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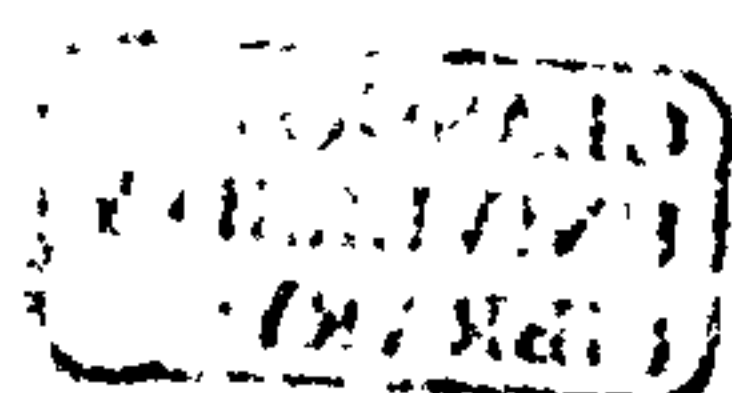
**Networking for the Internationalization of SMEs:
Evidence from the Chinese Context**

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**Submitted in fulfilment of the requirements for
the degree of Doctor of Philosophy (PhD)**

**Glasgow
April, 2007**

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DECLARATION OF ORIGINALITY

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

I declare that the thesis embodies the results of my own work. Following normal academic conventions, I have made due acknowledgement of the work of others.

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ABSTRACT

This research aims to enrich existing knowledge about the role and effects of networks and networking on the internationalization of SMEs, in particular the pursuit of instant and accelerated internationalization. The study argues that the majority of network research in the internationalization literature (which regards networks as pre-existing and a natural given to firms, and universally beneficial to all business activities) is limited in explanatory and predictive power in relation to variations of network outcomes on internationalization of firms. This research emphasizes the active influence of a firm on network outcomes through its networking behaviour: the antecedent efforts undertaken by the firm to develop, manage, and leverage its networks for actual value creation in enabling/driving internationalization. Networking behaviour at the level of the firm is investigated as a core explanatory factor in the internationalization of SMEs in this study. The influence of the key decision-maker on the networking behaviour of SMEs is also examined, through which explanations and predictions of networking behaviour of firms are elaborated to provide a fuller picture. The two main research questions addressed are: 1) How does networking behaviour influence the internationalization of SMEs? 2) What and how do key decision-maker attributes affect the networking behaviour of SMEs?

Eight qualitative case studies and a quantitative survey were conducted respectively in two stages to draw empirical evidence from the Chinese context. The in-depth case studies provide rich information about the latent factors (variables) of the constructs of the study and their associations, from which hypotheses for quantitative research are formulated. Case findings also support more comprehensive interpretation of the quantitative results. Quantitative analysis of survey data allows statistical validation and generalization of the findings. The mixed research approach enhances the robustness of the research and the validity of the findings for future replication and extension.

Findings of key behavioural aspects of networking concerning the likelihood of SMEs achieving (rapid) internationalization are derived. Network resources are identified to have possibly negative in addition to positive influences on internationalization. The findings highlight the significance of deliberate networking behaviour undertaken by a firm in pursuit of rapid internationalization. International business vision of the key decision-maker is evidenced to be a prominent attribute positively influencing deliberate networking in achieving rapid internationalization.

The research conceptualizes a precise causal model capturing the networking behaviour of the firm as antecedent to explaining and predicting network outcomes in the specific context of internationalization. The research advances an integrative perspective - with theoretical underpinnings from the network perspective, the internationalization model and the resource-based view - to provide more comprehensive understanding pertaining to networks and the internationalization of SMEs. The emphasis on the behavioural aspects of networking at the level of the firm provides a strategic perspective for understanding networking as a potential capability of SMEs for internationalization; significant practical implications are derived accordingly for business practitioners and policy makers to promote the development and growth of the SME sector.

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LIST OF ABBREVIATIONS

| | |
|--------|--|
| APEC | Asia-Pacific Economic Cooperation |
| ASEAN | Association of Southeast Asian Nations |
| EU | European Union |
| FDI | Foreign Direct Investment |
| HKTID | Hong Kong Trade and Industry Department |
| HKTDC | Hong Kong Trade and Development Council |
| INV | International New Venture |
| MNE | Multinational Enterprise |
| MOFCOM | Ministry of Commerce of the People’s Republic of China |
| ODM | Original Design Manufacturer |
| OECD | Organization for Economic Co-operation and Development |
| OEM | Original Equipment Manufacturer |
| SME | Small- and Medium-Sized Enterprise |
| RBV | Resource-Based View |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| WTO | World Trade Organization |

1 INTRODUCTION

This chapter presents readers with an overview of the research conducted for this dissertation. The chapter begins with the background of the research. The existing literature is discussed, based on which gaps are identified and the focus of the research to address those gaps is defined. The theoretical underpinnings of the research are presented, and the main research questions specified. The research methodology is then explained. The chapter ends with definitions of some key concepts and an outline of the dissertation's structure.

1.1 Prologue

“Research is formalized curiosity. It is poking and prying with a purpose.”
Zora Neale Hurston, Dust Tracks on a Road (1942), p.143

The purpose of this research is to provide a comprehensive and holistic understanding of networks as a core explanatory factor in the internationalization of SMEs, particularly with regard to achievement of instant and accelerated internationalization.

The author is a native of Hong Kong, a small ethnic Chinese economy in which small- and medium-sized enterprises are its backbone and foreign business is its life blood. Pursuing instant and rapid internationalization to enter foreign markets is not simply a matter of optional growth but one necessary for the survival of many SMEs in the region due to the market and industrial conditions (Madsen and Servais, 1997; Spence, 2003). The understanding of internationalization as a gradual process, which is illustrated in the internationalization model to follow incremental steps after the development of domestic business and start from psychically [geographical and cultural] proximate markets (Johanson and Wiedersheim-Paul, 1975; Johanson and Vahlne, 1977, 1990), is apparently limited in its explanation of the internationalization patterns of the majority of SMEs in the region. On the other hand, these SMEs demonstrate internationalization patterns of what Oviatt and McDougall (1994) define as international new ventures (INVs), which have instant foreign market entry, a significant proportion of foreign sales, and involvement in multiple countries.

The failure rate in pursuit of rapid internationalization is high, as SMEs inevitably face the risks imposed by the liabilities of smallness, newness and foreignness (Zahra, 2005). Still, many SMEs are able to establish a certain market position and thrive quickly in the global marketplace, despite resource constraints and insufficient official support. While the author finds the phenomenon of rapid internationalization of SMEs not as surprising and distinctive as do researchers from countries with a large domestic market on which firms can depend, she does

believe that the quest for the key factors that enable SMEs to achieve rapid internationalization can contribute, not only to extending the existing theoretical understanding of the phenomenon that prevails worldwide, but also to providing managerial implications to support further foreign development of the SME sector. The fundamental idea of the research is framed in response to the author's desire to participate in this quest.

Amidst the various exogenous and endogenous factors identified in the existing internationalization literature, networks are commonly emphasized in studies across different contexts as a prime factor driving and enabling the rapid internationalization of SMEs. The important role of networking and networks in the business context is self-evident, as Hankansson and Snehota (1989) proclaim: 'no business is an island'. In general entrepreneurship literature, just as in the Chinese business studies, [personal] networks are explicitly described to be deterministic in facilitating business development, and hence networking is highlighted as a core, though not necessarily strategic, business activity (Jarillo, 1989; Johannisson and Monsted, 1997; Zhao and Aram, 1995). The author believes that putting the focus on investigating networks as the focal subject in her quest for the enabling forces of SMEs' internationalization can produce significant findings of theoretical and practical value regarding the phenomenon.

1.2 The Literature Gaps and the Research Focus

Although the scope of this research is defined to associate networks and the internationalization of SMEs in the broad sense, the research focus is not placed on *networks per se* as in the majority of network studies, but on the *networking behaviour* of SMEs.

Existing network studies in the business organization literature, including the internationalization literature, generally discuss networks as if they are universally beneficial to all business activities of all firms alike (Barringer and Harrison, 2000; Loane and Bell, 2006). However, studies find that networks with different structural attributes have different strengths in serving specific functions (Burt, 1992; Coleman, 1988; Gabbay and Leenders, 1999; Gargiulo and Benassi, 2000; Granovetter, 1973); networks can be inhibitors rather than facilitators of firm development (Adler and Kwon, 2002; Chetty and Campbell-Hunt, 2003; Gulati and Gargiulo, 1999; Locke, 1999). The 'one-size-fits-all' approach, which discusses the [positive] network outcomes as broadly applicable to all business activities, is limited to providing an explicit picture of the effects of networks on particular business activities (Inkpen and Tsang, 2003), and in this research, the internationalization of SMEs in particular.

Madhok and Tallman (1998) draw a clear distinction between the 'potential' value attainable through inter-firm collaborations, and the 'actual' realization of the value. According to their

proposition, a firm must make efforts to develop, maintain and deploy network relationships that match its specific goals in order to actually realize the value from networks for attaining these goals (Bourdieu, 1983; Johanson and Mattsson, 1985, 1987; Ostgaard and Birley 1994; O'Donnell, 2004). Mutuality and reciprocity are required to initiate bilateral network exchanges to create value, and one party does not have sole control over the networks without other parties' involvement (Johanson and Vahlne, 1990). It is proposed that a firm can learn to select, adapt, develop and manage its networks and its position in the networks to enable the exercise of power/influence for its own purposes (Gomes-Casseres, 1996; Johanson and Mattsson, 1985; Lorenzoni and Lipparini, 1999). Thorelli (1986:38) draws the precise analogy that "positioning of the firm in the network becomes a matter [of equal strategic significance to] positioning its product in the marketplace". Most existing studies commonly discuss network outcomes as if networks are a natural given to a firm, and do not take into consideration the efforts the firm has made beforehand to constitute and influence its networks. This perspective is lacking in explanatory and predictive power regarding the possible variations of network outcome/consequences to individual firms.

Identifying these gaps in the existing studies, this research defines networking behaviour at the level of the firm as the focal construct in relation to the internationalization of SMEs. This research argues that a network is neither a natural given to a firm nor necessarily beneficial in supporting internationalization (Adler and Kwon, 2002; Bourdieu, 1983; Coleman, 1988; Gabbay and Leenders, 1999; Nahapiet and Ghoshal, 1998; Witt, 2004). Efforts by the firm are required to develop, maintain, and deploy networks to constitute the specific network outcomes that serve the purposes of internationalization. The presumption of this research, therefore, is that networking behaviour comprises the antecedent efforts to precondition the network outcomes, whereby value can actually be attained for the firm's benefit. This research analyzes and explains both the antecedent efforts of networking and the network outcomes in association with the specific context of SME internationalization. The causal linkage between networking behaviour and network outcomes is explicitly specified. The unit of analysis is placed at the level of the firm.

Empirical evidence of the research is drawn from the Chinese context. It is believed that the deterministic influence of networking behaviour on the business development of firms (particularly small private firms) in the Chinese context, commonly stressed in the existing Chinese business research, provides an amplifying lens for this research to uncover fine-grained details in breadth and depth, so that a fuller picture of the association between networking behaviour and the internationalization of SMEs can be portrayed.

1.3 The Theoretical Underpinnings of the Research

The network perspective lays the theoretical foundation of this study investigating the association of networking and networks with the internationalization of SMEs. The network perspective proposes that a firm does not act in isolation as a solitary unit, but that it is embedded in direct and indirect network relationships with other actors (Hankansson and Snehota, 1989; Thorelli, 1986). Since its emergence in the 1970s, the network perspective has been widely adopted in business and organization studies to explain firms' activities and performance. This research draws on fruitful findings and insights from network studies of different disciplines, particularly entrepreneurship, social network, and industrial marketing studies for the fundamental understanding of the role and effects of networks in the business context.

In internationalization studies specifically, the network perspective is proposed to be particularly significant in explaining the internationalization patterns of small firms, particularly those that internationalize rapidly regardless of their inherent resource limitations (Andersson and Wictor, 2003; Coviello and Munro, 1995, 1997; Sharma and Blomstermo, 2003). Smaller firms with the liabilities of smallness, newness, and foreignness are presumed to be limited in pursuing expansion, not to mention foreign expansion that requires greater and specialized resource commitment. Embedding in networks with other actors, it is found that SMEs are driven to internationalize in response to the activities of their clients, suppliers or other business associates (Andersson and Wictor, 2003; Bell, 1995; Moen, Gavlen and Endresen, 2004; Oviatt and McDougall, 2005), or they are motivated and enabled to pursue internationalization with the access to additional resources through networks that compensate for their inherent constraints (Chetty and Holm, 2000; Coviello and Munro, 1995; Holmlund and Kock, 1998; Gulati, 1999; Oviatt and McDougall, 2005; Ramachandran and Ramnarayan, 1993). In both situations, the network is a key explanatory factor in the internationalization of SMEs.

The network perspective has become one of the mainstream theoretical perspectives alongside foreign direct investment (FDI) theories and stage theories in SME internationalization research (Coviello and McAuley, 1999). While the network perspective provides important insights into a key factor – networks – in explaining SME internationalization, the network-level analysis tends to focus research attention upon describing the contents and structural attributes of networks (Shaw, 2006). The focus on describing the 'forest' rather than the 'tree', as highlighted by Thorelli (1986), gives limited attention to networking behaviour at the actor level and any possible active influence of the actor on the networks (Lorenzoni and Lipparini, 1999; Neergaard, 2005; O'Donnell, 2004). Hite (2005:136) cites Friedman and McAdam's claim that

the network perspective “fails to offer a plausible model of individual action”. The claim also corresponds to Bjorkman and Forsgren’s comment (2000:14) that “business network research often produces good descriptions of business reality but less satisfactory models for predictions”.

In order to support firm-level examination to understand networking behaviour in relation to internationalization, incorporation of the theoretical underpinnings of the internationalization model and the resource-based view into the theoretical foundation can largely enrich the explanation. Indeed, the recent trend has also been towards incorporation of the network construct into the core concepts of these two theoretical perspectives.

The incremental internationalization process proposed by the internationalization model (Johanson and Vahlne, 1977) is acutely challenged by observations of some deviated internationalization patterns of firms in different contexts (Bell, 1995; Oviatt and McDougall, 1994; Jones, 2001; Rennie, 1993; Turnbull, 1987; Young and Hood, 1976). Nevertheless, the underlying concept about the uncertainties involved in resource commitment decisions that constrain rapid progression of international development is fundamentally valid (Autio, 2005; Madsen and Servais, 1997; Johanson and Vahlne, 2003; Zahra, 2005); it describes the major constraint on SME internationalization. On the one hand, the illustration of this constraint upon resource commitment highlights the critical role of networks as the driver/enabler that lessens SMEs’ inherent resource limitations to promote their internationalization; on the other hand, it can be interpreted as a constraint on SMEs’ foreign network development because it is of itself a resource-intensive commitment (Johnson and Vahlne, 2003; 2006). In both ways, this underlying concept of the internationalization model explains the role of networking and networks in internationalization.

Another highly relevant proposition underlying the internationalization model is the interplay between experiential knowledge development and resource commitment decisions in which the firm plays an active role in adapting its behaviour based on the knowledge accumulated through learning (Johanson and Vahlne, 2003). The proposition illuminates networking behaviour as dynamic efforts involving development, adaptation and adjustment alongside business development. This interpretation is complemented by the resource-based view relating a firm’s resources and capabilities to its business behaviour and performance.

The resource-based view, which emphasizes the influence of the organic resources and capabilities of a firm upon its direction of expansion and performance (Penrose, 1995), provides important insights to illustrating networking behaviour as firms make efforts to develop, manage and deploy networks in support of its internationalization. Referring to the resource-based view, a firm’s network relationships are interpreted as a type of resources for the firm (Wernerfelt,

1984; Barney, 1991). Therefore, a firm's network relationships can be the sources of inducements, limitations and the directing force (i.e. drivers and/or enablers) of the firm's expansion - in the context of foreign business development. Networking, which provides opportunities to access network resources to reconfigure and enrich a firm's internal resource base, can be developed into a dynamic capability of the firm (Das and Teng, 2000; Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997). The incorporation of the resource-based view, therefore, largely enhances the interpretation of networking as both a means (to gain access to network resources) and an end (a capability of the firm) (Gulati, Nohria and Zaheer, 2000), which impact on the international development of SMEs.

1.4 The Research Questions and the Research Contributions

Regarding the outcomes of a firm's networking behaviour, two aspects of the effects of networking on internationalization are analyzed in this study. Firstly, the direct effect of networking on foreign business development is examined. An example of such direct network effect is the gain of primary economic transactions (Larson, 1992) through the establishment of business relationships with foreign clients and customers. This aspect is a main theme within the industrial marketing perspective, which regards a firm's foreign market expansion as the extension of its business networks abroad (Anderson, Hakansson and Johanson, 1994; Bradley, Meyer and Gao, 2006; Ellis, 2000; Forsgren and Johanson, 1992; Johanson and Mattsson, 1985; Thorelli, 1986). Secondly, the effect of networking behaviour on making additional resources available to the firm is examined. These resources can be deployed by the firm to support its business development, including its business development in foreign markets. This aspect is pivotal to the network perspective; it is particularly useful in explaining the business development of SMEs with inherent resource constraints. It ties in with the core themes of social capital (Adler and Kwon, 2002) and entrepreneurship (Jarillo, 1989). The distinction between these two aspects of networking effects adopted in this study finds support in Johanson and Mattsson's (1987:36) illustration of business networks: "through its activities in the network the firm develops the relationships that secure its access to important resources and the sale of its products and services". These two aspects of network effects need not necessarily be related (Larson, 1992; Turnbull, Ford and Cunningham, 1996), and hence are analyzed independently in this study. Theoretical propositions and empirical findings of networking and networks in business research, from industrial marketing, social capital (socio-economic), and entrepreneurship perspectives lend support to the development of the core ideas of this study.

In correspondence with the above discussion, the first main research question is:

‘How does networking behaviour influence the internationalization of SMEs?’

The question encompasses the investigation of three independent sets of associations, namely: 1) the direct influence of networking behaviour on the internationalization of SMEs, 2) the influence of networking behaviour on the availability of network resources, in which the role of strong- and weak-tie networks in providing resources for internationalization is also explored, and 3) the effect of network resources on internationalization. The influence on internationalization is discussed in terms of the likelihood of a firm internationalizing rapidly in the form of an international new venture (INV).

Presuming networking behaviour to be the antecedent efforts undertaken by firms to develop, maintain and deploy network relationships in support of their business goals, this study also seeks to provide an explanation of variations in networking behaviour as an endogenous factor of individual firms. It is commonly emphasized that the social and business contexts of SMEs are intertwined, and that the personal attributes of key decision-makers of SMEs (labelled variously in existing studies as owners/managers, top management, or entrepreneurs) directly shape the business activities of SMEs. Referring to this supposition, the majority of entrepreneurship studies put focus on associating entrepreneurs’ attributes with their personal networking (Cromie and Birley, 1992; Johannisson 1998; Ostgaard and Birley, 1994; Ramachandran and Ramnarayan, 1993). There is relatively less effort being put on articulating the association with networking behaviour at the level of the firm. The influence of the key decision-maker, in terms of the main personal attributes that are identified in the literature and in the case studies, on the networking behaviour of SMEs is examined in this study. Accordingly, the second research question is:

‘What and how do key decision-maker attributes affect the networking behaviour of SMEs?’

In seeking answers to the research questions, this study attempts to contribute to the theoretical and practical knowledge as follows:

- *It develops an integrative conceptual framework*, which incorporates the underpinnings of the network perspective, the internationalization model and the resource-based view, to portray a fuller view pertaining to networking behaviour and the internationalization of firms. The framework conceptualizes the causal links of the four key constructs, i.e., the key decision-maker, networking behaviour at the firm level, network resources and internationalization. It lays a foundation to support theoretical development and extension.

- *It identifies the features of networking behaviour at the firm level* that are influential in enabling the rapid internationalization of SMEs, and develops more comprehensive operationalized measures to assess specific dimensions (constructs) of the networking behaviour of the firm for further research replication and generalization.
- *It provides awareness of the possible efforts at the level of the firm to leverage networking behaviour* to enable rapid internationalization, and assesses the influence of the key decision-maker on the networking behaviour of SMEs. By identifying the important aspects of networking behaviour, and specifying the influence which personal attributes have on this behaviour, the study derives practical implications to encourage proactive efforts by firms to conduct networking effectively to promote international development of the SME sector.
- *It derives certain contextual findings* to examine and enrich existing knowledge of networking behaviour and the international development of Chinese SMEs, which are developing rapidly to take an increasing active position in the international arena.

1.5 The Research Methodology

This study adopts mixed research methodology that entails qualitative and quantitative research respectively in a two-stage research process.

There is relatively limited understanding of the association between networking behaviour of a firm, rather than network outcomes, and the internationalization of SMEs, and of the specific influence of the key decision-maker on networking behaviour at the firm level. Case study method, using multiple sources of evidence, supports the exploration and explanation of a phenomenon within its context, enabling the discovery of broader and richer facets when existing understanding of the subject is limited (Yin, 1994). Taking into consideration the inseparable socio-business context of smaller firms and the dynamic nature of networking, the qualitative case study method is therefore deemed to be the most appropriate to adopt in the first stage, to derive conceptual and contextual insights into the research questions regarding how networking behaviour influences internationalization and how the key decision-maker influences networking (Arenius, 2005; Borch and Arthur, 1995; Coviello, 2005; Halinen and Tornroos, 2005; O'Donnell and Cummins, 1999). The case study method is also more effective for deriving richer and more in-depth contextual information for exploratory purposes in the Chinese business context, in which personal interactions and intense probing are required to open up respondents more reluctant to volunteer information. It is proposed that evidence from multiple cases better enables comparison, replication and extension (Chetty, 1996; Yin, 1994). Eight purposely selected case studies with primary data collected through in-depth face-to-face

interviews were conducted to maximize the richness, validity and depth of the information obtained (Eisenhardt, 1989; Perry 1998; Stake, 1995; Yin, 1994). The first-stage qualitative case study research provides exploratory insights into the research questions, from which the key factors (variables) for the development of hypotheses were identified. The case findings also enrich existing knowledge regarding the internationalization of SMEs, and provide important cross-references for interpreting the quantitative analysis results.

The second-stage quantitative research aims to conduct more rigorous testing of the key qualitative case findings using statistical analysis, in order to convert theoretical generalizable case findings into statistical generalizable results for replication and extension. Considering the local context of the two research locations, i.e., Hong Kong and Beijing, a postal survey was believed to be the most effective way to access the key decision-makers of small Hong Kong firms (Siu and Kirby, 1999; Shi, Ho and Siu, 2001), whereas a drop-and-collect survey through a market research company with local networks was found to be the most efficient to access prospective sample firms in Beijing (Brown, 1987). A structured questionnaire, composed mainly of closed-end and rating questions and translated into the local language, was used as the data collection instrument in both regions.

It is believed that the incorporation of both qualitative case studies and quantitative survey into the research was essential to increase its robustness and the validity of the findings.

1.6 Key Concepts

The key concepts of the study are precisely defined below in order to ensure intelligibility throughout the study, and to assist readers' interpretation of the research. Detailed explanation of the concepts is also provided in corresponding sections within the main content.

