the Thesis

The previous chapters establish the background for Australian innovative SMEs’ internationalisation to China, and propose that Australian SMEs’ internationalisation to China would be influenced by their internationalisation approach, innovation adoption, networking capabilities, entrepreneurial orientation and the resources and capabilities of the SMEs. Major themes were the focus of the model developed below (Figure 9.1). Each of these areas will now be discussed in detail, and how this study contributes to knowledge.
Figure 9.1: Conceptual Model of the Factors Related to the Internationalisation of Innovative SMEs to China
Summary Table of the Findings of the Thesis

Table 9.1 provides the major findings from the study. The results are presented in relation to the internationalisation approach, innovation adopted, networking, and EO. Results were included if they were found to be a major or critical finding of the study.

Table 9.1: Major Findings

<table>
<thead>
<tr>
<th>Themes</th>
<th>Importers (3)</th>
<th>Exporters (4)</th>
<th>WOFE (18)</th>
<th>BIC (10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Internationalisation approach</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stage internationalisation</td>
<td>3 (100%)</td>
<td>4 (100%)</td>
<td>14 (78%)</td>
<td>-</td>
</tr>
<tr>
<td>Rapid internationalisation</td>
<td>-</td>
<td>-</td>
<td>4 (22%)</td>
<td>10 (100%)</td>
</tr>
<tr>
<td>Previous domestic experience</td>
<td>3 (100%)</td>
<td>4 (100%)</td>
<td>14 (78%)</td>
<td>-</td>
</tr>
<tr>
<td>Previous international experience</td>
<td>2 (66%)</td>
<td>1 (25%)</td>
<td>8 (44%)</td>
<td>-</td>
</tr>
<tr>
<td>Managers’ international exposure</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>10 (100%)</td>
</tr>
<tr>
<td>Entry via Hong Kong</td>
<td>-</td>
<td>-</td>
<td>6 (33%)</td>
<td>4 (40%)</td>
</tr>
<tr>
<td>Service a focus</td>
<td>-</td>
<td>2 (50%)</td>
<td>11 (64%)</td>
<td>10 (100%)</td>
</tr>
<tr>
<td>Innovation adoption</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product/service innovation</td>
<td>3 (100%)</td>
<td>3 (75%)</td>
<td>4 (22%)</td>
<td>1 (10%)</td>
</tr>
<tr>
<td>Process innovation</td>
<td>-</td>
<td>-</td>
<td>4 (22%)</td>
<td>1 (10%)</td>
</tr>
<tr>
<td>Market innovation</td>
<td>-</td>
<td>-</td>
<td>5 (33%)</td>
<td>3 (30%)</td>
</tr>
<tr>
<td>Business innovation</td>
<td></td>
<td></td>
<td>1 (25%)</td>
<td>5 (33%)</td>
</tr>
<tr>
<td>Incremental innovation</td>
<td>3 (100%)</td>
<td>4 (100%)</td>
<td>14 (78%)</td>
<td>8 (80%)</td>
</tr>
<tr>
<td>Radical innovation</td>
<td></td>
<td></td>
<td>4 (22%)</td>
<td>2 (20%)</td>
</tr>
<tr>
<td>Standardised innovation</td>
<td>3 (100%)</td>
<td>2 (50%)</td>
<td>6 (33%)</td>
<td>2 (20%)</td>
</tr>
<tr>
<td>Adapted innovation</td>
<td>2 (50%)</td>
<td></td>
<td>12 (67%)</td>
<td>8 (80%)</td>
</tr>
</tbody>
</table>
## Networking

| Entry: Austrade, Trade Mission, Government. | 2 (67%) | 2 (50%) | 6 (33%) | 6 (60%) |
| Entry: Trade shows/exhibitions | 1 (33%) | - | - | - |
| Entry: Customer/Client connection | - | 2 (50%) | 4 (22%) | - |
| Entry: China connections | - | - | 5 (28%) | 2 (20%) |
| Entry: JV with Chinese firm | - | - | 1 (6%) | - |
| Entry: Brokers | - | - | 2 (11%) | - |
| Entry: Serendipity | - | - | - | 2 (20%) |
| Operation: Local agents | 2 (67%) | - | 1 (6%) | - |
| Operation: Innovative hubs | 1 (33%) | 1 (50%) | 2 (11%) | 1 (10%) |
| Operation: Conferences, forums | - | 1 (25%) | 4 (22%) | 1 (10%) |
| Operation: Personal level contacts | - | 1 (25%) | 4 (22%) | 4 (40%) |
| Operation: Industry level contacts | - | - | 5 (28%) | 2 (20%) |
| Operation: Clients contacts | - | - | 2 (11%) | 2 (20%) |