1.6.1.1 Small- and Medium-sized Enterprises (SMEs)

There are diverse definitions of SMEs: different countries maintain different official definitions (Curran and Blackburn, 2001; Lamb and Liesch, 2002; OECD-APEC Global Conference 2006). Due to the different economic and market structure, the official categorization of SMEs by number of employees in Hong Kong and China PRC (referred to as mainland China in the study) is also different. SMEs are officially defined in Hong Kong as those enterprises in manufacturing sectors with 100 domestic employees or fewer, and those in non-manufacturing sectors with 50 employees or fewer. Researchers conducting studies in the region, however, often define SMEs differently from the official definition (Chan and Foster, 1999; Luk, 1996; Shi, Ho and Siu, 2001). During the sampling process, it was also found that the

size (by number of employees) of many member companies of the SME associations in the region does not necessarily conform to the official definition.

The official definition of SMEs in mainland China by number of employees is differentiated by size (small or medium) and by sectors (industrial, construction, wholesale, transportation, or hotels and restaurants). The range can be as great as from more than 3000 employees (medium-sized transportation enterprise) to fewer than 500 employees (small-sized wholesale and retail enterprises).

In order to achieve synchronization of the findings across the two survey locations, and to enable replication and comparison of the findings to other contexts in future research, the study attempted to minimize the huge gap in the size of the sample firms that might have resulted due to differences in SME definitions between Hong Kong and mainland China. While in this study the Hong Kong official definition of SMEs (i.e., those companies with 100 domestic employees or fewer) was basically applied to sample selection; the companies sampled in mainland China were restricted to those with 250 domestic employees or fewer. This approach was applied by UPS in its annual large-scale Asia Business Monitor Survey on SMEs across the Asian region, in which countries maintain different definitions (People's Daily Online, 13 April 2006; UPS, 5 Nov 2005).

1.6.1.2 Internationalization (Section 2.1)

There is still no comprehensive definition of internationalization (Andersen 1997; Coviello and McAuley, 1999). This study adopts a processual perspective to interpret internationalization as changes of 'state aspects' [the current positions at the point in time] of a firm in terms of its involvement in cross-border business activities (Buckley and Ghauri, 1999; Johanson and Vahlne, 1990).

It is proposed that internationalization can involve both inward and outward cross-border links (Welch and Luostarinen, 1988; Jones, 1999). This study is only concerned with the outward internationalization of the firms, i.e., from exporting to direct investments in foreign markets.

1.6.1.3 International New Venture (INV)

The international new venture is defined according to the original definition by Oviatt and McDougall (1994:470) as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". Three criteria - the time of initial foreign business development, the significance of the sale of outputs, and involvement in multiple countries - encompassed in this definition were

used as an aggregate criterion for the categorization of firms into INVs and traditional internationalized firms. The two categories make up the categorical dichotomy variable measuring internationalization in this study. The ways the three criteria are operationalized in this study is specified in section 6.1.3.

1.6.1.4 Networking Behaviour and Network

This study differentiates *networking* and *network* as two constructs (Chell and Baines, 2000; Dubini and Aldrich, 1991; Neergaard, 2005; O'Donnell, 2004; Shaw, 2005), and specifies their causal linkage (section 2.4.5.1.4).

Networking behaviour is regarded as the manifestation of the networking orientation, which involves activities for the development, maintenance and deployment of network relationships. Thus, networking behaviour comprises the antecedent efforts which shapes and preconditions networks.

Network in this study is generally and broadly defined as “connections [nodes] between firms or between individuals...built as relationships are established and maintained, and linked through a variety of formal and informal mechanisms [e.g. contracts or ties], resources, and activities” (Liesch et al., 2002:21). Referring to Anderson, Hakansson and Johanson (1994:5), every relationship is viewed as being part of a network in the study. Network relationships, therefore, are the products of networking behaviour. This study is only concerned with network relationships external to the firm and does not address relationships between the units within the firm.

This study also specifically differentiates *personal networks* from *organizational networks* (section 2.4.4.2). *Personal networks* in this study refer to the interactions at the personal level and connections extending from a focal person. The interactions of the contacts and connections are basically informal, even though personal networks may be utilized for both social and business purposes by the focal person (Aldrich and Zimmer, 1986; Crombie and Birley, 1992; Dubini and Aldrich, 1991; O'Donnell et al., 2001).

1.6.1.5 Network Resources (section 2.4.4.1)

Network resources are simply defined as all the tangible and intangible resources derived from networks, as obtained through informal or formal exchanges between the network partners. The definition of the term covers only part of the broad social capital concept, which is akin to Nahapiet and Ghoshal's definition (1998:243) of social capital as “the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships”.

1.6.1.6 Strong and Weak Ties

Strong and weak ties are interpreted based on Granovetter's original definition (1973: 1361) that 'the strength of tie is a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie'. There are no common measures for the four criteria specified in the definition. In a paper revisiting the concept, Granovetter (1983) explicitly describes close friends as strong ties, and acquaintances as weak ties. However, existing studies continue to adopt different classifications of network relationships into strong and weak ties. The classification is either based on the researchers' own interpretation and measures (Bruderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Jack, 2005; Levin and Cross, 2004; Sharma and Blomstermo, 2003; Witt, 2004), or on the interviewees' self-reporting on the degree of friendship with their contacts (Jenssen and Greve, 2002; Jenssen and Koenig, 2002; Krackhardt, 1992).

Kin [family and relatives] and *personal friends* are two fundamental categories of strong-tie relationships adopted in this study. In the case studies, the interviewees were asked to describe their degree of friendship with the network contacts mentioned in the interviews. Accordingly, certain work/business partners and contacts, when they were described as personal friends, were discussed as strong-tie relationships in individual case analysis. It was found that a precise distinction was difficult to draw due to the convoluted socio-business context of SMEs in practice.

1.7 The Content Structure

The structure of the dissertation is as follows:

Chapter 1: Introduction

The chapter provides a broad overview of the background of the research.

Chapter 2: Theoretical Foundation of the Research

The chapter discusses the existing literature. The theoretical foundation is presented, the literature gaps are identified and the research questions specified.

Chapter 3: Networking and the Internationalization of SMEs in the Chinese Context

The chapter explains the choice of empirical location and provides background information of the foreign business development of the SME sector in the location. The features and role of networking in the business development of firms in the context are discussed, and implications for this research are explained.

Chapter 4: Research Methodology

The chapter explains the nature and objectives of the research, based upon which the research methodology is specified and justified.

Chapter 5: Qualitative Case Studies and Hypothesis Formulation

The chapter presents the case descriptions, and discusses the case findings in accordance with the research questions. Based on the case findings and corresponding literature, hypotheses for quantitative analysis are formulated.

Chapter 6: Quantitative Analysis

The chapter explains the operationalization of the constructs for quantitative research and presents the reliability test results. The results of the statistical analysis of the survey data are then presented and discussed with reference to the research questions.

Chapter 7: Conclusions and Implications

The chapter summarizes the findings of the research. Implications are derived for theoretical, managerial and policy-making purposes.

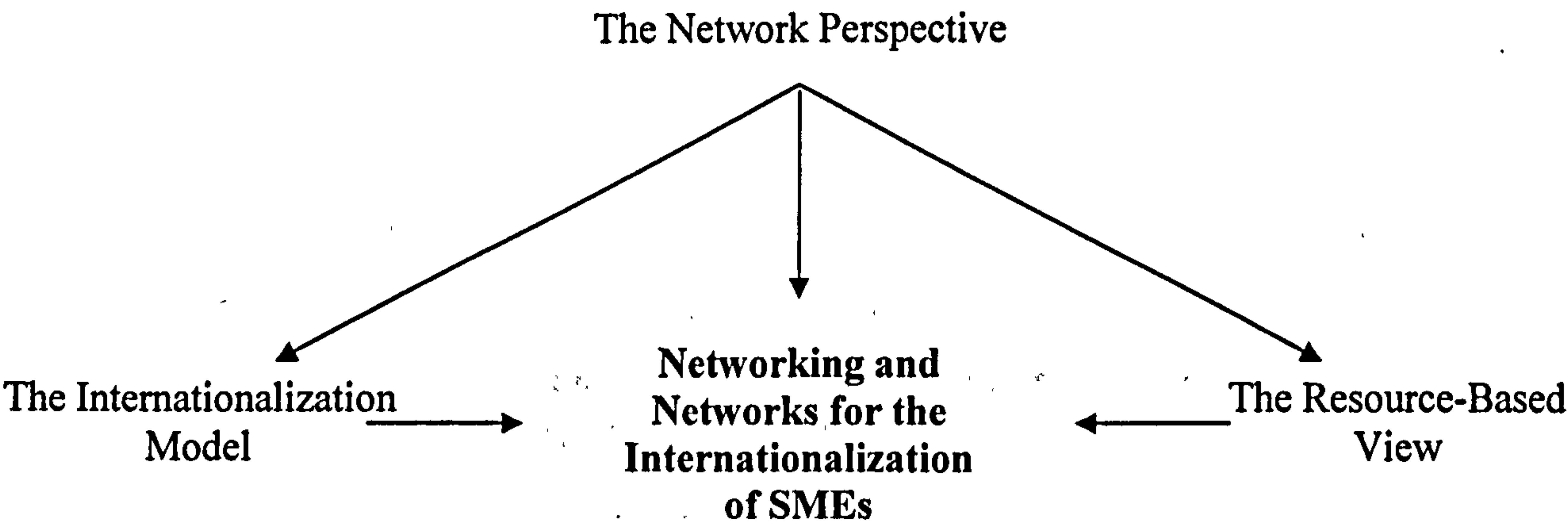
Chapter 8: Limitations and Directions for Further Research

The chapter summarizes the limitations of the research and suggests direction for future refinement.

2 THEORETICAL FOUNDATION OF THE RESEARCH

This research aims to enrich existing knowledge of the association between networks and the internationalization of SMEs. The network perspective lays the theoretical foundation of the study. The network perspective provides important insights into explaining the instant and accelerated internationalization of resource-constrained SMEs, patterns of which deviate from those proposed by the conventional theories. The recent trend has seen the incorporation of the network construct into the core concepts of the internationalization model and the resource-based view, the two theoretical strands that are mostly applied to the study of SME internationalization. It is believed that adopting the network perspective as the theoretical foundation of this study is conducive to forging a link with the internationalization model and the resource-based view to embrace their theoretical underpinnings. The integrative theoretical foundation contributes to the construction of a more comprehensive explanation of the role of networks play in the distinctive internationalization patterns of SMEs.

Figure 2-1: The Integrative Theoretical Foundation of This Study



Source: The author

The flow of this chapter starts with the definition of ‘internationalization’. The conventional understanding of the internationalization patterns of SMEs, which draws heavily upon the propositions of the internationalization model and the resource-based view, is then discussed. Contrasting findings of the distinctive internationalization patterns observed in the literature are then elaborated; the underlying factors that give rise to the phenomenon are identified. The network perspective is then introduced to specify the role of networks in driving and enabling the emergence of the ‘distinctive’ phenomenon. The potential incorporation of the internationalization model, the resource-based view and the network perspective into the explanation of this phenomenon is explained. Based on the existing literature pertaining to

networks and SME internationalization, literature gaps are identified in order to justify the focus and contributions of this research.

2.1 Defining Internationalization

There is still no comprehensive definition of internationalization (Andersen 1997; Coviello and McAuley, 1999). Welch and Luostarinen (1988) claim that much of the early research in international business took the multinational enterprise (MNE) and then foreign investment as a starting point in the analysis, leaving many questions unanswered regarding the development process which precedes the stage of direct investment. The lack of analysis of earlier stages of internationalization makes it difficult to derive a full picture because the later steps are undoubtedly affected by the preceding stages (Eriksson, Majkgard and Shama, 2000). A processual perspective of international involvement has therefore been developed to explore the behaviour and patterns of the internationalization of the firm.

According to Wilkins (1997:35), “a theory of MNE is not the same as a theory of foreign direct investment”. Based on this premise, a theory of MNE and foreign direct investment (FDI) is not the same as a theory of internationalization, although the three are interlinked. FDI is a mature state of internationalization, in which a firm commits resources directly to establish different kinds of organizational forms with different degrees of control in other countries. The institutional agent which engages in FDI is labelled a multinational enterprise (MNE) (Buckley, 2002; Buckley and Casson, 1976; Dunning, 1993). Internationalization is often associated with increasing involvement in foreign markets, which means the term has a connotation of process, evolution, or change (Johanson and Vahlne, 1977; Welch and Luostarinen, 1988; Young et al., 1989). “[Foreign] countries” is generally defined by physical national boundaries, also taking into account political (Pitelis, 2002:128), economic, institutional and cultural dimensions (Johanson and Vahlne, 2003:91).

Calof and Beamish (1995:116) take a broader definition of internationalization as “the process of adapting firms’ operations (strategy, structure, resources, etc) to [the] international environment”. The definition takes into account the inward-outward interlink to international viability proposed by Welsh and Luostarinen (1988), and also possible cases of de-investment in foreign markets after initial involvement. Calof and Beamish’s definition, however, does not sufficiently explain the changes in firms as they progress along the path of foreign involvement.

Internationalization involves the changes of different ‘state aspects’ of a firm (Buckley and Ghauri, 1999), whether in terms of size, market coverage, business networks extent, organizational designs, international knowledge and experience increase, and so forth. ‘State

aspect' is denoted as a specific dimension which reflects the firm's current conditions. In terms of internationalization, any change in the 'state aspect' of the firm should represent a certain level of international involvement and exhibit certain international influences. A fundamental understanding of 'internationalization' therefore sees the change of state in international involvement as an evolution of the firm, and the research in the area puts emphasis on the motives, progress (process) and manifestations of each change.

The change of 'state aspects' involves a number of decisions. The fundamental decisions concerning the internationalization of firms which are most commonly researched are as follows (Andersen, 1997; Benito and Welch, 1994; Jones and Coviello, 2005; Kumar and Subramaniam, 1997; Papadopoulos, 1987):

1. The decision on whether or not to become internationally involved: that is, the high-level Go/ No Go decision. This decision involves the element of timing, and hence can affect the speed of initial internationalization.
2. The decision on which foreign market(s) to be involved in. This encompasses decisions relating to the selection of foreign market/ operation location.
3. The decision on the degree of involvement. It covers decisions relating to entry mode, because different modes involve different levels of risk, control, and commitment.

Internationalization of firms, which is investigated empirically through qualitative case studies and quantitative analysis in this research, is discussed in accordance with these three fundamental decisions affecting the internationalization process.

2.2 Internationalization as a (Gradual) Process

In this part of the review, the conventional understanding of internationalization as a gradual process is introduced with reference to the underpinnings of the internationalization model (Johanson and Vahlne, 1977, 1990) and the resource-based view of firms (Barney, 1991; Penrose, 1995; Peteraf, 1993).

2.2.1 The Internationalization Model

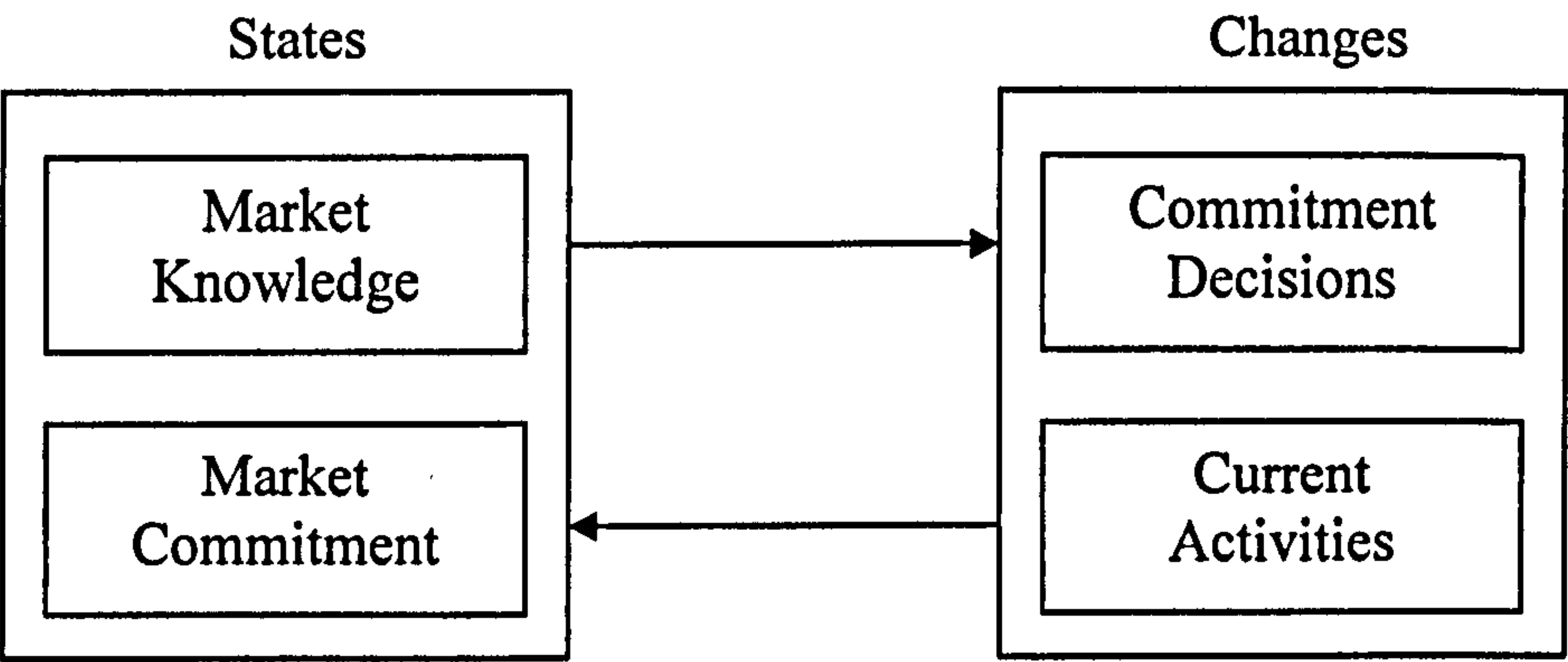
Although researchers generally relate Johanson and Wiedersheim-Paul's paper (1975) concerning the establishment chain of internationalization to the later studies by Johanson and Vahlne (1977, 1990), the underpinnings of the two are actually different (Hadjikhani, 1997; Johanson and Vahlne, 2006). The 1975 paper examines the internationalization patterns observed from four Swedish cases, while the Johanson and Vahlne studies explain the rationale behind a gradual pattern of internationalization through outlining the key variables and their

interactions. In a recent paper, Johanson and Vahlne (2006:166) make the clarification that “the model is not the ‘establishment chain’”.

The internationalization model has its theoretical background in the behavioural theory of the firm (Aharoni, 1966; Cyert and March, 1963), and the theory of the growth of the firm (Penrose, 1995). Internationalization is interpreted as a process of incremental stages within the internationalization model. The underpinning of the model is that lack of knowledge about foreign markets increases perceived risk and uncertainty, and hence impedes a firm from starting upon and progressing in the internationalization process. Aharoni (1966) mentions the avoidance of risk and uncertainty as an important factor which directly influences foreign investment decisions because these decisions involve a high degree of uncertainty. Johanson and Vahlne (1977) associate uncertainty positively to the lack of knowledge about foreign markets.

Figure 2-2: The Internationalization Model

The Basic Mechanisms of Internationalization – State and Change Aspect



Source: Johanson and Vahlne, 1977

The model presents the interplay between two states - knowledge about foreign markets and commitment of resources - which determines a firm’s progress in internationalization (Johanson and Vahlne, 2006). Building on current activities, the development of knowledge of foreign markets and operations will reduce the level of uncertainty about these markets, and thus drive an increasing commitment of resources to the development of these markets. The four mechanisms - the ‘state’ and ‘change’ aspects - interact bilaterally to explain a gradual internationalization as “a product of [a] series of incremental decisions” (Johanson and Vahlne, 1977:23).

2.2.1.1 The Establishment Chain – A Manifestation of Gradual Internationalization in Incremental Stages

The incremental decision pattern which the internationalization model aims to explain is originally conceptualized by Johanson and Wiedersheim-Paul (1975) in the so-called ‘establishment chain’; their work has been the most successful in the conceptualization of internationalization as a sequence of stages. The stage perspective of internationalization also gains support in the innovation-related internationalization models proposed by American scholars such as Bilkey and Tesar (1977), Cavusgil (1980), and Reid (1981) (cited in Andersen, 1993; Leonidou and Katsikeas, 1996; Melin, 1992; Morgan and Katsikeas, 1997).

Based on case studies of four Swedish firms, Johanson and Wiedersheim-Paul (1975) put forward the following observations regarding the firms’ internationalization patterns:

- Internationalization started only after firms had developed the domestic market.
- Internationalization followed a chain of incremental steps indicating firms’ increasing resource commitment to internationalize. In accordance with the case experience, the ‘establishment chain’ is simplified into four different stages as below:
 1. No regular export activities;
 2. Export via independent representatives (agent);
 3. Sales subsidiary; and
 4. Production/ manufacturing.

Though it is not stated explicitly, the increased degree of internationalization of the firms is defined by the mode of operations and the ownership of resources in foreign markets.

- Firms chose to enter foreign markets with successive ‘psychic distance’. The concept of ‘psychic distance’ is defined as factors preventing or disturbing the flow of information between firms and the markets, factors often inherent in the differences between geographically or culturally distant markets and the domestic market.

Johanson and Vahlne (1990:13) make the remark that the establishment chain observed in Johanson and Wiedersheim-Paul’s study (1975) is just one of the patterns that can be seen as operationalizations of the internationalization model. Such an interpretation is supported by Hadjikhani (1997). Other researchers develop different interpretations of this gradual internationalization process, for example, as a gradual ‘growth process’ (Forsgren and Johanson, 1992:11), an ‘evolution process’ (Calof and Beamish, 1995:14), or a ‘knowledge acquisition/learning process’ (Eriksson, Majkgard and Sharma, 2000; Forsgren, 2002; Johanson and Vahlne, 2006) of the firm. Nevertheless, the generic internationalization process

underpinned by the core concepts of the internationalization model is cumulative and successive in nature, which concepts have been restated in Johanson and Vahlne's recent paper (2006:174,176).

The proposition of a gradual internationalization process is founded on two underlying assumptions as follows, understanding of which is essential to explaining the distinctive patterns exhibited in instant and accelerated internationalization of firms.

1. Foreign market knowledge is generally experiential/tacit knowledge (in contrast to objective/explicit knowledge) which is difficult to acquire, transfer, and internalize. The firm does not have the initial experiential knowledge before it starts internationalization, and hence it has to gain the knowledge successively and cumulatively as its foreign involvement unfolds. It is a time- and resource-intensive learning process: the firm can only increase its commitment to internationalize in incremental steps based on the knowledge which is being accumulated gradually.
2. The acquisition and accumulation of experiential knowledge is an "organic" development of a firm (Andersson, Johanson and Vahlne, 1997:68), which implies that the firm has to use its internal resources to engage directly in this time- and resource-intensive learning process right at the start.

Johanson and Vahlne (1990) list three exceptions to this incremental progression of internationalization. They are:

1. When firms have large resources;
2. When market conditions are stable and homogeneous so relevant market knowledge can be gained in ways other than through experience;
3. When a firm already has considerable experience from markets with similar conditions so that it can extrapolate from existing experience to the specific market.