## Entrepreneurial Orientation-EO

| Actively entering new product space | 1 (33%) | 1 (25%) | 5 (28%) | 8 (80%) |
| Seeking market leadership | 2 (67%) | 2 (50%) | 2 (11%) | 2 (20%) |
| Seeking growth opportunities | - | 1 (25%) | 11 (61%) | - |
| Risk-taking attitudes | 2 (67%) | 2 (50%) | 14 (78%) | 8 (80%) |
| Risk-averse attitudes | 1 (33%) | 2 (50%) | 4 (22%) | 2 (20%) |
| Aggressive behaviour towards growth | - | 2 (50%) | 6 (33%) | 8 (80%) |
| Non-aggressive towards growth | 3 (100%) | 2 (50%) | 12 (67%) | 2 (20%) |
Internationalisation

The study found that Australian SMEs followed either the ‘stage’ (Johanson & Vahlne, 1977) or the ‘rapid’ (Knight & Cavusgil, 1996) internationalisation approach when they internationalised to China, with the majority of them using the ‘stage’ form of internationalisation. The ‘stage’ approach is the slower, step-by-step, incremental approach to internationalisation. SMEs that adopted the ‘stage’ approach entered China using different modes: importing, exporting and FDI including WOFEs, suggesting that the SMEs utilised a variety of different entry modes. Under the ‘rapid form’ of internationalisation, the main entry mode was the WOFE. In addition, for rapid internationalisation, the common entry mode was for Australian nationals to start up a business in China, through the BIC entry mode. These businesses were entrepreneurial start-ups, and were owned and managed by Australian nationals. These were named BIC firms, as they do not have a business within Australia. Interestingly, the majority of the adopters of the ‘rapid form’ of internationalisation were BIC firms. From this qualitative finding, the following propositions can be established:

**P1a:** SMEs that utilise the incremental (stage) approach to internationalisation will utilise a range of different entry modes.

**P1b:** SMEs that utilise the rapid approach to internationalisation will utilise a Born-in-China entry mode.

The prior domestic and international experience of SMEs played a vital role in the use of the ‘stage’ form of internationalisation. This supports the stage theory, which specified that internationalisation is a dynamic, gradual and staged process that occurs over time (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975). Interestingly, the managers’/owners’ international exposure (to the Chinese market) and contacts were a common factor for all SMEs using the ‘rapid’ approach to internationalisation (Wicramasekera et al., 2003).
Further, the international experience of managers and/or owners promoted the ‘stage’ approach to internationalisation, where owners/managers were the only decision-makers (benefit of being SME). All BIC firms adopted the ‘rapid’ internationalisation approach as the managers/owners had significant exposure to the Chinese market prior to commencing their own businesses in China.

Some Australian SMEs avoided the issues associated with establishing businesses in mainland China by setting up their ownership structures in Hong Kong, highlighting the institutional effects that can have an influence on Australian SMEs internationalisation processes. and It was apparent that the SMEs took an avoidance approach to deal with these issues.

An examination of the types of SMEs that internationalised, revealed that a majority of them were service providers. Menzies and Orr (2013) argue that service companies possess different characteristics from non-service-based companies, thus affecting their preferred process of internationalisation. The internationalisation process is also influenced by the type of service the organisation provides; its international experience, government regulations and capital intensity are influential in their decision to internationalise (Menzies & Orr, 2013). In the current study, all BIC firms based in China were service focus firms, and were able to rapidly internationalise due to having no significant capital requirements and low perceived risks, as opposed to the firms that had high capital requirements. This finding supports the view that transaction costs explain an SME’s mode of choice (Erramilli & Rao, 1993). The importers were driven by the cost advantages that China can offer, and the efficient and economical shipping and freight forwarding services available between both countries were an enhancing factor. The exporters had entered the Chinese market for opportunity seeking.
due to the limited market in Australia for their specialised service sectors. The resource poverty (Bos-Brouwers, 2010) of these SMEs, and saving costs, were found to be factors that influenced the choice of their exporting entry mode. Importing and/or exporting are the first steps of the internationalisation process (Johanson & Vahlne, 1977), however, importers and exporters did provide mixed results, with some of them showing no indication that they will be committing more resources to their internationalisation, and only a few indicating their willingness to establish a WOFE. The resources limitation was a key reason for SMEs not being able to commit more resources to their internationalisation, although they did gain necessary knowledge and experience in China. For some WOFEs, China was just one destination as part of their entire internationalisation process which was focused on a world vision; for other SMEs, China was their first internationalisation experience. Some SMEs established WOFEs on their own, as is the case for FDIs and some collaborated with local firms, for example, JV or licence agreements.

Most of the BIC firm owners had some form of China link (for example, they were either born in China, were of Chinese ethnic background, had married a Chinese individual and/or they had lived and worked in China for long periods, or had lots of Chinese contacts and business experience). Although this was common, there were a few cases of serendipity, for example, where an individual started a business after a holiday/business trip to China.

**Role of Innovation in Internationalisation**

It was apparent that Australian SMEs used innovation in the process of internationalisation to China. They used innovation to enter the market with innovative products and/or services, and also introduced innovative business and marketing models in operating in the Chinese market. They offered services or products not only for the local Chinese but for the expatriate
business community, and also as a business hub connecting with other parts of the world. They did adopt different types of innovation, however, product and process innovation were the most used innovations in their internationalisation to China, which supports the research by Doloreux and Laperrière (2014).

The study found evidence that firms adapted their innovation in the internationalisation process, which they were not required to do in the domestic operations, and this was because the Chinese context was either not ready, or cultural preferences meant that the innovation was ‘unacceptable to them’. It was apparent that SMEs’ survival in China relied upon innovation applications (Siedschlag & Zhang, 2010), as not all innovations that Australian firms offered were accepted by customers. The types of innovations businesses used included new products/services or processes, and also new marketing or business models to enter China. For those SMEs using process innovation, they developed supply chain or distribution processes. Market segmentation and customisation was also a very common market innovation adopted in China. Australian SMEs customised their products and/or services in China to attract local customers/clients. Depending on the nature of the product or service, they used local content (Chinese) targeting local Chinese people with traditional thinking. Some SMEs focused on the Chinese (particularly the middle-class) who had had international exposure and valued international standards in the products or services they were buying.

Importers and exporters mainly used product/service innovation, and most of the SMEs using process innovation had adopted a WOFEs mode of entry. Marketing innovative firms entered China as WOFEs, however, marketing innovation was adopted by some BIC SMEs as well. Around half of the business innovative firms entered China with partnership arrangements, (WOFE) and another half were BIC SMEs. The current literature (Love & Roper, 2015;
Bernard & Jensen, 2004) has focused on the relationship between exporting and the innovation of firms. The literature argues that innovative firms tend to export and will have a greater export intensity. The relationship is also true the other way; exporting promotes innovation as well. According to this literature, exporting promotes innovation in a way that not only introduces new/products and/or services but also the use of innovative processes in the exporting operations. However, more than 50% of the firms investigated for this study used modes of entry other than exporting, and other forms of innovation than products/process innovation. The findings of the thesis show that market and business type innovation were more used by the WOFE and BIC firms in the Chinese market, rather than products or process innovation. It is evident that the current literature provides no adequate information relevant to relationships between modes of internationalisation and types of innovation, so this exploratory and qualitative study adds value to the research literature.

The study also provides evidence that a relationship exists between the stage process of internationalisation and products and process innovation. That is, for firms who are utilising the stage internationalisation process, they were more likely to be utilising product and service innovations. There also appeared to be a relationship between SMEs using the rapid approach to internationalisation, and marketing and business innovation. These findings contribute to our knowledge, as no previous literature has either supported or opposed these relationships. Therefore, the following propositions can be devised:

*P2a: SMEs utilising the stage process to internationalisation will use product and process innovations.*

*P2b: SMEs utilising the rapid approach to internationalisation will use marketing and business innovations.*
Innovation is considered to be a change or the introduction of a disruptive new product or new technologies (radical) in most of the literature; however, incremental innovation became a subject of later research (Tidd et al., 1997). It was found in this study, that Australian SMEs utilised either ‘incremental’ or ‘radical’ innovation approaches (Henderson & Clark, 1990) in China. Noticeably, radical innovation was adopted by SMEs who offered innovative services and who did use business innovations; incremental innovation was popular among SMEs who adopted products and process innovation. This suggests that those SMEs who used product and process innovations, were only making slight changes to their products and services, but were not introducing any radical new products. The resource poverty of these SMEs may be an explanation for this behaviour.

The results demonstrated that the SMEs’ innovations were not always accepted in the Chinese market, for different reasons. As a result, SMEs experienced difficulties offering the innovation in the Chinese market which required them to be adapted. Some key reasons identified were the differences in the Chinese context. Chinese firms and people were not willing to go out of their comfort zones to buy innovative products, and technology levels in China did not meet the standards that the products/service offered by the Australian firms needed, especially for high-tech products. Hence, most of SMEs adapted their innovations for the Chinese market. The findings revealed that the firms who were involved in the global market, did not adapt their innovations, as their products and services were standardised and global.