These are cases when the assumption of insufficient knowledge and resources does not apply to the firm; it already possesses or can access surplus resources and/or the experiential knowledge to skip certain stages in their internationalization. The three exceptions above, however, do not invalidate the model of a gradual process starting from a low-commitment mode and a psychically proximate market.

2.2.1.2 Critique of the Internationalization Model

The internationalization model provides insights into explaining the two fundamental internationalization decisions listed in section 2.1, i.e., the foreign market entry decision (into a psychically proximate market first), and the foreign market expansion decision (in incremental

steps, with increased resource commitment) (Johanson and Vahlne, 2003). *It does not address the question of why firms decide to internationalize or not, and it does not explain the incentives and drivers which kick-start internationalization and enable it to proceed through the stages* (Andersen, 1993; Bell, 1995). The incentives and drivers to get internationalization going - which are not explained by the internationalization model - are pivotal in explaining why internationalization patterns of some firms may deviate from the gradual process, such as those observed in studies of international new ventures (Autio, 2005; Oviatt and McDougall, 1994).

The successive internationalization process underlined by the internationalization model is widely criticized as being too deterministic and simple (Bell, 1995; Reid, 1983). Empirical studies have found evidence of internationalization patterns that are more complex and dynamic.

Young and Hood (1976) reveal that firms can achieve considerable sales levels abroad without any manufacturing activities being involved. Turnbull's study (1987) shows firms in some British industries use a combination of entry modes when expanding to a foreign country. Certain researchers have also found that international firms may undergo a process of partial or complete 'de-internationalization' after engaging in high commitment modes when they encounter disadvantageous situations as part of their international involvement. Jones' study (2001) finds diverse internationalization behaviour in terms of inward/outward cross-border links amongst small high-technology firms. Bell, McNaughton and Young's study (2001:186) finds that "firms can have a domestic focus for many years and then internationalize very quickly. Conversely, firms may de-internationalize and focus on the domestic market". Certain research points out that divestment, pulling out of a foreign market, downsizing foreign operations, or switching from high- to low-commitment operation modes are common in the internationalization process of firms; the latter are indeed sound internationalization strategies in some cases (Benito and Welsh, 1997; Morgan and Katsikeas, 1997). Millington and Bayliss (1990) even conclude in their study that a step-wise internationalization process may be the exception rather than the rule. Vahlne (1993:530), in collaboration with Nordstrom, also acknowledge that findings of some empirical studies contradict the generally-accepted description of the process proposed by the internationalization model, and some reports indicate an increased tendency of firms "to leap-frog low-commitment modes or to jump immediately to psychically distant markets". They conclude that experience-based models have some difficulty in explaining the internationalization patterns of firms which have prior experience of doing business abroad and firms operating in industries which have a high degree of internationalization. These two conditions are specified as key enablers of instant and rapid internationalization (Oviatt and McDougall, 1994; Madsen and Servais, 1997).

More evidence of such ‘leap-frog’ [instant and accelerated] internationalization is found in subsequent empirical studies; it appears to be a distinctive phenomenon that has attracted widespread research attention since the publication of the McKinsey report on the ‘Born Globals’ in 1993, and Oviatt and McDougall’s paper on ‘International New Ventures’ in 1994. Instant and accelerated internationalization is discussed with relation to the internationalization of SMEs in section 2.3.

Acknowledging the acute challenge to the explanatory power of the internationalization model to changing internationalization patterns, Madsen and Servais (1997) suggest that it may not be the underpinning of the internationalization model that is invalid in explaining instant internationalization; rather, it is simply that differences in market conditions and internal (e.g., the key decision-maker’s) characteristics of firms give rise to deviated internationalization patterns. Autio (2005) even suggests that the process view proposed by the internationalization model and the INV theory are complementary rather than contradictory.

Autio (2005) points out the different focuses of the internationalization model and the INV theory. The former puts focus on the *constraints* – the lack of market experiential knowledge and the associated uncertainties – on a firm’s progressing in its internationalization. The latter puts focus on *drivers/enablers* – the changes in technology, market conditions, attributes of entrepreneurs – forcing and motivating the firm to leap-frog in internationalization, despite the constraints. Zahra (2005:23) also mentions that by dint of being small and young firms, INVs still face the liabilities of smallness, newness and foreignness in internationalization, which can still increase the risk of potential failure. In addition, he stresses that learning (knowledge development) about foreign cultures is a time-demanding and challenging process: this is consistent with the underpinnings of the internationalization model. In their studies on the internationalization process of small businesses, Gankema, Snuif and Zwart (2000) and Gemser, Brand and Sorge (2004) find that the internationalization process of the firms they sampled is less deterministic than that proposed by the establishment chain. However, the majority of the firms do follow an evolutionary expansion involving increasing commitment over time, which aligns with the underlying concept of the internationalization model.

2.2.1.3 The Incorporation of the Network Perspective in the Internationalization Model

In response to the emerging network perspective in industrial market studies, Johanson and Vahlne make an attempt to integrate the “industrial markets as networks” perspective (Johanson and Mattson, 1985:185) in their 1990 paper that explains the mechanisms of the

internationalization model. Adopting the network development point of view, they differentiate internationalization (foreign market development) into three directions as follows:

1. The establishment of relationships in country networks that are new (foreign) to the firm, namely *international expansion*,
2. The development of relationships in existing foreign country networks in which the firm has involvement, namely *penetration*,
3. The connection of networks in different countries, namely *international integration*.

In the paper, the network perspective is basically applied to provide a different lens to understand foreign *market development* in terms of *network development*. Johanson himself was actively involved in the development of the industrial network perspective in the 1980s (Forsgren and Johanson, 1992; Johanson and Mattsson, 1985, 1987). The incorporation of network ideas into the internationalization model, therefore, was likely to be incidental at that time. The discussion in Johanson and Vahlne's 1990 paper regarding linkage between the internationalization model and the industrial network view is very preliminary.

It is only very recently that Johanson and Vahlne (2003, 2006) have sought to actually integrate the network and network relationship concepts into the internationalization model. The discussions are basically a continuation of their preliminary attempt above, building on which they restate and extend in more detail the industrial network view to the model. Internationalization is interpreted as the extension of existing network relationships and/or the development of new relationships in other countries. According to Johanson and Vahlne (2003), the process of creation, development and maintenance of network relationships still involves an interplay between experiential knowledge development and resource commitment which is pivotal to the internationalization model. They continue to highlight the need for learning and commitment in the network development process. A successful network involves mutual learning and adaptation of individual actors to make their relationships last; their learning and adaptation take time and resources to achieve. Network extension (as equivalent to market expansion in conventional thinking) should also be a gradual process, as indicated in the internationalization model.

In sum, Johanson and Vahlne's (1990, 2003, 2006) discussions of networks with relation to the internationalization model are focused on applying "the industrial markets as networks" (Johanson and Mattson, 1985:185) concept in the context of foreign market development, rather than on investigating the influence of networks on the internationalization process (Coviello, 2006). The latter is more the concern of subsequent network research in the internationalization literature, especially in the literature of SME internationalization.

2.2.2 Internal Resources on the Internationalization of Firms – Drawing Upon the Resource-Based View

The internationalization model assumes an organic internationalization process of firms that focuses on the importance of their internal resources and capabilities. The assumption is consistent with Penrose's (1995) seminal work on the growth of the firm in general, in which the resource-based view (RBV) is rooted. As Benito and Welch (1994:13) comment, "while resource availability has not been a particular focus of much of the research on internationalization, it has nevertheless been shown to be an important issue facing companies at various stages when operation mode decisions are being contemplated". The RBV, which is concerned with the growth of the firm, specifies that general growth behaviour and performance of the firm are determined by the firm's specific internal resource endowments. Since the availability of inherent resources is such a big concern in the development and growth of SMEs, the resource-based view is a highly relevant school of thought in the study of their internationalization (Bell et al., 2003; Reid, 1987; Westhead et al., 2001), when internationalization can be interpreted as a direction of growth (Buckley and Ghauri, 1999). The RBV, which sees the firm as a bundle of unique resources, directly addresses the criticality resource issues for behaviour of SMEs. The definition of a firm's resources and their influence on that firm's behaviour under the RBV, forge the linkage to networks and entrepreneurial factors, which are regarded as resources for firms. All these aspects are fundamental to the analysis of business behaviour of SMEs. The resource-based view, therefore, provides important insights into explaining SMEs' internationalization patterns.

Researchers trace the roots of the RBV to suggest that its core concepts have united, modified and developed content from diverse streams (Barney, 2001; Barney and Arikan, 2001; Mahoney and Pandian, 1992; Rangone, 1999; Wernerfelt, 1991). Among its diverse origins, Pitelis (2002) suggests that Penrose's (1995) seminal work has been generally acknowledged to have laid the RBV framework, and to have bridged different perspectives. In this section, the underpinnings of the RBV are largely referenced to Penrose's (1995) ideas about the relationship of a firm's inherent resources to its growth, based on which successive works on the RBV are included.

The proposition of the RBV regarding the deterministic influence of a firm's internal resource base upon its expansion behaviour, in particular growth, is pivotal to the presumptions of conventional internationalization patterns of SMEs.

2.2.2.1 Internal Resources and Capabilities on Firm Growth

As a study of a firm's behaviour and performance at the level of resources and the level of the firm itself, the RBV is often seen as distinct from but complementary to other levels of analysis, such as the industrial level analysis by Porter (1980) in the strategic research (Amit and Schoemaker, 1993; Mahoney and Pandian, 1992; Peteraf and Barney, 2003). The latter puts focus on understanding the influence on a firm's activities and performance from the environmental context external to the firm; the RBV explains a firm's behaviour and performance based on the firm's inherent resource position. The influence of the environment is recognized by the RBV, but it is put to one side in the first instance in order to permit concentration on the internal resources of the firm, since it posits that the firm can manipulate the environment to serve its own purposes (Penrose, 1995:86-87).

The firm, rather than the market or industry, is the primary driving force of business behaviour and performance through the utilization of its internal production resources. The fundamental argument that the firm's resources determine its behaviour is based on two propositions (Penrose, 1995):

1. The *internal resources* with which a particular firm is accustomed to working will shape the production services that its management is capable of providing.
2. The *experience of management* will affect the productive services that all its other resources are capable of providing.

In summary, a firm is induced, limited, and directed to specific expansion activity where resource requirements match its existing resources and capabilities (Grant, 1991).

Building on Penrose's view of the firm as a bundle of unique resources, and her basic definition of resources as those physical resources of a firm that consist of tangible things and human resources (Penrose, 1995:24), the RBV scholars have put forward the concept of sustainable competitive advantages (Barney initially used the term 'sustained competitive advantage' in his 1991 paper) to distinguish the performance of firms (Barney, 1991; Peteraf, 1993).

The concepts of 'resources', 'capabilities', 'competences', and 'sustainable competitive advantages' are distinct from one another for the RBV scholars. The distinction is an important one for understanding the role of networks in the internationalization of SMEs discussed in the later section, thus, some explanation is merited.

The typology of tangible and intangible resources has continued to be developed, and Priem and Butler (2001:32) comment that the resource classifications are "all inclusive" and that

virtually anything associated with the firm can be seen as a resource. Nevertheless, Wernerfelt (1984:175) differentiates “attractive resources” as the special class of resources that can “sustain a resource position barrier, in which no one currently has one, and where they have a good chance of being among the few who succeed in building one”. Barney and Arikan (2001) distinguish the terms ‘resources’ and ‘capabilities’ based on several works in the field. They state that “resources are a firm’s fundamental financial, physical, individual, and organizational capital attributes, while capabilities are those attributes of a firm that enable it to exploit its resources in implementing strategies” (Barney and Arikan, 2001:139). Competencies are most often applied in the context of a firm’s corporate diversification strategy. Grant (1991) defines resources as the basic units of input into production processes, and capabilities as the capacities of a set of resources to perform given tasks or activities. Amit and Schoemaker (1993) define capability as the firm’s capacity to deploy resources through organizational processes to effect a desired outcome; they use the term “strategic assets” (p.36) for those resources and capabilities bestowing competitive advantage on a firm which are variously ‘difficult to trade or imitate’, ‘scarce’, or ‘specialized’. Teece, Pisano and Shuen (1997) define core competences as those unique capabilities that enable activities fundamental to a firm’s business to be performed distinctively relative to other firms. Based on the above definitions, and from a firm’s business operation point of view, the underlying distinction between ‘resources’ and ‘capabilities’ is that the former is the static objects (input) for the operational (transformation) process of a firm, while the latter refers to a firm’s ability, manifest in its behaviour, to deploy the resources in the transformation to achieve optimal performance.

Resources, capabilities and core competences are the source of sustainable competitive advantages (Amit and Schoemaker, 1993; Mahoney and Pandian, 1992). Possessing superior resources, deploying them within a firm’s specific capabilities and developing core competences are necessary, but not sufficient conditions for firms to obtain a competitive position. Resources and capabilities must meet certain conditions for them to constitute sustainable competitive advantages. For example, Barney (1991) defines four conditions as ‘rare’, ‘valuable’, ‘not imitable’, and ‘not substitutable’; Peteraf (1993) defines four conditions which are ‘resource heterogeneity’, ‘ex post limits to competition’, ‘imperfect mobility’, and ‘ex ante limits to competition’. In their joint paper, Barney and Peteraf (2003) stress that these conditions provide a clear explanation of performance differences among competing firms, which is attributable to the differences in their resource conditions in value creation. In short, the notion of sustainable competitive advantages is underpinned by the presumption of resource market imperfections and asymmetries, which impede the mobility and tradability of certain specialized bundles of

resources and capabilities controlled by individual firms in open market (Amit and Schoemaker, 1993; Madhok and Tallman, 1998). This presumption is important to explaining the role of networks from the resource-based view discussed in the later section.

The definition and measures of sustainable competitive advantages have been criticized as ambiguous and unclear (Foss and Knudsen, 2003; Hoopes, Madsen and Walker, 2003). The underpinning of the concept of sustainable competitive advantages, *viz* that possessing differential resource endowments is deterministic to a firm's behaviour and performance, seems self-evident (Hoopes, Madsen and Walker, 2003). However, the concept of sustainable competitive advantages has an important implication: *not only the amount, but also the quality of the resources count*. This notion is highly relevant in the explanation of certain distinctive business behaviour and development of SMEs against conventional presumptions pertaining to their small size and inherent resource limitations to growth.

Indeed, the RBV of a firm's competitive advantage is similar but not equivalent to the ideas of firm-specific advantages in the international business literature. Hymer (with reference to Teece, 2006; Yamin, 2000) suggests that attempts to maximize return of monopolistic advantages are key incentives for firms to engage in foreign investment. Yamin (2000:60), however, comments that Hymer's concept of monopolistic advantages mixes up locational and ownership-specific advantages, and that Hymer assumes all advantages to be tradable. Hymer's concept of monopolistic advantages, therefore, contrasts with the RBV's definition of immobile and non-imitable competitive advantages. Dunning's definition (1988, 1995a, 1995b, 2000) of ownership-specific advantages is, to a large extent, analogous to the RBV's concept of competitive advantages. Dunning (2000:169) acknowledges the static and dynamic aspects of ownership-specific advantages. 'Static ownership-specific advantages' refers to the income generating resources and capabilities (referred to collectively as assets) already possessed by the firm at a specific point in time. 'Dynamic ownership-specific advantages' refers to the firm's capability to sustain and increase these existing assets. The definition of ownership-specific advantages, therefore, takes into account the initial RBV, and the extended ideas of the evolutionary theories and dynamic capabilities (p.173). Based on Dunning's ownership-specific advantage paradigm (2000), competitive advantages are derived from the envelope of static and dynamic ownership-specific advantages.

2.2.2.2 Resource-Based View on the Internationalization of Firms

Internationalization concerns expansion and diversification of firms. Behaviour and performance associated with those activities can be explained generally using the resource-based

view. Wolf (1977) suggests that diversification abroad (internationalization) is one of the directions in which a firm expands. No matter whether it is domestic diversification or foreign diversification, all represent alternative ways of utilizing the firm's internal resources to grow. Buckley and Ghauri (1999: viiii) also regard the growth of the firm as the background to internationalization; they comment that there is barely a distinction between internationalization and growth although the former has certain unique features. Pitelis (2002) suggests that this may be the reason that Penrose was disinclined to attribute much significance to the issue of multinationality *per se*, versus expansion in general. Kay (2000) also comments that Penrose made little subsequent reference to how her theory of the growth of the firm could be applied to the development of multinationals in the international business context. The rationale may be explained by Penrose's argument as follows (1995: xv):

“It is easy to envisage a process of expansion of international firms within the theoretical framework of the growth of firms....it is only necessary to make some subsidiary ‘empirical’ assumptions to analyze the kind of opportunities for the profitable operations of foreign firms that are not available to firms confining their activities to one country as well as some of the special obstacles. Many, if not most, of these assumptions would apply equally to domestic firms”.

Because internationalization is interpreted as being barely distinct from the general growth direction, there have been few applications of the resource-based review to either the growth of small firms or to internationalization *per se* (Andersen and Kheam, 1998; Young et al., 1998). In an early study on export strategies and the structure and performance of SMEs, Reid (1987) refers to Penrose's ideas and uses the resources of the firm in terms of management, finance, production and knowledge as the denominators. Vatne (1995:69) includes the firm's internal resources in his model of the internationalization of SMEs as one key qualification, on which he comments “the quality of the internal resources of the firm is also important in SMEs. Manpower, organization, products, process, financial resources, and the firm's specific skills or ‘economic competence’ are all influential”. Westhead, Wright and Ucbasaran (2001) apply the resource-based view specifically to identify the range of factors influencing SME exporting. Due to all-inclusive resource classifications and the unclear boundary of the RBV (Hoopes, Madsen and Walker, 2003), its underlying ideas can actually be traced in extensive studies even though the adaptation of the RBV is not stated explicitly in them.

2.2.2.3 Critique of the Resource-Based View

Defining the inherent differential resources of the firm as the determinant of growth behaviour and performance, the resource-based view takes the firm's resource base as given and predetermined (Grant, 1991; Loane and Bell, 2006). This means the RBV is less concerned with either potential sources of additional resources, or the building and reconfiguration [manipulation] of existing resources (Borch, Huse and Senneseth, 1999; Eisenhardt and Martin, 2000; Foss and Eriksen, 1995; Teece, Pisano and Shuen, 1997). It is, however, focused on the *status quo* of internal resource endowments. Dunning (2000) comments that the resource-based view tends to focus mainly on static advantages derived from the resources and capabilities inherent in firms. He suggests that the RBV should give more attention to the dynamic ability of these resources and capabilities for the creation and establishment of new advantages. Grant (1991) also proposes that a resource-based approach should not only be concerned with the deployment of existing resources, but also with the development of new ones. Amit and Schoemaker (1993) comment that focusing upon a static set of resources and capabilities to explain a firm's past performance offers limited explanatory insight into the firm's competitive power. Attention should be drawn to the ongoing identification, development, protection, and deployment of resources and capabilities – means by which a firm can possess sustainable competitive advantages and prevail in the future.

Indeed, the seminal work by Penrose (1995) and Wernerfelt (1984), based on which the RBV is developed, has incorporated certain dynamic concepts into resource deployment and development. Instead of extending these dynamic concepts, the majority of the subsequent RBV literature focuses on defining and specifying the generic conditions underlying differential resources [sources of sustainable competitive advantages] which distinguish firms' behaviour and performance (Priem and Butler, 2001). Barney (2001) agrees that the dynamic analysis of sustainable strategic advantage is important for understanding the full implications of resource-based logic. Peteraf and Barney (2003) comment that the development of the dynamic capabilities concept (e.g., Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997) can be regarded as an important extension of the RBV.

Penrose (1995:52-54) stresses the effect of cumulative growth of [experiential] knowledge, which involves organic learning by the firm, upon changes to a firm's internal resource base and its deployment of resources. Wernerfelt (1984:178) stresses that "the optimal growth of the firm involves a balance between exploitation of existing resources and development of new ones"; he specifies mergers and acquisitions as possible opportunities to obtain bundles of resources

presumed to be heterogeneous and immobile among individual firms. However, inherent resources and capabilities are inevitably required in the first instance to enable the “purchase of the resource bundles” through mergers and acquisitions (Wernerfelt, 1984:178). Nevertheless, firms cannot expect to purchase sustainable competitive advantages on open markets: they must be developed from the differential resources already controlled by the firms (Amit and Schoemaker, 1993; Barney, 1991:117; Teece, Pisano and Shuen 1997:514). Barney (2001:50) states this prescriptive limit to resource-based logic: “resource-based logic cannot be used to create sustained competitive advantages when the potential for these advantages does not already exist [in a firm]”. Although it is not stated explicitly, it is implicit within resource-based logic that newer and smaller firms have inherent “competitive handicaps” (Penrose, 1995:218) with relation to older and larger firms (Barney, 1991; Eisenhardt and Schoonhoven, 1996).

The RBV is concerned with the internal conditions of the firm. It does not consider external environmental forces or the nature of interactions among market actors, but holds constant all of these other factors (Foss and Eriksen, 1995; Penrose, 1995; Peteraf and Barney, 2003; Zaheer and Bell, 2005). The RBV, therefore, is limited in its explanatory power to the influence of either the home or host locational factors/advantages, which are included by Hymer (with reference to Yamin, 2000) and Dunning (1988), in the international development of firms. These locational factors/advantages, to a large extent, act interdependently with ownership-specific advantages (i.e. at the level of the firm) in the internationalization of firms (Dunning and Rugman, 1985).

A main critique of the resource-based view is that it is a tautology limited in empirical testability: the critique leads to a debate about whether the resource-based view stands as a theory of competitive advantage (Priem and Butler, 2001a, 2001b; Barney, 2001). It is outside the scope and focus of this study to engage in this debate. Nevertheless, Hoopes, Madsen and Walker (2003:890) provide a relatively comprehensive standpoint upon the issue, which they state: “the RBV’s accomplishments are clearer when viewed as part of a larger theory of competitive heterogeneity”. The notion is supported by Barney (2001:644), who suggests that the resource-based view of heterogeneity and sustainability underlies different resource-based theories of competitive advantage that share the same underpinnings. For instance, Das and Teng (2000) apply the resource-based view to propose a resource-based theory of strategic alliances. It seems common in studies to refer to the resource-based view as a conceptual foundation, or even a generalizing term, for developing different resource-based theories of specific phenomena (Andersen and Kheam, 1998; Barney and Arikan, 2001; Das and Teng, 2000; Hoopes, Madsen and Walker, 2003; Mahoney and Pandian, 1992; Ray, Barney and Muhanna, 2004).

2.2.2.4 The Incorporation of the Network Perspective in the Resource-based View

Building on its original focus upon static resources internal to the firm, the recent development (extension) of the resource-based view has incorporated the network perspective of firms.

In the 1995 edition of her *The Theory of the Growth of the Firm*, Penrose acknowledges that the increasing popularity of the network structure has made the demarcation of firm's boundaries, by which internal resources under the resource-based view are defined, somewhat blurred. The concept of dynamic capabilities, an extension of the resource-based view, takes into account external contacts [networks] of firms as one of the important sources for acquisition and integration of new resources and capabilities (Eisenhardt and Martin, 2000; Teece, Pisano and Shuen, 1997).