**Role of Networks on Internationalisation**

Australian SMEs utilised networks or connections (guanxi) entering and running businesses in China. Previous research has identified that networks have a significant influence on
SMEs’ internationalisation process (Musteen et al., 2012; Anderson, 1994). Networks provide Australian SMEs with information on business opportunities, business partners and general market knowledge about the host location (Mainela & Puhakka, 2011). The study found that Australian SMEs used different types of networks in China, ranging from formal to informal, government agencies, business associations, personal contacts and social relations. These networks provide a strong degree of protection against the risks associated with foreignness, newness and smallness (Seifert, Child & Rodrigues, 2011), which international firms may face.

Most SMEs were able to internationalise to China through the help of third parties, which varied from individual agents to institutions that provide formal support for the international activities of foreign firms. The study found that Australian SMEs had networks with government agencies, trade and investment bodies, Chambers of Commerce, and industry associations. Some SMEs received assistance from their multi-national clients/customers in finding opportunities and entering China, which is similar to previous research findings in the field (Child & Rodrigues, 2008).

All importers investigated in this study had entered China using contacts via Australian authorities or had attended trade exhibitions, which is similar to the findings of Kontinen et al. (2011). The SMEs also used local agents or links with local network services in operations which support the findings of Rodrigues et al. (2012). Since Australian SMEs knew little about China, finding the appropriate partners, agent or representatives was also crucial, as found in previous studies such as Child & Rodrigues (2004). The study found that the Australian and Chinese agencies and trade exhibitions were the key information sources.
SMEs involved with exporting activities believed that networks and ‘connections’ were the key ways of doing business in China and used existing connections and/or trade mission support entering and operating in China (Rodrigues & Child, 2012). The exporters used different information sources such as trade shows, missions and exhibitions, and support from their clients/customers operating in China. Exporters secured both information and protection through developing trust-based relationships within these networks (Rodrigues & Child, 2012). Australian government bodies played a key role as facilitators of networks for exporters by providing initial contacts (O’Gorman et al., 2011).

SMEs in the WOFE category believed that foreign business in China was built on having good relationships with local people, which they considered to be the most valuable resource (Xia et al., 2007). They did develop opportunities utilising networks such as the Australian Chamber of Commerce in China (AustCham), Austrade, or the Australia-China Business Council (ACBC), and these institutes assisted them with their resource deficiency, which has been identified by prior researchers (Mort & Weerawardena, 2006). It required connecting with decision-makers in the organisations to effectively use connections for business operations.

BIC SMEs used different kinds of relationships or connections entering China including Australian government institutions (e.g., Australian Chamber of Commerce) and personal connections. According to BIC firms, Austrade provided great support in getting tapped into networks prior to entering China. BIC firms developed connections with other businesses operating in China. It was also apparent that the BIC firms were more likely to use informal networks that were relevant to their business success, than formal networks. This was apparent as many of the BIC firms already had extensive experience in the Chinese market,
and a wealth of contacts. In regard to this finding, Zhou et al. (2007) confirmed that guanxi utilisation is relatively comparable to both directions of internationalisation strategies, especially in the context of China. Some of the BIC SMEs had been established as a result of serendipity, personal connections the owners made were made by chance or an unexpected opportunity (Rodrigues & Child, 2012).

The study found that Australian government agencies acted as facilitators, but were not capable of providing the specific requirements demanded by different businesses. The similarity of cultures also played a vital role in relationship building. The Chinese nationals’ positive attitudes towards Australians act as a motivation factor for Australian SMEs in China. An appreciation of local culture and building trust were also key factors for building and maintaining good relationships. Based on the results above, the following hypothesis was developed:

**P3a: SMEs, except for those using the BIC mode, utilised both formal and informal networking for entering the Chinese market.**

**P3b: BIC SMEs utilised informal connections and/or Australian government institutions when entering the Chinese market.**

**Role of Entrepreneurship Orientation (EO) in Internationalisation**

The study found that the owners’/managers’ international orientation influenced SMEs’ decisions to pursue the international strategy of the firms and owners/managers with high EO (pro-activeness, risk-taking attitudes and growth expectations) that would encourage their internationalisation process (Okpara & Koumbiadis, 2007). Previous research finds that EO is positively related to the degree of internationalisation (Lan & Wu, 2010) regardless of the industry type (Javalgi & Todd, 2011). The results for this study indicate that EO is one of the
key factors influencing the success of Australian SMEs’ internationalisation to China, which
is discussed previously by Autio et al. (2000) and Zucchella et al. (2007). The findings of this
study also suggest that being entrepreneurial, and taking risks helped with overcoming the
liabilities of foreignness that SMEs would encounter when they internationalise to China,
which supports Brouthers and Nakos’s (2014) view on this subject.

Australian SMEs actively entered China to sell their new products, seeking market space or
market leadership positions for their products/services, which supports the work of Pérez-
Luño et al. (2011) who found that pro-activeness is positively related to internationalisation.
Some of the key reasons SMEs looked for opportunities in the Chinese market were the
limited domestic market size and/or lack of growth opportunities in Australia (Liu, 2014;
Patel et al., 2012), seeking new products space, or sourcing primary materials for their
factories in Australia, which concurs with previous research in the area (Pérez-Luño et al.,
2011).

Risk-taking attitudes of managers were a vital factor in the internationalisation of Australian
SMEs to the Chinese market. The majority of the managers/owners of the SMEs undertook
risky ventures or pursued projects with uncertain outcomes. The study also indicated that
owners’ or managers’ high or moderate levels of risk-taking attitudes, enhanced their
internationalisation, whereas low levels discouraged venturing abroad altogether, and this
finding is something similar to those of Li et al. (2014) and Pérez-Luño et al. (2011).

The managers’ behaviour towards growth of their business (aggressiveness) in the Chinese
market is equally divided, non-aggressiveness is marginally higher though. A majority of the
managers behaved in a non-aggressive way but wanted to grow organically, and this might
have been a way of addressing resources restrictions. It was apparent that firms were looking for new product spaces and there was limited growth in the domestic market, which made these SMEs aggressive towards growth in China. Avlonitis and Salavou (2007) found that managers have different attitudes as a result of their different characteristics. The current research did not collect any data that verified the owner/manager characteristic differences, hence it is not possible to verify whether the different attitudes towards risks are due to the characteristic differences of the managers.

When comparing the entry modes, importers were product innovative, used incremental innovation, and entered China to source raw materials to become market leaders in Australia. Attitudes towards risk-taking were varied, however, they generally acted in a non-aggressive way towards business growth. Exporters were product and business innovative; they adopted incremental innovation and sought not only new products space and market leadership positions, but also growth opportunities in the Chinese market. Risk-taking attitudes are varied; some were aggressive, and some were risk-averse for the exporters.

WOFE SMEs used all types of innovation, and entered the Chinese market mainly for growth opportunities. Risk-taking attitudes were high, although a majority of these firms wanted to grow organically rather than rapidly. BIC firms used all types of innovation and adopted both incremental and radical approaches. They entered the Chinese market actively looking for new market spaces, and accepted high risks associated with their investments. They also behaved aggressively towards business growth. BIC firms assumed that they had higher opportunities in the Chinese market than in the domestic market. Based on these findings, the following propositions are developed:
**P4a:** *WOFE SMEs enter the Chinese market mainly for growth opportunities but will want to grow organically.*

**P4b:** *BIC SMEs enter the Chinese market actively looking for business opportunities and want to grow aggressively.*

**Contributions and Implications**

The major contributions of this study, in response to the research questions outlined in Chapter 1, can be summarised as follows under the headings listed below:

**Empirical Contributions**

The empirical research found that internationalisation happens in a staged process (after a long period of time establishing a domestic operation) or in rapid form (within a short period after starting local operations). This finding suggests that some firms in rapid form internationalisation were born in China (overseas) without any domestic (Australian) business. This is a new dimension of the rapid form of internationalisation. Firms often research a context. Rapid international firms are defined in the literature as firms internationalised within a 1-3 year period after their domestic operations had been established. BIC firms have no previous domestic business at all.

This result suggests that the majority of WOFE or BIC SMEs are service-focused firms. This appears to be a new finding as no prior empirical research has found such a result. The results, however, support the previous empirical findings (Doloreux & Laperrière, 2014; Siedschlag & Zhang, 2010; Ripolles Melià et al., 2010; Harris & Li, 2008)) that firms use innovation in the internationalisation process but not in domestic operations. The firms were required to be innovative with not only their products/services but also their marketing and
business models in entering and operating in China with limited resources, hence they were innovative in their international entry and operations. The study found that products (or services) and process innovation were used most, for the WOFE modes. The research suggests the innovation type and mode of entry have a relationship, however, the empirical research findings are limited to the relationship between exporting and products and/or process innovation. Accordingly, the empirical research lacks information relevant to relationships between modes of internationalisation. The study provides some exploratory evidence that a relationship exists between the type of internationalisation a firm uses and the type of innovation, and no previous research has supported this finding. Another key finding under innovation is that SMEs adapted their innovation in China; some factors of innovation adaption have been stated in previous empirical research.

The research findings suggest that Australian SMEs used different networks in China to provide some degree of protection against the liability of foreignness, newness and smallness, and this is discussed in more detail in the empirical research. The results also suggest that BIC firms use informal networks, such as personal contacts, rather than formal networks.