Teece, Pisano and Shuen (1997:520) highlight collaborations and partnerships between firms as a vehicle for organizational learning to promote the reconfiguration of a firm's internal resource base. Eisenhardt and Martin (2000:1109) point out that "a common feature of successful knowledge creation processes (a significant activity for dynamic capabilities) is the explicit linkage between the focal firm and knowledge sources *outside* the firm (which linkages include informal personal relationships and formal alliances)". They suggest that the experience and know-how accumulated from the building and deployment of these external linkages (e.g., alliances) is a core dynamic capability of the firm (2000:1114). Based on the concept of dynamic capabilities, while the existing internal resources of a firm shape its network development/expansion in accordance with the original resource-based view, networks (the external linkages) of the firm in turn provide external resources which enable modification and reconfiguration of the firm's internal resource base (Dyer and Singh, 1998; Moller et al., 2002).

Influence of the emergence of different kinds of inter-firm alliances and cooperation, referred to as 'alliance capitalism', upon the traditional ownership-boundary assumption of firms' capabilities is acknowledged by Dunning (1995b). Based on his earlier presumption about the internal creation and organization of ownership-specific advantages of firms (discussed in 2.2.2.1 with relation to the competitive advantage of the RBV), the additional avenues to acquire ownership-specific advantages offered by alliance capitalism are taken into account to reappraise the eclectic paradigm. Gulati, Nohria and Zaheer (2000) comment that the notion of obtaining value-creating resources and capabilities beyond the boundaries of a firm through networks presents a novel perspective for the resource-based view in strategic research. Ostgaard and Birley (1994:300-301), in a study that discusses personal networks and networking from a firm's

strategic perspective, also stress that this external [network] resource base “cannot be ignored when attempting to understand the concept of strategy among new and small firms”. Moller and Svahn (2003) propose applying the dynamic capability perspective to enrich the understanding of networking behaviour, which involves influencing and leveraging strategic networks of the firm, as a competitive advantage of a firm. The integration of the network perspective into the resource-based view, and the extended concept of dynamic capabilities, is regarded as an important direction to provide new insights into the development of competitive advantage. This integrated view has been increasingly adopted in the strategic literature (Birkinshaw, 2001; Dyer and Singh, 1998; Moller et al., 2002; Gulati, Nohria and Zaheer, 2000; Zaheer and Bell, 2005).

The extensions of the original RBV (e.g., the concept of dynamic capabilities by Teece, Pisano and Shuen (1997); the knowledge-based theory by Grant (1996, 2004)) specify the significance of external linkages (i.e., networks) in enriching a firm’s resource and capability endowments, and hence in supporting its business development. In turn, the resource-based view provides theoretical insights to explain inducements, needs, and capabilities of firms as they engage in networking and formation of external linkages (e.g., strategic alliances) in order to reconfigure their internal resource base to obtain competitive advantages (Das and Teng, 2000; Dyer and Singh, 1998; Eisenhardt and Schoonhoven, 1996; Gulati, 1999; Madhok, 1997; Mort and Weerawardena, 2006; Young, Bell and Crick, 2000; Zaheer and Bell, 2005). Das and Teng (2000) propose that firms form strategic alliances to pursue collective strengths through obtaining supplementary and/or complementary strategic resources and capabilities. Dyer and Singh (1998) also emphasize that the development of distinctive complementary resource endowments in cooperative relationships helps to generate relational rents [assets/advantages]. Hamel (1991) states the role of international strategic alliances in effecting a redistribution of skill endowments among partners, which are otherwise embedded in individual firm entities and are not available to acquire or access in the open market. The integration of the network perspective and the resource-based view is conducive to providing a more comprehensive explanation of networking as a means (of gaining access to resources and capabilities external to the firm), and an end (to be developed as a capability of the firm) in pursuit of internationalization.

2.3 SME Internationalization – A Distinctive Phenomenon

Research on the internationalization of small- and medium-sized enterprises (SMEs) has seen a substantial rise in the last decade, the scope of which has expanded beyond the dominant literature on exporting in the 1970s and 1980s to cover broader internationalization activities.

Increasing research interest on SME foreign business activities is driven by the recognition of SMEs as an important driving force in individual countries' economies, and by the increasing intensity and diversity of their international involvement (Coviello and McAuley, 1999; Prasad, 1999).

Vatne (1995:67) comments that "most theories developed to explain the process of internationalization are oriented toward problems faced by larger firms". Etemad (2004) also specifies that the major theoretical contributions in the international business literature, such as the core theories of multinational enterprise (MNE) and foreign direct investments (FDI) developed by Vernon (1966), Hymer (1976), Buckley and Casson (1976), Dunning (1977, 1980), Rugman (1985) and others (a comprehensive list of theories are summarized in Dunning, 2003), address larger firms. Even Johanson and Wiedersheim-Paul's 'establishment chain' (1975) is based upon case studies of four sizable Swedish MNEs. Fundamental understanding of the international activities of SMEs, therefore, has often been derived from the MNE research; early research on SME internationalization has frequently used as its basis the conventional schools of thought on the internationalization of larger firms (Etemad, 2004; Fillis, 2001; Mort and Weerawardena, 2006).

However, SMEs are different from large firms in business scale, ownership type, management style, and organization practice. Because of their distinctive nature, many SMEs exhibit different internationalization behaviour and patterns from those of their larger counterparts. Amidst the large body of research on the internationalization of MNEs, researchers have recognized that it is necessary to conduct focal research on the foreign expansion of SMEs to derive specialized explanations of the phenomenon (Bell, Crick and Young, 2004; Etemad, 2004; Fillis, 2003; Vatne, 1995; Westhead, Wright and Ucbasaran, 2001).

2.3.1 Presumptions about SMEs – A Disadvantaged Group of Firms in Internationalization?

The reason that the majority of international business literature focuses on the internationalization of larger firms, with limited attention to that of smaller firms until the recent decade, is due to the presumption of the inadequacy of smaller firms compared to larger firms in pursuing development outside their domestic and regional markets (Calof, 1993; Cavusgil and Naor, 1987; Varaldo, 1987). Katsikeas and Morgan (1994:20), in a study about exports, point out that "a tenet on which there is some consensus is that larger firms possess more resources, achieve higher levels of scale economies, and tend to be associated with lower levels of perceived risks in export market activities". Welch and Luostarinen (1988:93) comment on the

limitations of smaller firms with regard to internationalization and state that “for smaller firms, given their limitations in many areas, this is an obvious reason why less demanding directions of international development can be undertaken first, with major commitments only occurring well into the longer run”.

Small firms are commonly presumed in business studies to be a disadvantaged group of firms, whose development is often hampered by resource constraints (Johannisson and Monsted, 1998). It is generally agreed that SMEs have inherent resource limitations in terms of finance, human capital, information and knowledge (Barber, Metcalfe and Porteous, 1989; Brouthers, Andriessen and Nicolaes, 1998; Buckley, 1989; Coviello and Munro, 1997; El-Namaki, 1990; Fills, 2000; Kalantaridis, 2004; Leonidou, 2004; Penrose, 1995; Welsh and White, 1981). The liabilities of size (resource scarcity) and newness (lack of market presence and reputation) are the greatest impediment to smaller firms’ progress along the development stages from mere existence, to survival, and to further growth. The liabilities of small firms are exacerbated in internationalization, when the liabilities of foreignness due to lack of experiential knowledge of, and viability in, foreign markets further intensify their inherent limitations (Zaheer, 1995).

The presumption that inherent resource limitations of SMEs will hinder their pursuit of internationalization appears to align with the resource-based view of the growth of the firm discussed in the preceding section, when the lack of internal resources and capabilities is the major hindrance to expansion behaviour in terms of rate and scope (Penrose, 1995:215). With specific reference to foreign expansion that requires much novel knowledge and heavier resource commitment (as proposed in the internationalization model), it is believed that the lack of capital, technology, business knowledge as well as of human resources in smaller firms will largely reduce their ability to be involved and to progress in foreign business development. Penrose’s (1995:49-50) understanding of smaller firms’ expansion activities as follows indicates a stepwise gradual approach corresponding to the internationalization model:

“In small firms where managerial services are supplied by one to a half-dozen men who are fully occupied in running the firm, expansion sometimes depends on “overtime” spurts of activity which can only occur periodically. It may be necessary that each expansion programme be fully completed, the operating problems solved and the expanded firm as a whole [be] running smoothly before managerial services again become available for further planning”.

Considering their inherent liabilities, internationalization of resource-deficient small firms, if possible, should normally follow a gradual process of incremental steps, as proposed by the internationalization model. Calof and Beamish (1995), when explaining internationalization,

suggest that a firm's resources are the principal differentiating variables of the internationalization patterns among firms. They suggest that larger firms are more likely to skip a stage than smaller ones because larger firms have (or are perceived to have) sufficient slack resources. A review of the empirical research on the internationalization of SMEs confirms that the stage theories of internationalization (including the internationalization model and the innovation-related internationalization models) have been amongst the most influential perspectives in the research (Coviello and McAuley, 1999).

What surprises researchers and draws their particular attention, however, are the deviated patterns identified in some studies on the internationalization of SMEs. The 'distinctive' internationalization patterns found in these studies directly challenge the conventional understanding of internationalization as an organic and gradual process underpinned by the internationalization model and the resource-based view of the growth of firms. This challenge generates much research interest in the 'distinctive' phenomenon, and raises the need to introduce and integrate new perspectives into explaining the internationalization of firms, particularly that of SMEs (Bell et al., 2003; Coviello and McAuley, 1999; Fillis, 2001; Jones, 1999; Madsen and Servais, 1997; Oviatt and McDougall, 1994; Rialp, Rialp and Knight, 2005).

2.3.2 Instant and Accelerated Internationalization of SMEs – The Challenge to Incremental Internationalization

2.3.2.1 Firm Size and Internationalization

Resource disadvantage is profiled in the preceding section as a key characteristic of SMEs. Smaller firm size is generally believed to limit expansion when size is regarded as a useful and manageable proxy for firms' internal resource base and advantages (Aaby and Slater, 1989; Cavusgil, 1984; Dhanaraj and Beamish, 2003; Reid, 1981). Cavusgil and Naor's (1987) study, for example, defines size of firm (by number of full-time employees) as one of the unique advantages of a firm. Building on the connection between firm size and resources, "a direct correlation tends to be established between internationalization and size of firm" because firms of larger size are presumed to be the ones with the means and capabilities to expand abroad (Varaldo, 1987:219). Oviatt and McDougall (1994:51) also mention that "large size is often thought to be a requirement of multinationality". However, early empirical studies on SME internationalization behaviour in terms of exporting have shown inconclusive findings concerning the relationship between size of firm and exporting (Bonaccorsi, 1992; Calof, 1993, 1994; Chetty and Hamilton, 1993; Westhead, Wright and Ucbasaran, 2001; Zou and Stan, 1998).

Bilkey and Tesar's (1977) study finds that size of firm is relatively unimportant for export behaviour, while Cavusgil and Naor's (1987) study finds that size is positively related to export activity. Both studies used number of employees as the measure of size of firm. Regarding the effect of size upon export performance, Zou and Stan (1998:350) report that most positive effects are found when size is measured by total firm sales, and that most negative effects are found when it is measured by number of employees. However, while Moen's (2000) and Wolff and Pett's (2000) studies both measure firm size by number of employees, the former finds a significantly positive correlation between firm size and export performance, while the latter finds that size makes no difference. Bonaccorsi's (1992) study (size by number of employees) and Calof's (1993) study (size by annual sales) give the lie to the supposition that organizational size is positively related to export intensity (i.e., the percentage of export sales to total sales). Mixed findings are often derived with regard to the differences in the measurement of size of firm between studies (Calof, 1993; Zou and Stan, 1998).

Nevertheless, the notion that smaller size, taken as an indicator of fewer resources, limits exporting does not find consistent evidence (Aaby and Slater, 1989; Chetty and Hamilton, 1993; Zou and Stan, 1998). No matter whether firms are pulled by external stimuli or pushed by internal initiatives to start exporting (Morgan and Katsikeas, 1997; Papadopoulos, 1987; Varaldo, 1987), and regardless of variations in export intensity, extensive studies on exporting behaviour of small firms already illustrate that small firms in different countries are active exporters. It is, therefore, commonly believed that size and associated resource concerns alone do not defer smaller firms' foreign business development. As Calof (1993, 1994) comments, resources are inevitably required to execute any internationalization strategy, however, the amount of resources required depends on the scope of the strategy. It is believed that what matters most is not size, but the match between internationalization strategy and the firm's resources and capabilities, as proposed by the resource-based view (Aaby and Slater, 1989; Bonaccorsi, 1992; Varaldo, 1987; Wolff and Pett, 2003).

The acknowledgement of instant and accelerated internationalization of SMEs in different countries further raises an obvious challenge to the conventional belief about the relationship between firms of smaller size and fewer resources to the gradual pace of international development. Based on their study findings that discover no significant association between size and age of firm and the speed and degree of internationalization, Zahra, Matherne and Carletan (2003:178) make the comment that "perhaps age and size are fast losing their importance in explaining the internationalization of new firms", although they also ask for caution in interpreting the results. Nevertheless, there is widespread research interest in explaining and

exploring the underlying factors behind the distinctive internationalization patterns of smaller firms.

2.3.2.2 Instant and Accelerated Internationalization of SMEs

2.3.2.2.1 *The Phenomenon*

The findings on the emergence of the ‘new breed’ of firms, which adopt a global market focus and internationalize from inception or at an early stage of start-up, and internationalize rapidly, challenge propositions about the gradual internationalization of firms, particularly with regard to resource-constrained SMEs. A survey undertaken by McKinsey of a group of Australian small- and medium-sized exporters found that some of them had been involved in the international market right from, or at the early stage of, their establishment (Rennie, 1993). These firms are labelled ‘Born Globals’ in the report, and this ‘special’ labelling has become a popular phenomenon that draws strong theoretical and empirical research interest. A number of similar concepts, such as ‘International New Ventures’ (McDougall et al., 1994; Oviatt and McDougall, 1994, 1997), ‘Global Start-ups’ (Oviatt and McDougall, 1995), and ‘Instant Exporters’ (McAuley, 1999), have been studied intensively since then.

Empirical studies previous to the McKinsey survey have already observed instant and accelerated internationalization of SMEs in different countries (Andersson and Wictor, 2003; Bell, McNaughton and Young, 2001; Madsen and Servais, 1997; Oviatt and McDougall, 1994; Raisanen, 2003; Rasmussen and Madsen, 2002). In the earlier SME internationalization literature on exporting discussed in the preceding section, for example, Reid (1981:106) notes that firms did not necessarily follow a pattern of trade [exporting] before foreign direct investment; firms might simultaneously enter as many potential markets as possible. Young (1987:34) also cites exploratory work on Scottish high-technology companies and comments that evidence shows a more rapid and more direct form of internationalization than in the past. Ganitsky’s (1989:50) study gives examples of some successful Israeli companies that were established expressly from their inception to serve foreign markets, which he labels ‘innate exporters’. Bonaccorci (1992:606) also cites the example of small high-technology firms that become exporters at the very beginning of their start-up. These findings, however, did not draw focal research interest to the accelerated internationalization phenomenon observed.

Nevertheless, the substantial empirical evidence of instant and accelerated internationalization in studies emerging from the 1990s has raised questions regarding the apparent inadequacy of generally accepted theories to explain internationalization patterns of

SMEs (Madsen and Servais, 1997; McDougall et al., 1994). None of the three exceptions to gradual internationalization specified by Johanson and Vahlne (1990) (listed in section 2.2.1.1) is found to apply to the conditions of these rapidly internationalizing SMEs (Moen and Servais, 2002; Oviatt and McDougall, 1994). This implies that the phenomenon is caused by some other underlying factor(s) which the conventional theories have not covered. Researchers have reached the consensus that it is necessary to integrate other perspectives in order to fully profile this seemingly new internationalization pattern which deviates from the conventional understanding, in order to better portray the attributes of the firms that internationalize in distinctive ways, and to specifically explain the factors framing the phenomenon (Bell, 1995; Cavusgil and Knight, 1997; Coviello and McAuley 1999; Dana, 2001; Knight and Cavusgil, 1996; Madsen and Servais, 1997; McDougall et al., 1994; Oviatt and McDougall, 1994, 1997; Rasmussen and Madsen, 2002; Sharma and Blomstermo, 2003).

2.3.2.2.2 The Definition

Despite the wide research interest, the operational definition of this group of firms - that internationalize at inception or at an early stage of start-up - has yet to be clarified and to obtain a consensus among researchers. The label 'Born Globals' is broadly applied to firms that internationalize right at inception or at the very beginning of the start-up. As Rasmussen and Madsen (2002:16) point out, "there is absolutely neither a clear definition of a Born Global (and similar concepts) nor a precise operational definition". Oviatt and McDougall's (1994) definition and conceptualization of 'International New Venture' (INV) is relatively detailed, and it has been continuously developed and refined in the years since the concept was first introduced (McDougall, Oviatt and Shrader, 2003; McDougall, Shane and Oviatt, 1994; Oviatt and McDougall, 1994, 1995; 1997, 2005; Shrader, Oviatt and McDougall, 2000).

Oviatt and McDougall (1994:49) define an INV as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries". The definition lays down three generic criteria of an INV, which are: 1) The momentum to derive competitive advantage from the use of resources and sales output in foreign countries, 2) The number of countries involved, and 3) The age of the firm when it becomes internationalized. Regarding the first criterion, Oviatt and McDougall (1994:49) stress that "the definition of the INV is concerned with value added, not assets owned". Therefore, neither size nor the foreign assets owned is a key defining dimension. They also point out that "foreign direct investment is not a requirement" (1994:49), whereas "the existence of a significant percent of sales coming from foreign countries is the key defining dimension" of an

INV (1997:91). The definition directly challenges the proposition that FDI represents the most advanced stage of internationalization.

As Oviatt and McDougall (1997:91) specify, the development of operational definitions is one of the main problems in researching the INV; consensus on the quantitative operational definitions of the three criteria has yet to be reached. Researchers often use part of the criteria from the three, and adopt different operational definitions of selected criteria from different studies (e.g., Andersson and Wictor, 2003; Coviello, 2006; Johnson, 2004; Knight and Cavusgil, 1996; Madsen and Knudsen, 2003; McDougall, Oviatt and Shrader, 2003; Oviatt and McDougall, 1997). The three criteria specified by Oviatt and McDougall (1994) in their original definition of an INV, i.e., time of initial foreign business development, significance of sales outputs, and number of foreign countries involved, are used as an aggregate measure of an INV in this study. The detailed operationalization of the three criteria is specified in section 6.1.3.

2.3.2.2.3 *The Explanation*

Instant and accelerated internationalization of resource-constrained small and young firms is made feasible by both external and internal enablers. Oviatt and McDougall (1994:52) point out that technological innovation in international communication and transportation, and the increasing homogenization of markets in distant countries simplify and shorten the process of firms' internationalization. The homogenization of markets is included by Johanson and Vahlne (1990) as an exception to their internationalization model (discussed in section 2.2.1.1). Oviatt and McDougall (1994) also suggest that the increasing number of internationally experienced/knowledgeable and alert entrepreneurs creates the momentum to conduct business with a multinational viewpoint and to enter the international arena right at inception. The frequent use of alternative (e.g., network) governance structure reduces the need for internalization of assets that often hampers the internationalization of resource-constrained new and small firms. It is also pointed out that some markets, such as the knowledge-intensive industries, are inherently international in nature, thus, the competitive environment requires the firms to face global competition and to internationalize at inception (Oviatt and McDougall 1994:47, 1997:88; 2005:542). As Oviatt and McDougall (1997:95) comment: "The fear of losing customers to competitors may overcome any uncertainty created by possibly inadequate foreign business experience, an uncertainty which is emphasized by Johanson and Vahlne".

The factors highlighted above are more explicitly specified and incorporated into a model of the major forces influencing internationalization speed of firms in a recent paper (Oviatt and McDougall, 2005). These factors are consistent with those identified in other research on the

phenomenon. For example, Madsen and Service (1997:565) specify the three driving forces for instant internationalization as: 1) new market conditions, 2) technology developments in the areas of production, transportation and communication, and 3) capabilities of people, including the founder/entrepreneur. Knight and Cavusgil (1996) also point out the influence of globalization, the increasing role of specialized niche markets, advances in technology, and flexibility and adaptability of small firms in the promotion of instant and accelerated internationalization. Based on a study of high-tech start-ups in the US and UK, Johnson (2004) lists both external and internal factors as influential on constituting the phenomenon of rapid internationalization. Andersson and Wictor (2003) list globalization, entrepreneurs, networks, and industry as the four underlying factors, commonly agreed in the literature as triggers for the phenomenon of instant and accelerated internationalization.

Focusing on understanding networks as a core explanatory factor, this research aims to provide new insights into expanding existing explanations pertaining to networks and the internationalization of SMEs. The research goes further by bringing another underlying factor – the entrepreneur – into the picture, by exploring the entrepreneur’s association with the network factor in internationalization, rather than directly with internationalization as is commonly studied. Indeed, Oviatt and McDougall’s initial paper (1994) about international new ventures is largely inspired by the emerging entrepreneurship research (e.g., Aldrich and Zimmer, 1986; Larson, 1992) that stresses the role of networks in entrepreneurial activities of the time; it is integrated by Oviatt and McDougall into the existing theories to construct the INV framework (1994:60). The ‘network’ factor is singled out and articulated as one of the major forces affecting the speed of internationalization in Oviatt and McDougall’s 2005 paper. It is commented that the prominent influence of entrepreneurship research on the INV literature is reflected in the pivotal role of the entrepreneur in INVs as specified by Oviatt and McDougall (Autio, 2005; Zahra, 2005). The research focus on networks, and on the influence of the entrepreneur on networks, addresses the two foundation pillars underlying the INV framework, and hence contributes to enriching core knowledge of the phenomenon.

While the adequacy of the internationalization model in explaining the internationalization patterns of the INV is critically questioned by Oviatt and McDougall (1997), this research sees the potential integration of the model to the explanation through the network factor. It also forges the link between the network factor and the resource-based view, notions within which of firm heterogeneity and sustainable competitive capability is integrated into the INV framework (Oviatt and McDougall, 1994:56). Through the theoretical linkages of these three theoretical strands, i.e., the network perspective, the internationalization model, and the resource-based

view, this research aims to portray a more comprehensive picture of the association between the network factor and instant and accelerated internationalization patterns of SMEs.

2.4 'Networks' - A Key Explanatory Factor in SME Internationalization

2.4.1 *The Network Perspective*

Early research on internationalization of firms under the economic and behavioural (stage theories) approaches commonly adopted a focal firm-oriented operating analysis. As Forsgren and Johanson (1992:2) comment, “reflecting the dominant approach in business literature the single firm operating internationally is strongly in focus. This firm, in its entirety, is the unit of analysis and a distinct boundary separates it from its environment”. Referring to the internationalization model and the resource-based view discussed in preceding sections, the former regards internationalization as an organic process of the firm (Andersson, Johanson and Vahlne, 1997), while the latter also looks to the inherent resources and capabilities within the boundaries of the firm to explain firms' growth/expansion and performance (Eisenhardt and Martin, 2000; Grant, 1991; Lorenzoni and Ornati, 1988; Wu and Cavusgil, 2006).

The network perspective on understanding firms' behaviour, however, emerged in the 1980s. The network perspective was established by a group of Swedish industrial marketing researchers who sought to explain the distinctive industrial marketing practice in Sweden (Hakansson and Snehota, 1989; Johanson and Mattsson, 1987). The involvement of exchange relationships in business markets was initially regarded as an exceptional situation. More extensive empirical studies show that the situation regarding exchanges among actors is more like a given context that applies to a wide population of business organizations. The focus of the study, therefore, has extended from buyer-seller exchange relationships to larger networks with more than two players (Easton and Araujo, 1992; Hakansson and Snehota, 1989). Since then, it has been recognized that the use of a network perspective, which incorporates the wider context of the firm and draws attention to the influence of relationships and exchanges among firms in the context, can provide more realistic and dynamic pictures of firms' functions and behaviour.

Thorelli (1986) describes the focus of the network perspective as placed on the 'forest' rather than on the 'tree', as are most conventional organization studies. The network perspective proposes that a firm does not act in isolation as an autonomous unit, and that it is embedded in direct and indirect network relationships with other actors in the context. Researchers are therefore encouraged to look beyond a firm's hierarchical boundary when studying the firm's activities and performance. It is suggested to be a highly significant perspective in explaining the

internationalization patterns of small firms, particularly those involved in instant or accelerated internationalization regardless of their inherent resource limitations (Andersson and Wictor, 2003; Coviello, 2005; Coviello and Munro, 1995; Madsen and Servais, 1997; Oviatt and McDougall, 1994; Rutashobya and Jaensson, 2004; Sharma and Blomstermo, 2003). Coviello and Munro (1995:50) comment that “in recent literature it has been suggested that network theory [perspective] can offer a fresh perspective on the internationalization process of firms, particularly for smaller organizations whose development tends to be dependent on relationships with others”. In the study of internationalization, the network perspective has become another mainstream of thought alongside the economic (e.g., FDI theories) and behavioural (e.g., stage theories) approaches (Coviello and McAuley, 1999).

2.4.2 Profile of Networks

Easton and Araujo (1992) explain that the genesis of industrial networks was historically in the studies of dyadic buyer-seller relationships in industrial markets and of distribution channels (also see Ford, 1984; Turnbull, Ford and Cunningham, 1996). Economic exchange is at the heart of the process. Rutashobya and Jaensson (2004) comment that in most cases only vertical networks have been studied: horizontal and social networks have not received adequate attention. Studies on various network approaches have applied different dimensions and levels of networks, for example, by contents such as social and business; by type of bonds such as formal and informal; by level of connections such as personal and organization; and by business functions such as marketing, distribution, etc. (O'Donnell et al., 2001). Easton (1992:18) comments that all attempts to differentiate different networks are actually artificial because the boundaries of individual networks are usually fuzzy and unclear. It may explain why the concept of ‘networks’ remains loosely applied (Shaw, 1997). Nevertheless, the categorizations allow more structured and systematic analyses of the complex and chaotic nature of networks (Nummela, 2004).

Despite the various dimensions to defining networks, some common characteristics specified by researchers are fundamental to the understanding of the network perspective discussed with relation to internationalization in the later sections (Easton, 1992; Grabher, 1993a; Hakansson and Snehota, 1989; Halinen and Tornroos, 1998; Holmen and Pedersen, 2003; Forsgren and Johanson, 1992; Johanson and Mattsson, 1985, 1987; Johanson and Vahlne, 2003; Thorelli, 1986). These characteristics are explained as follows:

- *Networks differ from formal hierarchies.* Networks are regarded as structures different from markets and hierarchies (Grabher, 1993a; Forsgren and Johanson, 1992; Powell, 1990; Ring

and Van De Ven, 1992; Sydow and Windeler, 1998; Thorelli, 1986). Actors are linked to each other through recurrent exchange relationships, relatively more long-lasting than the simple arm's length transactions in the market. However, the exchange relationships are handled autonomously and bilaterally by the actors rather than by a central unit. The coordination emphasizes reciprocity and exchange rather than control as in a hierarchy.

Power as a relational concept is also central to the functioning of a network as it is in a hierarchy. Thorelli (1986) identifies five sources of power of a network actor: economic base, technology, expertise, trust, and legitimacy. Although it is not stated explicitly, an actor can to a certain extent use power strategically to influence other actors to strengthen its position in the network (p.41). As Grabher (1993a:11) elaborates, "...more powerful economic actors are able to 'frame' decisions by which the constraints and opportunities of their exchange partners are shaped". Position in the network is interpreted as the role, function, and identity of an actor with relation to the others (Halinen and Tornroos, 1998:190).

Position in the network determines the [bargaining] power of the actor, and hence the benefits the actor can derive from the networks to support its purposes (Johanson and Mattsson, 1985). The effort put into cultivating or changing the network position is therefore regarded as strategic action (Gomes-Casseres, 1996; Hakansson and Snehota, 1989; Halinen and Tornroos, 1998; Stuart, 1998). This notion supports the discussion regarding deliberate and instrumental effort in developing and leveraging networks, which allows individual actors to derive benefits from the networks in support of their goals.

- *Networks have no objective boundaries.* Networks extend via direct and indirect nodes from the focal actor.

Individual actors in a dyadic relationship are involved in other non-overlapping relationships that are thereby connected to the focal relationship to form a larger network (Anderson, Hakansson and Johanson, 1994). The idea corresponds to 'bridging/brokering' of specific relationship ties [e.g., the weak ties] to more disperse and diverse networks (Burt, 1992; Gulati, 1999; Oviatt and McDougall, 2005). Dubini and Aldrich (1991:306) apply the concept to differentiate personal and extended networks in the entrepreneurial process, about which they comment, "relations between pairs of individuals...whatever their content and whatever a person's social role, could be extended indefinitely". Focal actors in a dyadic relationship may not consciously acknowledge the existence of connectivity to third parties through the other actors; however, these third parties still exercise influence through the web

of relationships. An initial indirect relationship may develop into direct relationship when specific purposes arise alongside business development of two actors that motivate their direct interactions.

Because a network boundary is arbitrary and network relationships are intangible, an actor only has a subjective view of the extent of its relationships. The actor can determine its own suitable network boundaries, labelled as 'network horizons' (Anderson, Hakansson and Johanson, 1994; Holmen and Pedersen, 2003), that it considers relevant to itself. The personal and perspective definition of a network boundary directly influences the purposes and usefulness of the relationships in the focal actor's network horizon.

- *Networks are stable but changing.* The differentiation between relationships and interactions is important in interpreting this characteristic (Johanson and Mattsson, 1987). Relationship building is a time- and resource-intensive process, and it subsumes to itself the specific bonds/links/ties, mutual orientation and interdependence between the parties (Easton, 1992). Once built, the relationships are basically long-lasting and stable (Forsgren and Johanson, 1992). Long-lasting relationships are built upon the unbreakable bonds/links/ties because they are prescriptive in nature (such as relationships linked by blood ties), or the strong interdependence or embeddedness of the actors to the relationship (Gulati and Gargiulo, 1999; Uzzi, 1996), or the constraints on the actor's ability or willingness because of the high switching/exiting costs incurred by the high investment put into building the relationship (Ford, 1984; Johanson and Mattsson, 1985).

Network relationships are stable but not static. The dynamism arises from focal actors' continuous effort to build new relationships and introduce them into the network, the changes in network position of existing actors, and the changes of the degree and methods of interaction/connectivity between existing actors in the network. Interactions are defined as comprising exchange processes and adaptation processes, both of which are crucial to uphold the mutual orientation of the actors so as to maintain the relationship (Easton, 1992; Johanson and Mattsson, 1987). The inclination and ability of the actors to promote interactions through exchange and adaptation directly influences the conditions of the relationship, and the potential value created and derived accordingly. Observations about the transformation of a weak-tie relationship to a strong-tie relationship (or vice versa), or the reactivation of an idle relationship when needs arise, reflect possible changes in interactions made by firms' initiatives (Lechner and Dowling, 2003; Peng and Zhou, 2005; Sharma and Blomerster, 2003; Steier and Greenwood, 1999).

- *Networks are path dependent.* Existing relationships have a strong influence on a firm's behaviour, including the further extension of its network (Chetty and Campbell-Hunt, 2003; Gulati, 1995; Hitt, Lee and Yucel, 2002; Johanson and Vahlne, 2003; Sharma and Blomstermo, 2003). In this way, network development is to a large extent path dependent, shaped by past networking histories and network relationships. Because relationship building is resource-intensive, firms tend to defend investment outcomes (existing relationships), and to make the best use of them subsequently. This also explains the stable and long-lasting nature of network relationships, because of high switching costs.
- *Networks should be understood from both structure and process aspects* (O'Donnell et al., 2001; Shaw, 2006). The structure of networks is defined by the level of interdependence, and the patterns and character of connections (Forsgren and Johanson, 1992:8). Common structural attributes of networks are defined in terms of the strength of ties (Granovetter, 1973), density [extensiveness of ties], range/diversity, and intensity [degree of interactions] (Ostgaard and Birley, 1994; Renzulli and Aldrich, 2005; Zhao and Aram, 1995). Some of these dimensions, with different labels, are indeed overlapped. Networks of different structural characteristics are found to have different strengths and functions (Burt, 1992; Coleman, 1988; Granovetter, 1973).

The process view of networks involves the behavioural and activity aspects of focal actors in formulating, developing, maintaining and leveraging the networks. The process view represents the interactive and dynamic aspect of the networks.

2.4.3 Early Application of the Network Perspective to Explaining Internationalization

Johanson and Mattsson (1988) apply the network approach to explain internationalization in industrial markets, which are composed of networks of relationships partitioned in various ways such as in geographical areas [location nets], in products [product nets], in techniques, etc. A firm which operates in industrial markets, therefore, operates in different nets [partitions of networks of relationships] at the same time. At each point in time, the firm has certain positions in the networks, which characterize the firm's roles, functions and identities with relation to the other firms in the nets. Positions are further distinguished into micro-positions (with relation to individual counterparts in a specific net) and macro-positions (with relation to the net as a whole). The underlying concept is that firms in industrial markets [networks] are interdependent and interactive; this shapes the business development of individual firms in the network and of the network as a whole.

Under this concept, internationalization is defined at two levels: at the level of the firm and at the level of industrial market [network]. Internationalization is defined as “the establishment and development of a firm’s positions with relation to its counterparts in foreign networks” (Johanson and Mattsson, 1988:296). Applying the two-level understanding of internationalization, firms are categorized into four groups based on their degree of internationalization at the level of the firm with relation to the degree of internationalization of their counterparts and of the industrial market [network].

Figure 2-3: The Network Model of Internationalization

| | | Degree of Internationalization of the Market | |
|--|-------------|--|--------------------------------|
| | | <i>Low</i> | <i>High</i> |
| Degree of Internationalization of the Firm | <i>Low</i> | The Early Starter | The Late Starter |
| | <i>High</i> | The Lonely International | The International Among Others |

Source: Johanson and Mattson, 1988

The model indicates that decisions on the internationalization process of the firms, which include foreign market selection and entry, may emanate from opportunities and constraints through the focal firm’s network relationships. The model is criticised by Chetty and Holm (2000) as lacking the distinctive differentiating criteria of the four groups of firms, focusing on only a few dimensions of networks, and lacking explanatory power as to how a firm takes opportunities and overcomes problems in internationalization through networks. Nevertheless, as the first dedicated study to apply the network perspective to explaining the internationalization of firms, the model provides new insights into understanding and explaining the internationalization patterns of a firm as a network member rather than as a solitary unit. The model plays an important role in promoting the integration of a new perspective - the network perspective - to complement existing approaches to the understanding of the internationalization of firms.

2.4.4 Effects of Networks on the Internationalization of SMEs

Extensive research has specified networks to be a critical aspect with relation to the capabilities for international expansion of small firms (Chen 2003; Chetty and Holm 2000; Coviello and Munro 1995; Holmlund and Kock 1998; Jones 1999; Vatne, 1995). Andersson and Wictor (2003:266) comment that for rapidly internationalizing firms (they use the label ‘Born Global’ firms), networks are seen as the opportunities that enable the implementation of their international business vision. In their 1990 paper, Johanson and Vahlne acknowledge the

findings of some rapidly internationalizing small high-tech firms in Lindqvist's study (1988), which they explain as being enabled by the exploitation of the advantages of entrepreneurs' networks (p.22). Studies find that networks have a strong influence on SMEs in the three core decisions of internationalization specified in section 2.1, i.e., the Go/ No Go decision, the market choice decision, and the entry mode decision. The internationalization patterns of SMEs are often triggered by their key clients/customers' or even competitors' directions (Bell, 1995; Moen, Gavlen and Endresen, 2004; Oviatt and McDougall, 2005; Sharma and Blomstermo, 2003). Bell's (1995) study finds the need for client followership influences both the initial export decision and the choice of foreign market. Holmlund and Kock (1998) find that networks in both the home country and abroad have significant influence on the internationalization process of SMEs. Networks are a key factor influencing firms' choices of foreign market and entry mode (Bell 1995; Coviello and Munro, 1995, 1997; Johnsen and Johnsen, 1999; Meyer and Skak, 2002; Moen, Gavlen and Endresen, 2004; Sandler and Chetty, 2000). Coviello and Munro (1995), for example, find more than half of their sample firms' initial choices of foreign market and entry mode were made in response to opportunities presented by contacts in a formal or informal network.

In addition to the direct influence of networks on internationalization decisions, an effect of network (often discussed in terms of benefits) most widely researched and agreed upon is the external (tangible and intangible) resources that networks make available to and accessible by SMEs with inherent resource constraints. The network perspective singles out networks as the prospective means through which SMEs can tap resources and capabilities external to their boundaries. Jarillo (1989) stresses that an effective way to compensate for the inherent liabilities of small firms is to access and obtain external resources. Bonaccorci (1992:623), in a research about firm size and export intensity of small firms, cites the example of Italian small exporters whose access to external resources plays an important role in their internationalization process; he makes the comment that "access to external resources should be explicitly considered in export research". Vatne (1995) includes 'use of external resources' in his model of the internationalization of SMEs as a key variable. Consistent with the proposition of Oviatt and McDougall (1994) on the use of a network structure to minimize the use of internalization, Vatne (1995:65) suggests that lack of resources and knowledge in SMEs is a major force for externalization, and interorganizational forms of governance [networks] are often attractive to SMEs to compensate for their inherent resource constraints.

The effects of networks on providing access to external resources, transferring information and knowledge, providing moral support, establishing legitimacy of the firm, bridging into

foreign business networks, and creating new opportunities are commonly agreed across studies of SMEs (Barringer and Harrison, 2000; Birley, 1985; Chen, 2003; Chetty and Holm, 2000; Coviello, 2006; Coviello and Munro, 1995; Elfring and Hulsink, 2003; Fuller-Love and Thomas, 2004; Gulati, 1999; Hoang and Antoncic, 2003; Holmlund and Kock, 1998; Johanson and Vahlne, 2003; Oviatt and McDougall, 2005; Shaw, 1997; Spence, 2003; Zahra, George and Garvis, 1999). Ramachandran and Ramnarayan's study (1993:518) finds that the entrepreneurial firms they sampled used networks for a variety of purposes such as "raising capital, identifying marketing opportunities, obtaining personnel, identifying and developing technology, identifying suppliers, obtaining ideas, and ensuring support...". Similar findings on the diverse use of networks are also found in Neergaard's study (2005).

Loane and Bell (2006:470) explain that because lack of knowledge is a major barrier to small firm internationalization, knowledge-related issues have accordingly provoked much interest in the literature. Enabling the sharing, access, transfer and acquisition of information and knowledge is regarded as a core benefit of networks (Brass et al., 2004; Coleman, 1988; Hadjikhani and Johanson, 2001; Hoang and Antoncic, 2003; Inkpen and Tsang, 2005; Kingsley and Malecki, 2004; Li, 2004; Mayer and Skak, 2002; Moller and Svahn, 2003; Prashantham, 2005b; Van Gils and Zwart, 2004; Yli-Renko, Autio and Sapienza, 2001; Zahra, Ireland and Hitt, 2000). Liesch et al. (2002:21) specify the crucial role of networks in providing information that contributes to lowering risks and uncertainties inherent to international operations. Lamb and Liesch (2002) point out that the acquisition of market experiential knowledge in a network context reflects the shared and collective aspects of a firm interacting through its networks, rather than being an attribute of a solitary unit and an organic process. Arenius (2005) proposes that internationalizing firms can substitute direct experiential learning with indirect experiential knowledge through network partners. Forsgren (2000:271) also suggests that there are many "shortcuts" by which companies can obtain experiential knowledge through other firms without relying on their own experience. These notions imply that the liabilities of foreignness faced by SMEs in entering foreign markets can be largely reduced through the use of networks. Gulati (1999) suggests the information advantages obtained from participation in networks facilitate the identification of prospective network parties, the development of network relationships, and the promotion of third-party referrals, and hence constitute substantial network resources.

Supporting SMEs to establish legitimacy and viability at the firm level is another core benefit of networks, which is particularly critical to SMEs in compensating for their liabilities of smallness and newness (Bradley, Meyer and Gao, 2006; Carlisle and Flynn, 2005; Elfring and Hulsink, 2003; Hoang and Antoncic, 2003; Larson, 1992; Lechner and Dowling, 2003).

Spence's (2003:291) study finds that international networks are necessary to increase firms' knowledge about target foreign markets or to strengthen their market presence despite the lack of initial resources. The findings are consistent with those of Holmlund and Kock (1998:58) and Johnson (2004:151). Barringer and Harrison (2000:380) suggest that networks containing larger, more established firms help small firms to gain viability, reputation, image, and prestige. Stuart (1998:674) elaborates explicitly the benefits of having prestigious organizations in a firm's networks, and comments "their [prestigious organizations] strategic undertakings are focal points that draw the attention of external resource holders. Hence, potential customers and employees, the financial community, as well as the media and trade press are likely to become attentive to the initiatives of the affiliates of well-regarded firms". This legitimacy and viability, obtained through networks, open the doors to more relationships, and hence allow small firms to gain access to more business opportunities, resources and expertise.

2.4.4.1 Social Capital and Network Resources

It is observed that discussions on the effects of networks use different labels such as 'relational capital' (e.g., in Hitt, Lee and Yucel, 2002; Rialp et al., 2005; Sarkar et al., 2001), 'network resources' (e.g., in Chen, 2003; Gulati, 1999; Hung, 2002), 'relational assets' (e.g., in Dyer and Singh, 1998; Madhok and Tallman, 1998), and 'relational resources' (e.g., in Luo et al., 2004). Since the late 1990s and early 2000s, the label most often applied in discussions of network benefits is 'social capital'. Borgatti and Foster (2003:993) comment that "probably the biggest growth area in organizational network research is social capital". Yli-Renko, Autio and Sapienza (2001:590) explain that "the concept of social capital was originally used in community studies to describe relational resources embedded in personal ties in the community". The application of the concept of social capital in business studies is built on the notion of social embeddedness, which proposes that economic activities are embedded within the social context; business entities are involved in social networks at both the personal and organizational level (Granovetter, 1985; Uzzi, 1997). The social embeddedness notion is believed to be particularly important for understanding the business behaviour of SMEs, whose business and social contexts are intertwined due to the strong personal attachment of the key decision-maker, often the founder and the owner, to the business (Holmlund and Kock, 1998; Jennings and Beaver, 1996; Johannisson, 1988; Penrose, 1995). Stanworth and Curren (1976:100), for example, propose a 'social action' view to interpret the actions of small firms, a concept similar to social embeddedness. They explain this view by describing the small firm as "an ongoing social entity constructed out of the meanings and actions of those who participate in the firm, or who are

‘outsiders’ with relation to the firm as social grouping, but nevertheless interact with the participants”.

Despite the term’s popularity in business research, interpretations and definitions of ‘social capital’ are still diverse, with no precise consensus (Anderson and Jack, 2002; Kadushin, 2004; Portes, 1998). It is almost like an umbrella term for different aspects of social networks (Prashantham, 2005b). Studies have defined it by its process (e.g., in Anderson and Jack, 2002:207), by quality and value of the relationships (e.g., in Arenius 2005:116; Hitt, Lee and Yucel, 2002:354), by its functions (e.g., in Burt, 1997:340; Coleman, 1988:S98; Fukuyama, 1995:89), by the norms of the networks (e.g., in Putnam, 2004:14; Starr and MacMillan, 1990:85 [they use the term ‘social assets’ in the paper]; Woodcock, 2001:13), and most frequently by the benefits/resources available to the individual entity by virtue of membership of social networks (e.g., Adler and Kwon, 2002:23; Baker, 2000:1; BarNir and Smith, 2002:221; Bourdieu, 1983; Carlisle and Flynn, 2005; Nahapiet and Ghoshal, 1998:243; Portes, 1998:6) [Appendix 1]. The underlying understanding amidst all these different definitions is that there is value inherent in social networks (Borgatti and Foster, 2003:993; Putnam, 2004:14). Borgatti and Foster (2003:993) comment: “to a great extent, social capital is ‘just’ a powerful renaming and collecting together of a large swath of network research from the social support literature to social resource theory”.

Considering the diverse contents and connotations of the concept of social capital, the specific term is not applied in this research. This is because this research refers a network outcome that impacts on internationalization mainly to the tangible and intangible resources derived from networks, which covers only a part of the broad social capital concept discussed above. The adoption of the term ‘network resources’ in this research is considered to be more precise and straightforward. However, relevant findings regarding the effects of social capital on development of firms are cited and referenced.

2.4.4.2 Effects of Personal Networks on SME Internationalization

In a small firm, resources are generally originated, collected, organized and transformed into a collective entity by the entrepreneur to act on the business opportunities he/she perceives. The demarcation between personal and organizational context in small firms is usually blurred. Research on networks of small firms often builds on the theoretical foundation that all economic activities are embedded in a social context, and hence the involvement of personal social relationships in organizational business activities is self-evident (Cromie and Birley, 1992; Granovetter, 1985; Halinen and Tornroos, 1998; Johannisson, 1988, 2002; O’Donnell et al.,

2001; Shaw, 2005; Uzzi, 1997). Personal networks of the firm's key decision-maker, often its founder/owner, encompass both social and business relationships to serve the business purposes of his/her firm. O'Donnell et al. (2000:753) comment that "most studies of entrepreneurial personal networks have viewed the network as all relations extending from, or converging on, the entrepreneur". It is probably because of this that the predominant research focus of network studies on small firms is generally placed upon personal networks (Bruderl and Preisendorfer, 1998).

Fruitful findings in the small business and entrepreneurship literature have commonly discussed personal networks of the key decision-makers (often the founders/owners/entrepreneurs) of firms as their most important assets. Personal networks are a decisive factor that lays the groundwork for enabling and shaping the development of most small firms (Aldrich and Zimmer, 1989; Birley, 1985; Johannisson, 1988; Starr and McMillan, 1990). O'Donnell et al. (2001:752) mention that the terms 'personal network', 'social network' or 'personal contact network' are often thought of as roughly interchangeable. Despite the numerous definitions of personal networks, the term is generally understood to relate to the direct personal-level (as opposed to organizational-level) interactions and connections extending from a focal person. The interactions of the contacts and connections are basically informal in contrast to formal interactions between business entities, even though personal networks may be deployed instrumentally to fulfill both social and business purposes by the focal person (Aldrich and Zimmer, 1986; Crombie and Birley, 1992; Dubini and Aldrich, 1991; O'Donnell et al., 2001). Personal networks should also be differentiated from social networks because based on the notion of social embeddedness mentioned before (Granovetter, 1985; Uzzi, 1997), social networks encompass the networks of both the personal and organizational actors which are embedded in the larger social context. For further clarification in this study, business dealings and the corresponding interactions between two persons, who are acting formally on behalf of two organizational entities respectively, are regarded as organizational network relationships instead of personal network relationships.