The results indicated that the owners’/managers’ international orientation influenced SMEs’ decisions to pursue international strategies, which has been widely discussed in the literature and supported with empirical findings.

**Theoretical Contributions**

This research introduced the concept of BIC which contains measures of rapid internationalisation theory (Knight & Cavusgil, 1996). Although literature exists for ‘born-global’ firms that internationalise within a short period after the establishment of their local
businesses, no previous research has suggested the current conceptualisation of being born overseas without a business back in the home country of the owner/manager. This finding adds to the theory of entrepreneurial start-ups, and rapid internationalisation of firms.

The current study also added to innovation and internationalisation relationship theories (Henderson & Clark, 1994; Love & Roper, 2015). The results demonstrated there is a relationship between innovation types and the entry modes of SMEs. The existing literature on the relationship between innovation and internationalisation is limited to the exporting entry mode. The current study extends this to other entry modes and indicating a relationship between innovation types and entry modes. The current study further adds to the innovation theory indicating that innovation must be adapted in China to the local context factors, such as the cultural differences, and to China as a location.

The research also adds to network and internationalisation perspectives (Musteen et al., 2012; Anderson, 1994) showing that informal and personal level networks encourage rapid internationalisation for BIC firms.

Further, the results support the EO theory that owners’/managers’ risk-taking attitudes are a key factor in the internationalisation process.

**Practical Implications**

Some practical implications can be drawn from the major findings of this thesis. The thesis overall has a number of practical implications for international business managers, SME owners and managers and Australia-China governmental authorities and the business community. These will be discussed in relation to the major areas and the conceptual model.
Internationalisation

According to the study findings, the form of internationalisation, whether it be the stage or rapid approach, depends upon key factors such as domestic market issues (restrictions, lack of growth opportunities), the owner/manager’s international experience and the mode of entry (exporting or FDI). In addition, Chinese connections and an owner/manager’s previous employment exposure in China, were encouraging factors for BIC firms.

Innovation

The study found that firms should consider which innovations to adopt according to the products/services they are offering to the Chinese market and their entry mode (that is, exporting or WOFE etc.). Firms can use more than one innovation (i.e., product and process, or marketing and business innovation), however, the degree of innovation should be determined by the nature of the innovation being introduced, and a balance between the need to invest, the potential rewards and the risk.

Networking

The results indicate that informal networks play a vital role in the Chinese market, hence, managers of new SMEs must maintain trusted connections within the Chinese market, and also ensure they connect with the correct people of organisations who can offer necessary support as and when required. Australian businesses use Chinese agents or firms to support their entry to the market and to find business partners or suppliers. New firms, therefore, may use distributors or local consultants to find critical local market information prior to deciding on the business model to be introduced to the Chinese market.
**Entrepreneurial Orientation (EO)**

Pro-activeness, risk-taking attitudes and aggressiveness influence the intensity of the internationalisation. However, many firms’ growth strategies were non-aggressive, as they chose to grow organically (except for the BIC firms), which is another feature of EO that new firms may wish to consider in their internationalisation approach.

**Limitations of the Study**

There are some limitations with this thesis, which are both conceptual and methodological. These limitations are discussed, and point the way for future researchers.

**Conceptual Limitations**

The first conceptual limitation relates to the ‘stage’ (Johanson & Vahlne, 1977) versus the ‘rapid’ process (Knight & Cavusgil, 1996) of internationalisation utilised in the thesis. Both theories assume internationalisation commenced after domestic operations had been established. The results in this thesis indicate that businesses may be born overseas without domestic operations.

Another conceptual limitation is that the existing research assumed networking referred to personal relationships and/or guanxi (Zhou et al., 2007), and that the success of the internationalisation mainly relied upon personal forms of relationships. Although guanxi helps firms’ operations to some extent (see, social dynamics of the internationalisation process theories: Ellis, 2000; Harris & Wheeler, 2005), businesses cannot survive on guanxi alone.
There are opportunity costs with examining one theoretical perspective over another. The findings of this research suggest that other theoretical perspectives (for example, location factor – the Australia/Asia region) and theories may be useful. In terms of the conceptual framework developed in this study, other factors could have been postulated to influence Australian SMEs’ internationalisation to China. Other theoretical perspectives could be examined, for example, the ‘Casino Model’ of internationalisation (Håkanson & Kappen, 2017), which is in contention with the Uppsala model, could be utilised to understand other ways in which internationalisation may occur.

**Methodological Limitations**

A number of methodological limitations can be found in this thesis and where limitations have been identified, recommendations are offered to overcome those limitations.