Facing the liabilities of smallness and newness, it is difficult for smaller firms to overcome initial entry barriers to gain the acceptance of potential network partners and start building business relationships (Forsgren and Johanson, 1992; Sharma and Blomstermo, 2003; Stuart, Hoang and Hybel, 1999; Zahra, 2005). A recognized market [network] position is a pre-requisite to motivate reciprocal exchanges in network relationships. Time and resources must be invested in building the network position of the firm, and in cultivating the relationship with network parties, before network resources can be generated by and accessed for use through reciprocal

exchanges (Bourdieu, 1985; Forsgren and Johanson, 1992; Gnyawali and Madhavan, 2001; Hoang and Antoncic, 2003; Larson, 1991). Relationship building is a time- and resource-intensive process. Therefore, the likelihood of small firms accessing and acquiring external resources from formal business networks, besides arm's length transactions, is presumed to be relatively lower than that of their large counterparts. In this situation, pre-existing personal networks become a vital pool of ready resources upon which the key decision-maker can immediately draw to support the firm's development, particularly during its formation and the initial start-up stage (Dubini and Aldrich, 1991; Johannisson, 1988, 2000; Witt, 2004).

The personal contacts in which the key decision-maker has engaged in interactions over a long time are often regarded as the most trustworthy, predictable and inexpensive sources of resources and support in the early stage of his/her business venture. Therefore, personal networks of strong ties are believed to lay the groundwork for independent new ventures (Bruderl and Preisendorfer, 1998; Starr and MacMillan, 1990). Numerous studies have provided evidence that key decision-makers of small firms first accesses personal networks of social and affective ties such as family, friends, former work colleagues and contacts for the initial resources and social support which will transform a business idea into a business reality (Birley, 1985; Greve and Salaff, 2003; Jack, 2005; Ramachandran and Ramnarayan, 1993; Riddle and Gillespie, 2003; Witt, 2004). These social and affective ties carry the emotional connotations of trust, which is essential to promote the willingness of the parties to participate in the exchanges with an entrepreneur in his/ her highly uncertain venturing process. Personal networks of strong ties minimize uncertainties and opportunistic behaviour in the turbulent start-up stage. They compensate for the liabilities of the newness of small and young firms by drawing on key decision-makers' personal established network position in these relationships; they are thus conducive to speeding up the business development of small firms at minimal cost (Dubini and Aldrich, 1991; Gartner, Bird and Starr, 1992; Hitt and Hesterly, 2001; Larson and Starr, 1993; Starr and Macmillan, 1990; Witt, 2004; Zhao and Aram, 1995).

Taking into consideration the exacerbated liabilities of those small entrepreneurial firms which seek internationalization right at inception or at an early stage of the start-up, it is reasonable to believe that the key decision-maker's personal networks should play even more significant roles in foreign business survival and development. As Holmlund and Kock (1998:51) suggest, "in small and medium-sized companies the personal resources become crucial, since the internationalization process often centres around one person and his (sic) knowledge and experience".

For those rapidly internationalizing SMEs whose formal business networks at the organizational level are not readily developed and cultivated to make network resources accessible, existing personal networks provide the initial opportunities and enable immediate access to additional resources required to kick-start and speed up the internationalization process. In studies on the instant and accelerated internationalization of small firms, the key decision-maker is specified to be the focal individual enabling and driving a firm's distinctive development; his/her personal networks are the differentiating attributes (Madsen and Servais, 1997; Oviatt and McDougall, 1994, 1995; Witkowski and Thibodeau, 1999). Oviatt and McDougall's study (1995) of international new ventures found that entrepreneurs' personal networks support the identification of foreign opportunities, provide the source of business advice and knowledge, allow the 'borrowing' of reputation and brand name, and accelerate the building of legitimacy, all of which are pre-requisites for newcomers to gain initial entrance into foreign markets. Vesper and Vorhies' study (1979) finds as well that the founders of the international new ventures they sampled emphasized the significance of personal contacts in motivating and promoting rapid internationalization. These studies underline the proposition that instant and accelerated internationalization of resource-deficient small firms is, to a large extent, made possible because of the presence of personal networks.

In short, the empirical findings of extensive studies have suggested that personal networks are crucial loci of business ideas, financial resources, information and advice, motivation and emotional support, and guarantors of creditability and legitimacy. Small firms are often shaped at the formation stage by the resources which are available in personal networks. The availability of personal networks therefore is pinpointed as a decisive factor enabling the formation and survival of resource-constrained small firms, and an indicator to the performance of their start-up and further development (Aldrich and Zimmer, 1996; Birley, 1985; Bruderl and Preisendorfer, 1998; Hite, 2005; Jarillo, 1989; O'Donnell et al., 2001).

2.4.5 The Literature Gaps and Contributions of This Study

Extensive studies, such as those cited in the preceding sections, provide detailed explanations of the effects of networks on SMEs' business development, including internationalization. Existing discussions of networks in the majority of the studies tend to be based upon the following two premises:

- 1. Networks are generally beneficial to development of firms.**
- 2. Networks are a natural given to firms.**

It is, however, questionable whether the two premises limit the creation of a comprehensive picture of the effects of networks on the internationalization of SMEs (Barringer and Harrison, 2000; Loane and Bell, 2006). It is the interrogation of the two premises that provides the focus for this study.

Gap 1: Are Networks Generally Beneficial?

Networks are not generally beneficial. The significant role and effects of networks on the internationalization of SMEs are commonly emphasized. However, research has identified that attributes of different networks and relationships influence the extent to which opportunities and resources can be identified, accessed, mobilized and exploited: networks can sometimes inhibit rather than facilitate the development of firms.

2.4.5.1.1 Different Strengths of Strong- and Weak-Tie Networks

The influence of a network's structural attributes on the strengths and functions of networks has commanded widespread research attention since Granovetter's (1973) differentiation of the strengths of strong- and weak-tie networks (Adler and Kwon, 2002; Coleman, 1988; Burt 1992; Gargiulo and Benassi, 2000; Nahapiet and Ghoshal, 1998). The strength of ties is defined as "a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services which characterize the tie" (Granovetter, 1973:1361). In his second paper on the subject in 1983, Granovetter gives explicit examples of weak ties as acquaintances and strong ties as close friends. He proposes that weak ties are more effective than strong ties in channeling and diffusing novel ideas, information and knowledge. He suggests that while strong ties provide actors with reliable resources in routine and stable environments, weak ties provide information resources beyond those available in an individual's current social circle, thus making mobility opportunities possible.

In the social capital literature, Coleman (1988) and Burt (1992) develop two alternative views on the relationship between network structure and the benefits of social capital. Coleman's network closure perspective (1988) stresses the positive effect of cohesive social ties [network closure] upon facilitating trustworthy and cooperative network exchanges. Burt's structural hole theory (1992) stresses the diversity of information and brokerage opportunities made available by disconnected network segments. Nahapiet and Ghoshal (1998) elaborate on the elements contributing to the strength of ties, and the interactions of these elements, within network value creation by distinguishing three dimensions - the structural, the relational, and the cognitive - of social capital (which they define as "a set of resources rooted in relationships", p.243). The categorization of bonding, bridging and linking social capital is also based on the level of homogeneity and connectedness of relational ties (Woodcock, 2001). Putnam (2002:14) suggests that bonding social capital is good for individuals to 'get by' while bridging social capital is essential for individuals to 'get ahead'. All these propositions draw attention to variations of the effects of networks on specific business activities according to different tie strength or connectivity of networks.

Because of the contingent effect of tie strength upon network functions, an appropriate mix of networks combining both strong and weak ties (or bonding and bridging social capital) is crucial to making opportunities and resources available to support business development (Dubini and Aldrich, 1991; Elfring and Hulsink, 2003; Hoang and Antoncic, 2003; Jenssen and Greve, 2003; Jenssen and Koenig, 2002; Johannisson, 1988; Lechner and Dowling, 2003; Liao and Welsch, 2001; Oviatt and McDougall, 2005; Sharma and Blomstermo 2003; Zaheer and Bell, 2005).

Based on the alternative views of Coleman (1988) and Burt (1992), Gargiulo and Benassi (2000) point out that networks rich in structural holes can provide novel information about new opportunities; and that network closure is essential to obtaining the necessary support and cooperation to act on the opportunities. Uzzi (1996:694) also suggests that an "optimal network" is one which integrates both embedded ties and arm's length ties (interpreted as strong and weak ties). Inkpen and Tsang's study (2005:161) finds that social capital is not uniform in its effect upon knowledge transfer: knowledge transfer varies across different network types. Elfring and Hulsink's (2003) case study explicitly demonstrates the value of an appropriate mix of strong and weak ties for opportunity discovery and the establishment of legitimacy respectively. For opportunity discovery, weak ties play a dominant role to pursue radical innovative opportunities and strong ties facilitate the exchange of tacit knowledge and reliable feedback on the nature and

viability of these opportunities. The study by Jenssen and Koenig (2002) confirms that weak ties give access to information resources, and strong ties provide emotional support.

With specific reference to foreign business development, Dubini and Aldrich (1991:308) emphasize the significance of network diversity as follows:

“Information about new business locations, potential markets for goods and services, sources of capital or potential investors, and innovations is likely to spread among individuals...someone with a small set of overlapping ties is at a disadvantage when competing for information with someone with a large set of divergent ties”.

Sharma and Blomstermo’s (2003) case findings confirm the importance of weak ties in providing knowledge for, and supporting the knowledge search and evaluation process of, internationalization; whereas strong ties promote stable and trustful relationships.

All these studies indicate an appropriate mix of network ties is needed to fulfill various functions in the internationalization of firms.

2.4.5.1.2 Negative Effects of Networks

Networks are not universally beneficial because networks may also place limitations on the development of firms. While the majority of research focuses on explaining the positive effects of networks on the development of SMEs, relatively fewer investigate their negative side (De Wever, Martens and Vandenbempt, 2005; Witt, 2004). Chetty and Campbell-Hunt (2003:16), in their study of the explosive international growth and problems of SMEs, pose the question: “Are networks an important facilitator and/or inhibitor?” It is commonly agreed that stable and long-lasting relationships are essential to cultivating and nurturing the trust, commitment, and mutual orientation required to deepen firms’ interactions and to enable the creation and deployment of benefits derived from networks. Overly stable relationships, however, may lock a firm in, and limit exploration beyond its existing networks to seek potential development with other prospective relationships (Adler and Kwon, 2002; Gadde, Huemer and Hakansson, 2003; Grabher, 1993b; Gulati, Nohria and Zaheer, 2000; Han, Wilson and Dant, 1993; Hitt, Lee and Yucel, 2002; Hung, 2001; Portes, 1998; Uzzi, 1996).

Adler and Kwon (2002:30) state that “the ties that bind may also turn into ties that blind”. Several conditions relating to the network characteristics discussed in section 2.4.2 may make network relationships inhibitors to firms’ business development.

Firstly, a firm might only acknowledge the network horizon it defines as relevant to its business; the firm would then be limited to the resources and opportunities available within this subjectively drawn network boundary only (Hitt, Lee and Yucel, 2002).

Secondly, a firm, in particular a resource-constrained SME, has limited resources to invest in developing and cultivating relationships extensively. By making the choice to network with specific partners, other prospective parties of potential value may be excluded (Beekman and Robinson, 2004; Gulat, Nohria and Zaheer, 2000). Since the extension of a focal firm's networks tends to be path-dependent (Hitt, Lee and Yucel, 2002; Johanson and Vahlne, 2003; Sharma and Blomstermo, 2003), the initial choices of network relationships will then shape its subsequent network development and expansion. Under these restraints, firms may not realize (or be able to take advantage of) the opportunities that are provided beyond their existing networks.

Furthermore, the solidarity benefits inherent in stable and long-lasting relationships may lead to a firm becoming over-embedded - to simply follow suit or drift along with the development of the network as a whole. Locke (1999) comments that over-embedded actors will lose their objectivity, independent discovery and questioning: this is likely to impede their ability to make sound decisions. Portes (2000) also suggests that over-embeddedness may give rise to free-riding problems, which the 'loyal' and 'obliged' network members may not acknowledge or may not be willing to confront. The cohesion and security inherent in an over-embedded network may also prevent member firms from seeking/pursuing business opportunities of greater potential, but of higher risk, for their business development (Gulati and Gargiulo, 1999; Nahapiet and Ghoshal, 1998).

2.4.5.1.3 Addressing the Gap: Standpoint and Contributions of This Study

In sum, networks are not universally beneficial to business development of firms. Combinations of networks of different ties and cohesiveness have different strengths in serving different functions, and networks can inhibit firms' development. Coleman (1988:S98) makes this comment on social capital: "(it) is not completely fungible but may be specific to certain activities. A given form of social capital that is valuable is facilitating certain actions [which] may be useless or even harmful for others". In a discussion about collaborations between firms, Madhok and Tallman (1998) draw a clear distinction between the 'potential' value attainable through collaborations, and the actual realization of that value. These notions are highly applicable to understanding the effects of networks.

The effect of networks is neutral, which means networks can present both strengths and constraints to the participating firms (Lechner and Dowling, 2003:22; Nahapiet and Ghoshal, 1998:245; Ritter, 1999:468). The mere availability of networks, therefore, does not necessarily provide firms with benefits enabling them to achieve specific functions. The common belief that

'more is better' is not always valid, unless the strengths of those networks match the functions for which the networks are being developed and used (Adler and Kwon, 2002; Edelman et al., 2004; Gabbay and Leenders, 1999; Lechner and Dowling, 2003). O'Donnell (2004:207) argues that "it is not the existence of a network *per se*, but rather the use of that network through the process of networking, from which benefits accrue". Similar comments are made by Bruderl and Preisendorfer (1998:215), who state that "networks will improve success only if the entrepreneur makes use of them"; Ostgaard and Birley (1994), who emphasize that network value is only realized through positive use of the resources which reside within networks. Andersson and Wictor (2003:266) point out that "networks are not seen as structures for and/or barriers to new strategies, but as opportunities that can be used to implement their [the entrepreneurs'] visions". Zaheer and Bell (2005:810) also stress that "a network of ties merely gives the focal firm potential to access the resources of its contacts. The value the firm actually derives from its contacts may also be a function of the resources controlled by those contacts, the ability of the firm to exploit those resources, and the pattern of the ties binding the firms together".

Referring to the above propositions, realization of the actual value of networks, to a large extent, depends on whether the strengths of the networks match specific requirements for the pursuit of different directions for business development. As Inkpen and Tsang (2005:161) suggest, researchers should "move beyond one-size-fits-all analyses of networks". Accordingly, discussion about the effect/value of networks on the internationalization of SMEs should be related directly to the specific conditions facing SMEs in the context of internationalization, rather than to generic findings about networks in business development in general. Resource limitations are pinpointed as the major impediment to SME internationalization. *This study contributes to providing a more explicit and concrete picture of the effects of networks, by valuing them based on the resources made available and accessed by firms specifically to support their internationalization.*

It is also proposed that the attributes of a firm's networks and the effects of those networks can to a certain extent be preconditioned by the firm's networking behaviour, which reflects the networking orientation of the firm manifest in its networking activities. However, network research tends to focus more on the consequences (outcomes) of networks rather than on the networking behaviour which determine the outcomes (Borgatti and Foster, 2003; Neergaard, 2005). *The 'network as a given context' premise is questioned in this study; the rationale for understanding networking behaviour as fundamental to explaining network outcomes is elaborated in the following section.*

Gap 2: Are Networks a Natural Given?

Networks are not a natural given to a firm. Bourdieu (1983, with reference to the English translated version online) elaborates this notion, stating that “the existence of a network of connections is not a natural given, or even a social given...it is the product of investment strategies, individual or collective, consciously or unconsciously aimed at establishing or reproducing social relationships that are directly usable in the short or long term”. Gadde, Huemer and Hakansson (2003:359) regard relationship-building as an important resource development process, and suggest that it must be analyzed from an investment point of view. Networks provide opportunities for SMEs to access additional resources to compensate for their inherent resource shortage, but like all other investments, these opportunities come with costs. Eisenhardt and Schoonhoven (1996:147) stress that “cooperation requires resources to get resources”. Batt and Purchase (2004:169) also point out that “give and take is important as this ensures that no one actor gains all the network resources to the detriment of other network actors”. Nahapiet and Ghoshal (1998:258) emphasize that social relationships will die out if not maintained, and so interaction “is a precondition for the development and maintenance of dense social capital”. Madhok and Tallman (1998:337) also elaborate that extracting value in cooperative relationships and alliances is complicated and difficult; it requires firms to shift their manner of structuring and approaching their interactions with network partners. Nevertheless, most existing network research is more concerned with the consequences (outcomes) of networks, which regard the existence of networks as a given. Research on the efforts invested by firms antecedent to cultivating network relationships and promoting network interactions in pursuit of network value is relatively sparse and diverse (Borgatti and Foster, 2003:1000; De Wever, Martens and Vandembemt, 2005; Lechner and Dowling, 2003:4; Madhok and Tallman, 1998; Neergaard, 2005:260; O'Donnell, et al., 2004:207; Ritter et al., 2004:176; Salancik, 1995). The research focus on network outcomes is also dominant in the literature of SME internationalization.

2.4.5.1.4 Networking and Network – the Antecedent and the Outcome

‘Networking’ and ‘network’ should be differentiated as two constructs, with the latter being the outcome of the former (Chell and Baines, 2000; Dubini and Aldrich, 1991; Neergaard, 2005; O'Donnell, 2004; Shaw, 2005). Chell and Baines (2000:196) clearly distinguish the noun ‘network’, the verb ‘to network’, and the participative form ‘networking’. The latter is denoted as the actions of formulating, developing and maintaining contacts by the actors. Dubini and Aldrich (1991:306) regard ‘networking’ as a social skill that can be learned, and which involves

making contacts, building relationships, and activating linkages. Neergaard (2005:259) associates 'networking' with the actor's behaviour and its ability and inclination to form relationships. Based on these denotations of 'networking', a firm's networking behaviour precedes and preconditions its network relationships and network position, which in turn determines the effects of the networks on its business activities. The clarification of the two constructs - 'networking' and 'network' - and their causal relationship is fundamental to explaining network outcomes and associated effects on business activities.

Research on the networking behaviour of firms in the specific context of internationalization is sparse. However, 'networking' has long been a central theme in entrepreneurship research, which has provided fruitful findings (Crombie and Birley, 1992; Dubini and Aldrich, 1991; Johannisson, 1988; Johannisson and Monsted, 1998; Ostgaard and Birley, 1994; Ramachandran and Ramnarayan, 1993; Zhao and Aram, 1995). Research on networking in the entrepreneurship literature, including those referenced above, is concerned primarily with the personal networks of entrepreneurs (as discussed in 2.4.2.2), and networking is studied in terms of structural dimensions such as diversity, density and intensity of entrepreneurs' personal networking activities. The underlying presumption is that personal networks of entrepreneurs directly relate and contribute to business activities, thus, networking at personal level of the entrepreneur is often seen as synonymous with networking at the level of the firm.

Johannisson (1997), however, remarks that personal networks may be fundamental for launching a new venture, but do not guarantee sustained growth in ongoing business development. Referring to this notion and the discussion in the preceding section (section 2.4.5.1) regarding the requirement for an appropriate combination of network ties to serve different functions, entrepreneurs' personal networks may not be adequate to support specific business development such as foreign business development (Podolny and Baron, 1997). Personal networks that extend from a focal individual are inevitably concentrated according to the individual's historical ties (due to path dependence of network development). Therefore, personal networks of an individual (the key decision-maker) are unlikely to provide sufficient business and resources to support foreign business development of a firm. Furthermore, informal personal networking may not be valid for initiating and promoting business relationships in the global marketplace, where legitimacy and viability based on a firm's market [network] position and reputation are essential (Elfring and Hulsink, 2003).

Articulating networking as a collective effort at the level of the firm under a shared orientation with other strategies of a firm towards achieving its business goals is significant (Dubini and Aldrich, 1991; Hite and Hesterly, 2001; Lechner and Dowling, 2003; Shaw 2006).

Although entrepreneurs still hold the key to the business networking activities of SMEs, the shift to emphasize networking at the firm level more than networking at the personal level is strategically important to establish the firm's legitimacy and viability among organizational entities in the market, in order to promote and sustain the growth of the firm (Larson and Starr, 1993; Starr and MacMillan, 1990). Building on this understanding, it is networking behaviour at the level of the firm which needs more focal research efforts, in order to explore and explain its preconditioning influence on network outcomes, and on the internationalization of firms. It is the objective of this study to contribute to enriching the understanding of the relationships between the networking behaviour of SMEs and their internationalization.

2.4.5.1.5 *Networking as a Firm Capability*

That networking is a time- and resource-intensive process is generally acknowledged; continuous investment is needed to maintain the interactions of a stable and long-lasting relationship to achieve value creation (Gadde, Huemer and Hakansson, 2003; Johanson and Mattsson, 1985; Johanson and Vahlne, 2003; Madhok and Tallman, 1998). A firm may have the risk of 'over-investment' that transforms a network 'asset' into a 'liability' (Adler and Kwon, 2002). Dubini and Aldrich (1991:305) also warn that networking may result in a fruitless effort. This is in particular a concern to SMEs when they are already under resource constraints, and excessive networking can become a burden. Therefore, SMEs need to get their networking behaviour into focus to support their development in the first place to avoid fruitless investment.

Networking is bilateral in nature. Networks are built between actors in them on a basis of mutual orientation and reciprocity response. Thus, the activities of the networks do not work in favour of a firm's purposes solely. However, Lorenzoni and Lipparini (1999:332) suggest that "networks can be potentially subject to managerial design". Dubini and Aldrich (1991:306) also state that networks are "enacted by their participants". The potential can be exerted through a firm taking a more proactive and deliberate networking orientation to the establishment, development, and management of network relationships of those structural attributes and strengths which better serve its purposes (Anderson, Hakansson and Johanson, 1994; Dubini and Aldrich, 1991; Hite, 2005; Hung, 2002; Inkpen and Tsang, 2005; Johannisson, 2000; Larson, 1992; Larson and Starr, 1993; Madhok and Tallman, 1998; Mort and Weerawardena, 2006; Ostgaard and Birley, 1994; Rowley and Baum, 2004). Thorelli (1986:46) explicitly recommends that firms "think in network terms to open new perspectives of structure, strategy and performance" during their strategic planning. Hung (2002), for example, points out that the strategic choices of networks by firms involve the firms' aspirations to plan forward. Mort and

Weerawardena (2006:566) emphasize that “networking activity may not be the panacea for all the ‘ills’ of small firms. Instead, the networking activity must take the form of a competitive capability complemented by entrepreneurial opportunity-seeking behaviour”. Burt’s (1992:30) structural hole proposition also implies that a player can “strategically” build an effective network by focusing resources on the maintenance of ties. Promoting a strategic perspective with specific reference to internationalization, Welch and Welch (1996) propose that network development can be intentionally nurtured to realize international expansion opportunities; they recommend the incorporation of network planning and development into the strategic management process of internationalization. Coviello and Munro (1995), in a study of the internationalization of SMEs, also suggest that the existing networks, as well as developing the ability to establish new network relationships, should be managed as a key competitive capability in internationalization. Zahra, George and Garvin (1999) emphasize networking to be an organizational capability, since the strength and quality of network ties depend on a firm’s ability to effectively develop and utilize them to access resources and support from its network partners. The need to enhance a firm’s networking and relationship-building capability, in order to actually realize the potential value of networks, is also highlighted by Madhok and Tallman (1998), and Zaheer and Bell (2005).

2.4.5.1.6 Addressing the Gap: Standpoint and Contributions of This Study

From the resource-based view, network relationships are important resources/assets of firms. Antecedent networking behaviour, which demonstrates a firm’s networking orientation in its networking activities, should be regarded as the firm’s dynamic capability that directly enables it to develop and deploy networks in pursuit of its strategic objectives (Gulati, 1999; Madhok and Tallman, 1998; Moller and Svahn, 2003; Mort and Weerawardena, 2006; O’Donnell et al., 2001; Ritter et al., 2004). The dynamic comes from the exchange and adaptation process involved in network interactions (discussed in 2.4.2), which enables learning about networking to take place and networking experience to accumulate, based upon which the firm’s networking capability can be constantly refined to improve subsequent networking activities (Cromie and Birley, 1992; Dubini and Aldrich, 1991; Gulati, 1999; Kale, Singh and Perlmutter, 2000; Kogut, Shan, Walker, 1993; Lorenzoni and Lipparini, 1999; Wu and Cavusgil, 2006). This learning perspective of networking is incorporated by Johanson and Vahlne (2003, 2006), when they apply the concept of the interplay of experiential knowledge development and resource commitment decisions that underpins the internationalization model to explain network development (discussed in 2.2.1.3).

Considering the liabilities of SMEs, some researchers have suggested that their networking is reactive to ‘serendipities’, unpractised in planning, given to inertia, and unstructured (Harris and Wheeler, 2005; Johnsen and Johnsen, 1999; McAuley, 1999; O’Donnell, 2004; Myer and Skak, 2002). Yet certain empirical studies on SME networking have found evidence of proactive, planned and deliberate networking behaviour for pursuing SMEs’ business objectives (Chetty and Campbell-Hunt, 2003; Hite, 2005; Karagozogla and Lindell, 1998; Loane and Bell, 2006; Shaw, 1997, 2006; Spence, 2003; Starr and MacMillan, 1990). Coviello (2005:4), who applies Larson and Starr’s network development logic (1993), states that a typical INV will tend to demonstrate higher levels of strategic aggressiveness, and so “will intentionally manage its network from the earliest stage of its life cycle”. Hite (2005:136) also emphasizes that “emerging firms could proactively and strategically facilitate both the type and extent of relational embeddedness. As a result, intentional entrepreneurial action may be at the root of relational embeddedness and its evolution”. Based on the corresponding empirical findings, the study by Dimitratos et al. (2003) concludes that networking capability is one of the key success factors of internationalized SMEs. The above studies stress the potential of SMEs to leverage networking in the pursuit of business development in the global marketplace. Bell et al. (2003) call for greater enquiry into SMEs’ networking and leveraging for external resources in order to advance the research agenda of internationalization research. Loane and Bell (2006) also propose that greater attention be placed on network-building activities in firms’ internationalization. This study responds to this call by expanding the focus from network outcomes to the networking behaviour of the firm when investigating the impact of networks on the internationalization of SMEs. *The findings provide a comprehensive view of the effects of networks on the internationalization of SMEs, in terms of both the antecedent and outcomes.*

2.5 A Synthesis: ‘Networking’ as a Key Explanatory Factor in SME Internationalization

This research investigates *networking behaviour at the level of the firm* as a key explanatory factor pertaining to networks and the internationalization of SMEs. The core presumption is that a firm’s networking behaviour has a preconditioning influence upon the firm’s network outcomes. It therefore has a direct (e.g., by bringing primary business transactions) and indirect (e.g., by making network resources available) impact on the internationalization of the firm. It is believed that profiling a firm’s networking behaviour, identifying influential attributes, and associating them to the availability of network resources and to internationalization patterns

contributes to a more comprehensive explanation of the role of networks in SME internationalization.

Referring to the preceding discussion of the theoretical foundation of this research, it is proposed that the understanding of networking can be enriched with the integration of the core concepts of the internationalization model and the resource-based view with the network perspective. Although the network perspective is regarded as the most relevant to the study of SME internationalization (Coviello and McAuley, 1999) and has taken up a significant place in most of the SME business research, its focus on the ‘forest’ rather than the ‘tree’ (Thorelli, 1986) may limit its ability to understand and explain individual actions that make up the ‘forest’ (Bjorkman and Forsgren; Hite, 2005). Coviello and McAuley (1999:251) stress that “internationalization is too dynamic and broad a concept to be exclusively defined by any one school of research perspective and mode of explanation”. With regard to the SME internationalization literature, a more integrative perspective is called for and attempts are increasingly being made to construct a fuller picture (Bell et al., 2003; Jones and Coviello, 2005; Coviello and McAuley, 1999; Etemad, 2004; Madsen and Servais, 1997; Rialp, Rialp and Knight, 2005). The incorporation of the underpinnings of the internationalization model and the resource-based view to the network perspective to study and illustrate the role of networking and networks in SME internationalization in this research makes a contribution to providing such a broader and richer explanation.

The internationalization model provides theoretical insights into understanding networking as a dynamic activity with the model’s emphasis on the interplay of experiential knowledge development and resource commitment decisions (Johanson and Vahlne, 2003, 2006). Initiative, commitment and deliberate effort are required by a firm to invest in the continuous learning and knowledge accumulation process alongside networking activities, through which experiential knowledge of networking can be accumulated and deployed to refine and improve the firm’s subsequent networking activities (Gulati, 1999; Kogut, Shan and Walker, 1993). Such a direct and proactive role played by the firm in accumulating knowledge of networking enables it to develop networks and network positions that better support its pursuit of international business development.

Applying the resource-based view, when a firm takes a direct and proactive role to leverage and deploy networking to create business opportunities and/or obtain resources to fuel its business development, networking can be developed into the firm’s dynamic capability, persistently increasing and reconfiguring the firm’s internal resource base. Networking then

become both method and purpose of the firm's internationalization (Gadde, Huemer and Hakansson, 2003; Gulati, Nohria and Zaheer, 2000; Johannisson, 1988).

The integration of the resource-based view also ties in another underlying factor that drives the distinctive patterns of SME internationalization, i.e., the key-decision maker (often referred to as the owner/founder/entrepreneur in different studies) of the firm. In Penrose's (1995) seminal work, the entrepreneur has already been pinpointed as the key determinant of the growth of the firm, and managerial services have been pinpointed as core resources. Business activities in small firms are characterized by the highly personalized preferences, prejudices, and attitudes of their key decision-makers (Buckley, 1989; Hill and McGowan, 1999; Penrose, 1995). Johannisson (1988:87) states that "the entrepreneur's organization is basically an extension of his personality". Jennings and Beaver (1996:73) also stress that "strategic management in small businesses is enacted in a highly personalized manner and is strongly influenced by the personality, disposition, experience and ability of the entrepreneur/owner-managers".

The literature on the internationalization of SMEs, including the earlier works on exporting and the recent works on international entrepreneurship, has produced voluminous evidence on the prominent influence of key decision-makers upon small firms' choices, pace, and extent of international development (Andersson, Gabrielsson and Wictor, 2004; Belso-Martinez, 2006; Bloodgood, Sapienza and Almeida, 1996; Boter, 2003; Calof and Beamish, 1995; Cavusgil, 1984; Cavusgil and Naor, 1987; Chetty and Campbell-Hunt, 2003; Dimitratos et al., 2003; Dooles, Grimes and Demack, 2006; Harveston, Kedia and Davis, 2000; Ibeh, 2003; Jones, 2001; Madsen and Servais, 1997; Manolova et al., 2002; Merz and Sauber, 1995; Oviatt and McDougall, 1994, 1997, 2005; Nummela, Saarenketo and Puumalainen, 2004, 2005; Prefontaine and Bourgault, 2002; Reid, 1981; Reuber and Fischer, 1997; Vatne, 1995; Westhead et al., 2001; Woodcock et al., 1994). Indeed, it is difficult to envisage a situation in which the key decision-maker of a SME is *not* found to have a major influence on the firm's foreign business development. Manolova et al. (2002:24) even claim that internationalization of small firms is a function of the 'perceptions' of the key decision-makers. Buckley (1989:101) also points out that although small firms may have resource constraints, "the exercise of entrepreneurial ability is often difficult to rationalize from an observer's viewpoint. Individual managers endowed with foresight, flair, imagination (or luck) may be able to cut through the planning process [to firms' growth, including internationalization] and achieve success". In the INV literature, the key decision-maker (the entrepreneur) is placed in a pivotal role that produces distinctive internationalization patterns (Andersson and Wictor, 2003; Autio, 2005; Jones and Coviello, 2005; Madsen and Servais, 1997; Oviatt and McDougall, 1994, 2005).

Autio (2005) comments that the specification of the entrepreneur's pivotal role in enabling/driving the internationalization of the INV by Oviatt and McDougall (1994) provides new insights to the study of international business, and has inspired the emergence of international entrepreneurship research. A major criticism made by Oviatt and McDougall (1997:94) of the internationalization model is its ignorance of the impact of the individual: they comment that "the international business experiences most likely to influence the international commitment decisions of an INV are those of its top managers". The traits of an INV entrepreneur specified by Oviatt and McDougall (1994, 1997, 2005) include international experience, international vision, alertness to new business opportunities and the proprietary networks - all of which are commonly acknowledged to differentiate instant and rapidly internationalizing firms (Andersson and Wictor, 2003; Bloodgood, Sapienza and Almeida, 1997; Jones and Coviello, 2005; Johnson, 2004; Madsen and Servais, 1997; Nummela, Puumalainen and Saarenketo, 2005).

Regarding the association between key decision-makers and networks, the majority of studies concerned themselves with the significant role of key decision-makers' personal networks in supporting SMEs' business development (as discussed in 2.4.4.2.). Networking is a core theme in the entrepreneurship literature (Dubini and Aldrich, 1991; Jarillo, 1989; Johannisson, 1998). However, entrepreneurship studies on networking activities mainly discuss the personal-level networking of the key decision-maker. Johannisson (1988:85) comments that "the quality of the network an entrepreneur creates is highly dependent upon his (*sic*) given personal attributes". In another study, he specifies the variations of different types of entrepreneur in network development and utilization (Johannisson and Monsted, 1998). Brass et al. (2004) suggest that an actor's characteristics determine its ability to create a network most useful to achieving its purposes. BarNir and Smith (2002) relate a propensity to network to particular personality traits of entrepreneurs. Ghauri, Lutz and Tesfom (2003) specify management's willingness to abdicate autonomy to acquire external resources as a major determinant to a firm's entry into a network relationship. Cromie and Birley (1992:237) also propose that "networks are the product of personal drive and historical experience". Mort and Weerawardena (2006:560) emphasize that the networking capability of instant internationalized firms is nurtured by the owner/manager. Zhao and Aram (1995:365) also suggest that managerial choices have great influence on the network development patterns of entrepreneurial firms. Chell and Baines (2000) even propose a typology of business owners, and associate them with specific business networking behaviour. All these propositions highlight the deterministic influence of key decision-maker attributes on the networking behaviour of SMEs (O'Donnell,

2004). A common presumption of these studies is that personal networking activities of the key decision-maker are inseparable from business networking activities within a SME (Chell and Baines, 2000; Johannisson, 1998), and hence the two are often assumed to be equivalent (BarNir and Smith, 2002). This approach, however, may provide a limited picture.

The core postulation of this study is that networking behaviour at the level of the firm is antecedent to network outcomes, and hence determines the effects of networks on internationalization. This research acknowledges the key decision-maker to be the directing and driving force of almost all business activities, including networking and internationalization, of SMEs. Nevertheless, it seeks to articulate the investigation of the influence of the key decision-maker on its personal networking to the networking behaviour at the firm level specifically. Starr and MacMillan (1990) specify that reliance on personal networking without moving forward to establish rational strategic networking planning at the level of the firm can constrain it from taking full advantage of networking to develop and deploy network resources. Larson and Starr (1993) also emphasize a significant transformation and configuration of network development orientation: from personal networking between the entrepreneur and other individuals, to the combined networking between individuals and organizational entities once the organization is formed and ready to develop. Lechner and Dowling (2003:17) stress that the social networks of the entrepreneur are “early enablers of the growth of firm networks”, and a firm must move on to build up its capabilities and reputation to support network development at the level of the firm and enable future growth. Hite and Hesterly (2001:278) also propose an evolutionary view of firm networks from identity-based to calculative-based alongside firm growth. They comment that although the social networks of the entrepreneur are virtually synonymous with the firm’s networks, “as a firm formalizes interpersonal network ties through routines and procedures, these ties may shift to become interorganizational ties that can provide information and resource exchange relationships between organizational entities”. The networking routines and procedures at the level of the firm, if Nelson and Winter’s (1983) logic of organizational routines is applied, represent the firm’s patterned networking behaviour that can be potentially developed into a firm’s dynamic capability to derive advantages through networking (Dubini and Aldrich, 1991; Zollo and Winter, 2002). Based on these propositions, there is a practical need to properly investigate networking behaviour at the level of the firm undertaken by SMEs to support their foreign business development

In summation, the study seeks not only to raise the recognition of networking as a strategically important activity in the pursuit of internationalization of SMEs, but also to restate that the networking undertaken by SMEs is to a large extent shaped and developed by the key

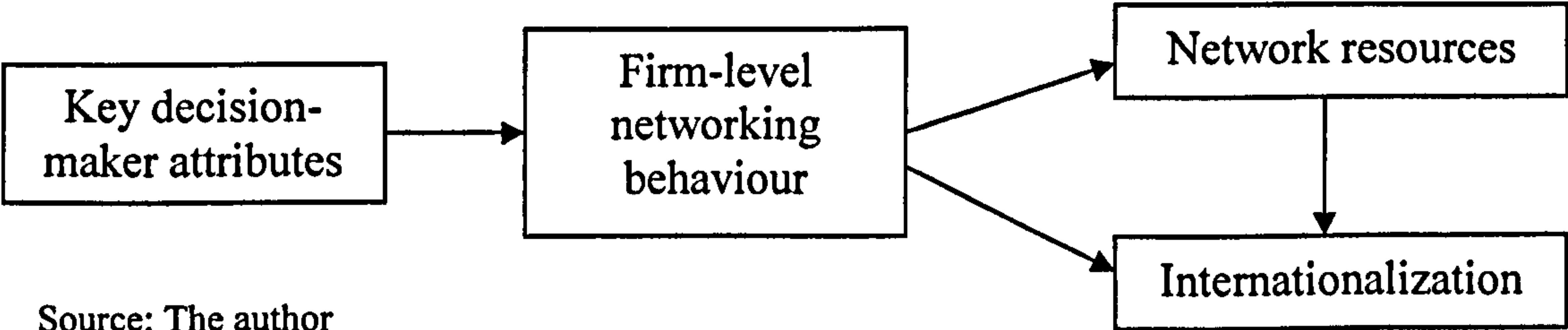
decision-maker. Leonidou, Katsikeas and Piercy (1998:97), in a review study of the export literature, propose that the examination of the effects of managerial characteristics should be extended to the behavioural aspects of the firms, in which the development of business relationships is specified as an important aspect. Liesch et al. (2002:29) also call for research on “people issues” to herald the return to behavioural aspects as a basis for understanding core factors in firms’ internationalization; they highlight as a key aspect the development, utilization and management of networks to support international business development. In accord with the proposed direction, investigation of the influence of the key decision-maker on networking behaviour at the level of the firm provides more fine-grained understanding to derive not only new theoretical insights into, but also practical implications of networking as a potential firm capability of SMEs in the pursuit of internationalization.

2.5.1 The Conceptual Framework and Main Research Questions

Building on the theoretical underpinnings of the existing literature and the gaps presented in the preceding sections, the understanding of the causal links pertaining to the key decision-maker, networking behaviour at the level of the firm, network resources and the internationalization of SMEs is conceptualized. The conceptual framework presents the standpoints and focus of the research, based on which the main research questions are defined and the research construct is specified.

The empirical analyses of this study will be conducted in correspondence to the two sets of associations individually illustrated in the framework. They are: 1) The association between networking behaviour and internationalization, and 2) The association between key decision-maker attributes and networking behaviour. Primary focus is placed on the former set of associations between the two main constructs of this study, i.e., the networking behaviour and the internationalization of SMEs. Findings regarding the influence of the key decision-maker enrich the explanation of the networking behaviour construct. This study, however, does not seek to test the correlations between the constructs as a complete model.

Figure 2-4: The Conceptual Framework of the Research



Source: The author

1. Association between Networking Behaviour and Internationalization

In contrast to most existing studies that focus on network outcomes, the conceptual framework of this study has *networking behaviour of the firm* at its core. It is postulated that networking behaviour preconditions network outcomes.

Networking behaviour is interpreted as reflecting the networking orientation (attitudes) of the firm manifest in its networking activities (actions).

The framework specifies two aspects of network outcomes, produced by networking behaviour, in association with internationalization of the firm

Networking behaviour may directly influence a firm's internationalization through creating business opportunities and triggering economic transactions in the foreign markets, and/or meeting an emergent need to respond to the firm's direct business associates such as clients/customers, suppliers, competitors, or other partners' internationalization activities (Bell, 1995; Coviello and Munro, 1995, 1997; Johnsen and Johnsen, 1999; Meyer and Skak, 2002; Moen, Gavlen and Endresen, 2004; Oviatt and McDougall, 2005; Sandler and Chetty, 2000; Sharma and Blomstermo, 2003).

Networking behaviour may make tangible and intangible network resources such as financial resources, human capital, information and knowledge, reputation and legitimacy available and accessible to enlarge the firm's internal resource base, which the firm can deploy to support a larger scope of business activities, including internationalization (Barringer and Harrison, 2000; Birley, 1985; Chen, 2003; Chetty and Holm, 2000; Coviello, 2006; Coviello and Munro, 1995; Elfring and Hulsink, 2003; Fuller-love and Thomas, 2004; Gulati, 1999; Hoang and Antoncic, 2003; Holmlund and Kock, 1998; Inkpen and Tsang, 2005; Johanson and Vahlne, 2003; Oviatt and McDougall, 2005; Ramachandran and Ramnarayan, 1993; Prashantham, 2005b; Shaw, 1997; Spence, 2003; Yli-Renko, Autio and Sapienza, 2001; Zahra, George and Garvis, 1999). Analysis of network outcome by looking at specific network resources made available to the firm, rather than the structural attributes of the networks, provides a more explicit and concrete picture regarding the effect of networking behaviour upon overcoming a major barrier, i.e., resource scarcity, which impedes the internationalization of the majority of SMEs.

The research question specified to investigate and explain the association between networking behaviour and the internationalization of SMEs is:

'How does networking behaviour influence the internationalization of SMEs?'

The question investigates three aspects, which include: 1) The direct influence of networking behaviour on the internationalization of SMEs; 2) The effect of networking behaviour on the

availability of network resources for internationalization; and 3) The influence of specific network resources on internationalization.

With regard to the second aspect about the effect of networking behaviour upon making network resources available, the research also seeks to derive some exploratory insights from the case studies into the role of strong- and weak-tie networks in providing network resources for internationalization. Most existing studies that investigate the effects of strong- and weak-tie networks are found in the entrepreneurship literature, in which focus is placed on the context of general business start-up (Bruderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Jenssen and Koenig, 2002). Sharma and Blomstermo's case studies (2003) indicate the significant functions of weak-tie networks in enabling rapid internationalization. Similar empirical studies that outline a fuller picture on the role of both strong- and weak-tie networks in the internationalization of firms are scant. It is proposed that strong- and weak-tie networks have specific strengths in serving different business functions, and that a combination of network ties is required to support business development (discussed in section 2.4.5.1.1). Accordingly, it is expected that both strong- and weak-tie networks will play a role in the pursuit of internationalization, involving diverse and specific resources. The use of strong- and weak-tie networks is an important dimension to analyze the networking behaviour of the firm, and thus findings directly contribute to addressing the question regarding networking behaviour and the internationalization of SMEs. In addition, the findings may be insightful to existing understanding of networking of firms in the Chinese business context, when the focus of the majority of studies is placed on strong-tie networks with limited attention paid to the role of weak-tie networks.

2. Association between the Key Decision-Maker and Networking Behaviour

The conceptual framework presents the key decision-maker as having a deterministic influence on the networking behaviour of the firm (BarNir and Smith, 2002; Cromie and Birley, 1992; Johannisson, 1988; Johannisson and Monsted, 1998). The term 'key decision-maker' in the study refers to the founder/owner/entrepreneur of the firm; these labels are often used interchangeably in the entrepreneurship and small business literature.

Given the strong personal attachment of the key decision-maker to business activities in the SME context, the study presumes that personal attributes of the key decision-maker affect his/her perception, attitude, and approach *vis-à-vis* networking. Hence, the attributes of the key decision-maker cause variations in the networking orientation and activities of 'his/ her' firm, under strong personal direction and control.

The research question defined to investigate and explain the association between the key decision-maker and networking behaviour of SMEs is:

‘What and how do key decision-maker attributes affect the networking behaviour of SMEs?’

The question seeks to achieve two objectives: 1) To identify key attributes of the key decision-maker which have influence on the networking behaviour of SMEs, and 2) To specify the influence of individual key attributes of the key decision-maker on the networking behaviour of SMEs.

Empirical evidence, collected through qualitative case studies and quantitative survey data, is drawn from the Chinese context. The next chapter describes the foreign business development of the SME sector and presents the existing understanding of the networking behaviour of firms in the Chinese context. It is posited that the Chinese context provides an amplifying lens for the research on the association between networking behaviour and the internationalization of SMEs, and on the influence of the key decision-maker on SME business activities. Evidence drawn from the context, to a large extent, supports the theoretical extension and development in the network research of the SME internationalization literature.

3. NETWORKING AND THE INTERNATIONALIZATION OF SMEs IN THE CHINESE CONTEXT

This chapter provides an overview of the networking behaviour and business development of firms in the Chinese context, from which empirical evidence in this study is drawn.

The chapter starts with an explanation of the choice of regions for empirical study. The general role of SMEs in the economy, and their foreign business development, are then described. As confined to the research focus on the association between networking and SME internationalization, existing understanding of the networking behaviour of firms and its influence on (foreign) business development in the Chinese context is presented. The chapter ends with a discussion of the rationale for, and implications of, conducting empirical study in the Chinese context with regard to obtaining evidence to address the research questions.

3.1 The Choice of Empirical Locations

Empirical investigations of this study only cover Hong Kong and mainland China, and hence the overview of the SME sector places focus on the two regions.