The most obvious limitation is the choice of research method. The study was exploratory in nature, hence, a qualitative method was adopted as suitable for the study (Creswell, 2013). Qualitative techniques, however, can uncover owners’/managers’ past experience and perceptions of the internationalisation process to China. In addition, the qualitative research method enables in-depth analysis (Miller & Crabtree, 1992), however, it does not allow the researcher to test the relationships between variables. The importance of themes found in the research can only be demonstrated by a percentage or the number of respondents for each theme. This limitation could be addressed by using a quantitative research method in which a survey is conducted on the internationalisation of Australian SMEs to China, using the conceptual framework developed in the thesis, wherein the relationships between the variables could be tested.
Another limitation was that only Australian managers were interviewed; local Chinese managers or other employees could also be interviewed to get their perspectives on the findings. Interviewing local managers may be important, as it has been identified that local managers are usually responsible for innovative operations in China, but it was beyond the scope of the study conducted here to include those managers in this research because of time and resource constraints. It is argued, however, that using thirty-five cases (data sources) in this study will make a contribution to knowledge, as few studies on the internationalisation of Australian SMEs to China field, to date, have achieved a multi-perspective approach.

The next limitation relates to the measurement of constructs relating to the theoretical perspectives chosen to analyse the Australian SMEs. The methods promote collecting managers’ opinions in open-ended questions (qualitative data), rather than collecting specific answers to specific questions to measure and produce statistical analysis (quantitative data). Given this limitation, it is not possible to produce certain conclusions based on statistical analysis.

The size of firms from the sample varied from 1 to 200, also several firms were relatively new to the Chinese market. Therefore, some SMEs testimony might not provide the longer-term perspective needed in understanding some aspects of doing business in China.

Contingency situations such as the 2007-2010 crisis, or other external events may have a direct impact on the antecedents of internationalization for SMEs which has being not considered in this study in collecting and/or analysing the data and hence, this can be considered a limitation.
Ten interviews were conducted over the phone and two by Skype (over 1/3 of the interviews) and this could be considered a limitation of the study as conducting in-depth interviews using teleconference and/or Skype might not be as good as face-to-face interviews where the interviewer can develop a rapport with the interviewee, and elicit greater amounts of information from the interviewee.

One other potential limitation of the research is that there was a mixture of owners and managers interviewed for this research, which could then have an impact on the results, as potentially owners of businesses may care more about their internationalisation/business than only managers. Although it was apparent from the responses of the managers that they cared about the performance of the businesses they worked in and are incentivised to do so, so it is expected that there are not too many differences between the two types; owners or managers. In addition, several firms from the sample were relatively new to China and the Chinese market. Therefore, their views based on short exposure and might not provide the longer-term perspective needed in understanding the many aspects of doing business in China.

One final limitation that arises out of this research is that the outcome measure was based on managers’ opinions, rather than hard evidence. Thus, the research is subjective rather than objective, and the findings and results rely on the perceptions of managers on the subject matter. How their intentions might correlate with actual facts is worth considering.

**Future Research**

This section will provide recommendations for future research based on the findings of this research, and the limitations identified above.
It was found that some firms had been established solely in China (BIC) and were without domestic (Australian) business operations. Future researchers are encouraged to investigate this category of firm to understand their nature and operational modes, and how these firms contribute to the economy of Australia, and to other foreign countries.

Another unexpected finding was that innovative products/services offered by Australian SMEs were not always welcomed or accepted by the Chinese market, or that various cultural/institutional/technological contexts influenced the ability to provide some innovative services/products to the Chinese market. Future researchers are encouraged to investigate these issues to determine whether they are relevant for other contexts, or whether this is a Chinese context-specific issue. For example, do innovative firms find it difficult to internationalise their products/services to Brazil, or Russia for that matter, or to other Western and developed countries?

The results demonstrate that Australian SMEs were of the opinion that they did not receive the expected necessary support from government agencies in the internationalisation process to China. Further researchers are encouraged to investigate what specific support the firms were expecting from government agencies, and how those agencies could offer such specific services to promote innovative Australian SMEs in China.

**Conclusion of the Thesis**

In conclusion, the research aimed to understand how Australian SMEs internationalised to China. The research was conducted primarily because there were not many studies on Australian SMEs’ internationalisation to China. The research found that the innovation, networking, EO, and resources and capabilities of SMEs are key factors which influenced
their internationalisation. The findings of the thesis, however, are not generalisable to all
Australian-based SMEs, or to other country SMEs, due to the qualitative methods adopted
and the size of the sample. Further, data collected from different industries is subject to
different market factors.

Despite the methodological limitations of the generalisability of the study, and the fact that
the study is qualitative, the research contributes to the knowledge on ‘how’ and ‘why’
Australian innovative SMEs internationalise to China. The study also contributes to the
knowledge by postulating a conceptual framework that explains SMEs' participation in
internationalisation. The framework was examined through interviews with thirty-five
managers and was empirically supported. The research has implications for Australian SME
owners and senior managers, the Australian and Chinese business communities, and theory.
This thesis sought to understand, in greater detail than already exists, how Australian SMEs
internationalise to China. It is anticipated that this knowledge will assist Australian SMEs,
and Australian and Chinese government authorities to develop business models, business
support services, procedures and processes that are supportive of Australian SMEs in their
internationalisation to China.

The Australian SMEs investigated used innovation in their internationalisation process to the
Chinese market, and provided evidence that innovation and internationalisation are closely
linked and depend on each other. The SMEs’ internationalisation to China significantly relied
upon the innovations they offered to the Chinese market, however, the implementation of
innovation in the Chinese market could be problematic because of the non-acceptance of new
ideas/products, or new features of products that the Chinese did not want to pay for.
Some of the practical insights presented in this study will inform the managers and owners of new SMEs willing to internationalise about the factors they will need to deal with, as well as the problems and potential solutions. In addition, practical insights contained in this thesis will assist managers already operating in China to understand more deeply the issues they experience.
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19 August 2013

Dear Jane,

BL-EC 34-13: Australian small to medium enterprises in China: Innovation and Engagement in the Asian Century

Thank you for submitting the above project for consideration by the Faculty Human Ethics Advisory Group (HEAG). The HEAG recognised that the project complies with the National Statement on Ethical Conduct in Research Involving Humans (2007) and has approved it. You may commence the project upon receipt of this communication.

The approval period is for four years. It is your responsibility to contact the Faculty HEAG immediately should any of the following occur:

- Serious or unexpected adverse effects on the participants
- Any proposed changes in the protocol, including extensions of time
- Any changes to the research team or changes to contact details
- Any events which might affect the continuing ethical acceptability of the project
- The project is discontinued before the expected date of completion.

You will be required to submit an annual report giving details of the progress of your research. Failure to do so may result in the termination of the project. Once the project is completed, you will be required to submit a final report informing the HEAG of its completion.

Please ensure that the Deakin logo is on the Plain Language Statement and Consent Forms. You should also ensure that the project ID is inserted in the complaints clause on the Plain Language Statement, and be reminded that the project number must always be quoted in any communication with the HEAG to avoid delays. All communication should be directed to katrina.fleming@deakin.edu.au

The Faculty HEAG and/or Deakin University Human Research Ethics Committee (HREC) may need to audit this project as part of the requirements for monitoring set out in the National Statement on Ethical Conduct in Research Involving Humans (2007).

If you have any queries in the future, please do not hesitate to contact me.

We wish you well with your research.

Kind regards,

Katrina Fleming
BL-HEAG Secretariat
Dear Jane,

Thank you for sending the modification form again. I apologise if it wasn’t acknowledged previously. All looks fine and approved!

Kind regards,

Katrina Fleming
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Research Services, Faculty of Business & Law

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Hi there,

I was just following up on this – request for modification form as I hadn’t heard anything.

With Kind Regards,

Jane
Dear Elizabeth,

Please see attached the modification to ethics form. Please let me know if you need any further information.

With Kind Regards,

Jane
APPENDIX B - INTERVIEW SCHEDULE
1. What does your organisation do in general?
2. How old in your business?
3. What does your organisation do in China?
4. When did you first start your business in China?
5. How would you define your organisation as being innovative?
   a. Are your products or services innovative?
   b. Is it incremental or radical innovation?
   c. Do you engage in architectural or component innovation (define what this means to participants)?
6. How did it come about that you setup a business in China? What was the driver that made you establish your business in China?
7. Was it entrepreneurial in nature?
8. Were networks important for establishing your innovative business in China?
9. Did you need to link in with any innovation networks/R&D hubs in China?
   a. How did you find them?
   b. Where were they?
10. What entry mode do you use at the moment? Did you use any others previously? Are you considering changing this in the future?
11. What firm specific advantages does your organisation have? How does that help you in China?
12. How did you fund your innovative activities, and also your internationalisation to China?
13. What resources and capabilities your organisation use to establish your business in China?
14. Where is your business located in China? Why did you choose that?
15. What are your perceptions of Chinese culture? How does that affect your business?
16. What are your perceptions of the Chinese legal system? How does the legal system affect your business?

17. What are your perceptions of the Chinese political system? How does the political system impact your business?

18. Do you have intellectual property? How do you protect it in China?

19. How do you manage the staffing issue in China?

20. How do you market in China?

21. What are your future strategies for China?

22. What is the biggest issue in your China business at the moment?

Thanks for your time and contribution to this project. Is there anything else that you would like to say?