The choice of regions is based on the belief that the two selected - Hong Kong and mainland China - have the same ethnic origin, and are highly representative of the ethnic Chinese cultural values on which studies of the Chinese network system are commonly based. In correspondence to the research focus on the internationalization of SMEs, the business activities of SMEs in the two regions are highly significant to the domestic as well as global economies, for they are the pioneering and active participants in international business either in terms of import/export trade or inflow/outflow foreign direct investment. For example, many Hong Kong SMEs and mainland Chinese SMEs in the special economic zones engage in foreign business activities right at inception. Hong Kong SMEs began direct investment in mainland China as early as the 1980s, and SMEs in the mainland's special economic zones have engaged in foreign joint ventures since the open-door policy in the late 1970s (Anyansi-Archibong, 1989; Sit, 1982; Yeung, 2000). These SMEs' rapid foreign business involvement existed well before the so-called 'Born Global' phenomenon had gained widespread attention in the internationalization literature after the publication of the 1993 McKinsey report (Rennie, 1993). Furthermore, the choice is made based on the personal background and experience of the author in the two regions, which ensures the author's semantic, normative, and conceptual understanding of the culture and language, and hence the research findings, which are significant to research involving cultural setting (Behling and Law, 2000). In relation to the research topic on the influence of networks, it is expected that the social networks of the author in these two regions are essential to enabling

a relatively smooth empirical study, given that the response rate to academic research among the Chinese business communities is extremely low (Siu, 2000).

Although mainland China and Hong Kong have the same ethnic origin and share cultural traditions, there are big differences in the business development of the SME sectors between the two regions, as discussed in section 3.2. In this study, business activities between the companies in mainland Chinese and in Hong Kong are defined as ‘foreign business activities’. The definition is justified by the practical, official, and theoretical rationale, explained as follows:

- *Practically:* Although Hong Kong is ethnically a Chinese monoculture and has become part of China since the return of her sovereignty in July 1997, it is under strong colonial influence because of the long period of British rule. Designated as a special administrative region (Hong Kong S.A.R.) in China under the ‘one country, two systems’ doctrine, Hong Kong maintains independent political and legislative as well as economic policies and systems from those of mainland China. Because of its special history and different domestic systems within the Chinese nation, SMEs in Hong Kong follow a business development path distinct from that of SMEs on the mainland (Clarke, Yue and Von Glinow, 1999; Sit, 1982; Yu, 2000).
- *Officially:* Business activities and investments between the two regions are defined as foreign business activities by the two governments as well as world organizations such as APEC, the Asian Development Bank, and the UN. For example, the investment inflows/outflows of Hong Kong companies from/into mainland China, or investments of mainland Chinese companies from/into Hong Kong, are counted as foreign direct investment (FDI) by the governments of the two regions; UNCTAD, which publishes the annual World Investment Report, discusses and ranks the FDI of mainland China and Hong Kong independently.
- *Theoretically:* It is a common practice among scholars and researchers of relevant topics in the same context to define business activities between Hong Kong and mainland China as foreign business activities, and investments between the two regions as FDI based on the above two reasons (Shi, Ho and Siu, 2001; Taylor, 2002; Wong and Chan, 2003; Yeung, 2002; Zhang and Yuk, 1998).

3.2 The Role and Development of SMEs in the Chinese Context

Micklethwait (1996: S14) signifies that “the real strength of Chinese capitalism, wherever it is based, lies in its networks of fast-moving small companies and their capacity to cope with uncertainty”. In both mainland China and Hong Kong, the business activities of SMEs provide the impetus to their domestic economies.

3.2.1 Hong Kong SME Sector and Foreign Business Involvement

In Hong Kong, it is commonly agreed that SMEs are the most prominent pillar of the economy (Chan and Foster, 1999; Chua, 2002; Luk, 1996; Sit, 1982; Yeung, 2002; Yu, 2000). Yu (2000) suggests that Hong Kong's development pattern is characterized by a high dependence on small entrepreneurs to act on new business opportunities. According to the official statistics as of June 2006, SMEs accounted for over 98% of the total business units and 50% of the total employment (excluding civil service); the sector contributed to over 60% of the GDP (HKTID, June 2006).

In a study of SMEs in four Asian economies (Hong Kong, Singapore, Korea, Taiwan), Regnier (1993:23) describes the 'Hong Kong model' as one of "small firms reacting freely and independently to diversified domestic and international orders". Specific with regard to international trade, Hong Kong is an export-oriented economy and has a heritage in entrepôt trade due to its small domestic economy and highly favourable locational advantages such as its free port and free trade (*laissez-faire*) policy, its strategic geographical location at the centre of the Asian Pacific region, its role as the gateway to the mainland China, and its well-developed infrastructure and institutional systems (Hong Kong SME Committee, 2001; Yeung, 2002; Yu, 2000). A century's colonial rule under the British government has left strong multinational and expatriate influence deeply rooted beside the core Chinese culture in Hong Kong society, and hence makes Hong Kong highly adaptable and flexible to handling international business. It was the world's 11th largest trading entity in goods and 16th largest in commercial service (HKTID, May 2006). Over one-third of the SMEs in Hong Kong operate in the import/export sector; they account for over 99% of the city's import/export business (Hong Kong SME Committee, 2001). The export business of Hong Kong SMEs covers worldwide destinations. Many of them export to the largest foreign markets, including the US, Europe, Japan, and mainland China (HKTDC, 25 Jan 2006). Concern over psychic distance is basically insignificant in the choice of export markets among Hong Kong SMEs (Child, Ng and Wong, 2002). The incentive and initiative to expand into the consumer market of mainland China has seen a substantial rise only in the last two decades since the Chinese economy has taken off, and also with the introduction of more regional trade cooperative agreements such as CEPA (Closer Economic Partnership Arrangement) after the return of Hong Kong's sovereignty to China and the latter's accession to the WTO (Tse, 2003).

Regarding foreign direct investment, the UNCTAD World Investment Report 2006 cites Hong Kong as the 2nd largest source of FDI in Asia and in the top ten in the world (HKTDC, 25 Jan 2007). The FDI of Hong Kong is mainly in the establishment of manufacturing operations

in some low-cost countries, particularly mainland China. Hong Kong has continued to be the largest source of FDI into the mainland since 1980s (Dai, 2006; People's Daily Online, 1 Oct 2005). Yeung (2000:136) comments that the spatial relocation of labour-intensive manufacturing operations to mainland China and Southeast Asia of Hong Kong manufacturers is an effective cost reduction strategy enabling competition in the global market. Since the mid-1980s, Hong Kong SMEs have begun to establish or relocate their manufacturing facilities to mainland China to capture its low-cost production advantages. In a survey conducted by the Chinese Manufacturers' Association of Hong Kong (CMA) in 2001, about 86% of the CMA members have direct investments in mainland China, of which more than 80% are SMEs (HKTDC Economic Forum, Apr 2001).

3.2.2 Mainland China SME Sector and Foreign Business Development

Since the beginning of the open-door policy in the early 1980s, SMEs have developed rapidly to play significant roles in China's national economy, particularly in the designated Special Economic Zones (Anyansi-Archibong, 1989). Official figures from the end of 2004 identify more than 98% of Chinese enterprises as SMEs. They contribute more than 55% of the national GDP, generate more than 50% of the national sales, more than 70% of added industrial production value, more than 40% of tax revenue and more than 75% of job opportunities (People's Daily, 13 Oct 2004). It is specifically forecasted that private (non-state-run) SMEs will generate more than 40% of national GDP in the field of industry, and comprise 60% of employment by the year 2010 (People's Daily, 25 Nov 2004).

Mainland China is always referred to as the world's production base because of its low-cost, abundant supplies of skilled labour and other production resources. In 2005, the volume of Chinese exports ranked 3rd in the world, which made up more than 7% of the world's total volume and with a growth rate that exceeded the world's average rate of 13 per cent (People's Daily Online, 27 Jun 2006). In 2005, more than 65% of exports were contributed by SMEs, and exports covered major worldwide destinations including the US, EU, Japan, ASEAN, etc. (MOFCOM, 21 Dec 2005). The majority of SMEs engaged in the exporting business act as intermediaries between foreign buyers and domestic suppliers/manufacturers, or are subcontracted suppliers/manufacturers which work as OEMs (original equipment manufacturers) of products for other foreign brands. As Zhang (2004) points out, "OEM is a euphemism for using another's boat to go to the sea [foreign markets]". Renowned Chinese brands such as Haier and Galanz mostly started entering foreign markets by adopting the OEM business model initially (Child and Rodrigues, 2005; Gao, 2003). According to the vice-head of the import-

export division of the Bank of China, many transnational corporations chose to cooperate with some large enterprises when they started their business in China have instead increased their collaboration with small and medium enterprises for cost-saving considerations (China's Daily, 20 May 2006). China's private SMEs, which were banned from doing foreign trade except through state-owned trading companies, are allowed to conduct importing and exporting directly after the full liberalization of trading rights took place in July 2004, and it is expected that their involvement in the export business will continue to surge (Zhang, 2006; MOFCOM, 4 Apr 2005).

Regarding foreign direct investment, it is no surprise to find that mainland China is one of the largest FDI recipients (ranked 3rd in 2006 according to the UNCTAD World Investment Report). However, the country's outward FDI has also increased rapidly in the recent decade (Vatikiotis, 2004; Wong and Chan, 2003; Zhan, 1995), and it ranked 17th in the world's FDI outwards in 2005. Outward FDI projects of Chinese enterprises still require official approval. Although the Chinese government promoted the 'Going Out' policy in the late 1990s to encourage Chinese enterprises to establish their market presence overseas, the policy was chiefly targeted at supporting the foreign development of larger more renowned companies instead of general SMEs (Wong and Chan, 2003; Zhang A., 2004; Zhu, 2003). Chinese enterprises' FDI spread over 100 countries and territories (Zhan, 1995). Hong Kong is the major recipient of China's outward FDI because it acts as a springboard for China's outward trade and investment, and as the channel for Chinese firms to raise capital through real estate and stock speculation. The approval process of FDI into the city is also relatively simple. In interpreting this, however, one should take into consideration the 'round tripping' FDI inflows/outflows between mainland China and Hong Kong, which is estimated to account for as much as 30% of the total (Broadman and Sun, 1997; Geng, 2004; Palmade and Anayiotas, 2004; Xiao, 2004; Zhan, 1995). The US, as the largest trading partner, is also a major investment location. There are also large natural resource sector investments in Australia and Canada. Meanwhile, the major target markets for trade and manufacturing investments, which are promoted by the Chinese government and preferred by Chinese companies, are often developing countries such as the neighbouring Asian countries, Africa, Latin America, etc. (Taylor, 2002; Vatikiotis, 2004; Zhan, 1995; Zhang A., 2004). The dispersion of the foreign investment locations shows little significance of psychic distance in the decisions. Since the mid-2000s, Chinese officials have demonstrated an intention to urge and support SMEs to develop their business and presence in overseas markets (Chen, 2005). For instance, the vice-director of the SME Department under the National Reform and Development Commission openly encouraged Chinese SMEs to further expand co-operation

with their foreign counterparts, expand their investments abroad, actively participate in international competition, and try to increase their presence in the world market (China Daily, 15 Sep 2006). A study by Dolles (2003) on Chinese private entrepreneurs finds that they also see internationalization as their major business objective.

3.2.3 Major Challenges Facing SMEs in the Chinese Context

The significant roles of SMEs and their active involvement in foreign business have been illustrated in the preceding section. Like the majority of SMEs worldwide, the development of SMEs in Hong Kong and mainland China alike is still largely hampered by resource constraints such as financing, human capital, and more advanced business and international knowledge and know-how. For example, in an open speech by an official of the Hong Kong Trade Development Council on the development of Hong Kong SMEs, he commented that “they face the same challenges as SMEs around the world: limited resources, limited expertise, limited reach” (HKTDC News & Speeches, 12 Dec 2001). Wang and Yao (2002) also identify the lack of access to formal financing, information intermediaries and adequate skilled personnel as the major problems of Chinese SMEs. These problems are commonly cited by both researchers and practitioners in the regions (Chua, 2002; Dolles, 2003; Holland, 2004; Wing, 2003; Yeung, 1999; Yu, 2004; Zhan, 1995); more institutional support are necessary to help SMEs cope with such challenges in order to survive and grow in the global marketplace.

3.2.3.1 Challenges to Hong Kong SMEs' Development

In Hong Kong, which has long adopted a laissez-faire policy, the initiatives of the government in promoting and supporting the development of the SME sector only got going in the late 1990s, when many of the SMEs were seriously affected by the financial crisis and the change of the industrial structure under increased world competition. Such late awareness is reflected by the issue of an official report on support measures for SMEs in 2001: only then are the SMEs of the region officially defined and more concrete governmental support measures specified. Within the SME sector, this tardy awareness of the importance of promoting inter-sector collaboration and cooperation to support sectoral development is seen in the establishment of most of the SME associations in the late 1990s. However, many SMEs are still skeptical about obtaining resources and support from most of the formal institutions (Ahlstrom et al., 2004a; Chua, 2002).

3.2.3.2 Challenges to Mainland Chinese SMEs' Development

In mainland China, private enterprises were granted 'legitimate' legal status officially in late 1990s. Before then, the SME sector operated without the protection of any legal framework or institutional support. Institutional effort into promoting and supporting SMEs began in 2000, when the State Economic and Trade Commission (SETC) established a special department for SME-related policies, and propagated its 'Policy Measures for Encouraging and Promoting Development of Small and Medium Enterprise' (Herrmann-Pillath, Li and Pan, 2002; Rong, 2004; Wang, 2004). However, SME standards and the direction for promoting the development of the sector were clearly defined only after the SME Promotion Law was put into effect in January 2003. In the last few years, the Chinese government has demonstrated strong support for the sector and has worked to introduce different development measures (Child and Rodrigues, 2005). Nevertheless, it is believed that more relevant laws, regulations, and other support measures have yet to be put into place to create a healthy environment and to make available the resources for this long-neglected, vulnerable but highly prominent sector to develop in competitive global markets (Asian Development Outlook 2005; China Daily, 18 Sep 2006; Wang, 2004; World Bank Report, 2005).

In summary, despite their continuous significant contributions to the two economies, institutional support to the development of SMEs in both Hong Kong and mainland China have yet to be increased and other formal channels of resources have yet to be promoted. Until this happens, the majority of SMEs will still have to rely heavily on their own ability to raise and leverage limited resources to survive, sustain, and expand their business into foreign markets. The situation of the SMEs in these two regions, to a large extent, reflects the general challenges of the sector in different contexts, and highlights the significant role of networks in compensating for their limited resources.

3.3 Networking and Networks in the Chinese Context

3.3.1 *The Chinese Context of Networking and Networks*

Discussion about networking and networks in this section makes reference to the existing network studies on 'ethnic Chinese society' which cover not only mainland Chinese (e.g., Xin and Pearce, 1996) but also overseas Chinese in the Asian region (e.g., Redding, 1995). Ethnic Chinese residing in different countries of different institutional systems share the commonality of 'Chineseness' that, to a large extent, stems from the cultural root in Confucianism. The Confucian ethos is believed to underpin the key attributes of the Chinese network system, such as the emphasis on personal-level network relationships, hierarchical order, strong-tie orientation,

obligations, and exchange of favours (Chan and Foster, 1999; Chung and Hamilton, 2002; Clarke, Yue and Von Glinow, 1999; Dolles, 2003; Kao, 1993; Liao and Sohmen, 2001; Lovett, Simmons and Kali, 1999; Luo, 2005; Park and Luo, 2001; Redding, 1990; Yu, 2001).

The generalization of Chinese cultural foundations referring to a wider 'Chinese society' to explain the Chinese network system is commonly adopted in the existing literature, even though empirical data do not cover all corresponding regions (Buttery and Wong, 1999; Chow and Ng, 2004; Chung and Hamilton, 2002; Crawford, 2000; Fukuyama, 1995; Guthrie, 1995; Hamilton, 1996; Hitt, Lee and Yucel, 2002; Hwang, 1987; Tan and Yeung, 2000; Tong and Yong, 1998; Tsang, 1998; Xin and Pearce, 1996; Yeung, 2000). Hofstede's (1980) seminal work on cultural differences generalizes Chinese culture based on empirical data from two ethnic Chinese societies - Hong Kong and Taiwan. Although there is some question about the remaining influence of traditional Chinese values among mainland Chinese after nearly two generations of Communist rule since 1949 (Holt, 1997), it is remarked that the traditional Confucian ethos is still embedded in society (Gibb and Li, 2003; McGrath et al., 1992; Park and Luo, 2001; Peng, 2004; Redding, 1990; Tse et al., 1988; Ward, Pearson and Entekin, 2002). In a study of *guanxi* (defined in next section), for example, Luo (1997:43) states that "albeit this work's analytical context is hinged on [mainland] China, its discussions are by and large applicable to other regions in the Chinese society". The influence of different sub-cultures and institutional systems on the network system is acknowledged in the discussion, as in Guthrie (1998), Peng and Heath (1996), and Siu and Lau (2005). The adoption of a more general view of the Chinese context, based on the presumption that Chinese societies including mainland China and Hong Kong share a common ethnic cultural background, is consistent with common practice in the field.

3.3.2 (Personal) Networking and Networks in the Chinese Context

In the Chinese context, the vital role of networking and networks is a result of a strong culture of collectivism and interpersonal relationships, as well as a business environment that lacks formal/institutional support (Boisot and Child, 1996; Peng and Luo, 2000). In sociology and business literature, the focus of research on the Chinese network system is often placed upon '*guanxi*'. *Guanxi-based networking* in business is pinpointed as the distinctive interpersonal relational practices of the ethnic Chinese business community in relation to that of the West. The Chinese word '*guanxi*' can be literally translated as 'relationship' in English, although its underlying denotations and connotations have been widely explored, explained and elaborated (Lovett et al., 1999; Xin and Pearce, 1996). Among the various interpretations, *guanxi* is generally connoted as socially binding relationships or connections at the personal level which

can fulfill instrumental purposes such as business gains (Chow and Ng, 2004; Chung and Hamilton, 2002; Fock and Woo, 1998; Guthrie, 1998; Lee et al., 2001; Lovett, Simmons and Kali, 1999; Lui, 2002; Luo, 1997; Tong and Yong, 1998; Tse, 2006; Xin and Pearce, 1996)

Given its research focus, this study is not going to engage in definition and explanation of *guanxi* practice ('*guanxi xue*'). Focus is placed however on discussing the personal networking orientation which underlies the Chinese (*guanxi*-based) network system (Peng, 2005).

A personal network is a fundamental component of Chinese business (Redding, 1990, 1991; Hamilton, 1996; Lovett et al., 1999; Yeung, 2000). Hamilton (1996) suggests that social logic is also business logic in Chinese society. Chan and Tong (2000) observe too that a Chinese businessperson does not separate the social, moral, and economic realms of his/her business conduct, but sees all of them as equally integral to the whole. Hence, a Chinese business network is embedded in social networks. Despite the changing social and business environment in China, network activities of Chinese business practitioners are still dictated by core cultural and social values derived from Confucian ideology as revealed in the majority of studies (Clarke, Yue and Von Glinow, 1999; Peng, 2004; Tong and Yong, 1998; Zhao and Aram, 1995). Deeply seated in these core ethical and social values, the Chinese network system is understood to be built on social connections at a personal level, a hierarchical structure spread from the strongest ties, and trust-bearing relationships (Chung and Hamilton, 2002). Peng (2004:1049) elaborates the significance of tie strength in the Chinese network system and comments that "tie strength matters in the Chinese context because trust and obligations are bestowed differentially according to its gradient".

Unlike economic exchanges of contractual relationships that involve legal liability, reciprocity of interpersonal relationships in the Chinese context is bound informally by social norms and moral obligations. Because of the lack of defined rules and legal liabilities, exchanges of favours between parties in the relationships involve high uncertainties and opportunistic behaviour. In order to reduce the chance of opportunism, ethnic Chinese tend to establish relationships with someone who is trustworthy and/or with whom one has affection.

Trustworthiness and affection are often considered to be fundamental to the development and maintenance of good business relationships. Trustworthiness ('*xinyong*' in Chinese) is built upon repeated mutually satisfying dealings (Barringer and Harrison, 2000; Lui, 2002). Affection ('*ganqing*') is also nurtured through time. It takes frequent, mutually satisfying interactions to build up over time the level of trust and affection necessary for good and reliable relationships. The longer the relationship, the more it leads to deeper understanding between the parties, and hence the higher the possibility of developing binding mutual trust and affection. Strong ties, in

particular blood ties of family and kinship, carry an inherently high level of trust and affection. Hence, the risks and uncertainties involved in social and business interactions with parties of strong ties are perceived to be lower. This explains the orientation of Chinese network building among individuals of strong ties and of shared commonalities.

Blood ties of kinship, therefore, are taken to be the building blocks of Chinese social and business networks (Chow and Ng, 1994; Lui, 2002; Luo, 1997; Pistrul et al., 1999; Tsang, 1998; Yu, 2001; Zahra, George and Garvis, 1999). Chan (2000) explains that family is central to the Confucian ethos that stresses obligation, loyalty, reciprocity and paternalism. Extending from family ties, the Chinese interpersonal network spreads like a concentric ring to link people from close to distant commonalities (Chan, 2000; Hamilton, 1996; Lui, 2002; Luo, 1997). Hamilton (1996) labels the Chinese business network as a 'strong tie network' in comparison to the 'strong firm network' in the West. The majority of network research in the Chinese context, therefore, generally concerns the effects of the strong-tie network system on business activities. The use of weak-tie networks and their effects on (foreign) business development of Chinese firms is basically an area that remains unexplored.

3.3.3 Networking, Networks and the Business Development of Chinese SMEs

The strong-tie oriented interpersonal network system often involves high interdependence and reliance among members, and hence enables a higher level of risk-bearing, rare resource sharing, vital information and knowledge exchange, legitimacy establishment, and synergy exploitation among parties (Lovett et al., 1999; Zahra, George and Garvis, 1999). From a market efficiency standpoint, trust-based networks of strong ties also have lower perceived uncertainties and opportunistic behaviour. Thus, they allow a higher flexibility of business activities at low transaction costs (Chung and Hamilton, 2002; Lovett, Simmons and Gali, 1999; Ring, 1999; Tong and Yong, 1998). As Peng (2005:328) points out, "strong personal ties between firms not only provide trust and predictability – and consequently low transaction costs – but also facilitate cooperation when facing environment change". Furthermore, Hitt, Lee and Yucel (2002) comment that the Chinese way of trust-based networking leads to more efficiency in selection of alliance partners, management and sustaining of relationships, creation and leveraging of relational capital, and hence generate a higher probability that the business relationships will be successful. It is found that ethnic Chinese business people rely heavily on social and personal networks to search for contractual partners (Zhou et al., 2003); small Chinese firms in Hong Kong, Taiwan and Nanyang manoeuvre within a small circle of personal relationships for business dealings and partnering (Yu, 2001). These small firms often do

business on goodwill trust, and business agreements are mostly made verbally on an informal basis.

Chinese private firms' reliance on social networks and personal connections to compensate for the weakness of the formal institutional system has been commonly emphasized (Boisot and Child, 1999; Luo, 1997; Park and Luo, 2001; Peng and Luo, 2000; Peng, 2004; Xin and Pearce, 1996). Small Chinese firms in both Hong Kong and mainland China alike often do not enjoy much privilege and support under the formal institutional system in comparison to sizable firms. Therefore, Wang (2004:46) describes the weaknesses of Chinese SMEs in personnel, information, management, and finance; he comments that "it is extremely hard for such enterprises to remain viable and seek development amidst fierce market competition". Chinese business practitioners, therefore, have to rely on the instrumental functions of social relationships and personal connections to obtain visibility, legitimacy, and protection (Barringer and Harrison, 2000; Boisot and Child, 1999; Flynn and Xu, 2001; Peng, 2001b). Consequently, strong-tie and ethnic-oriented social networks have become the primary source of social, cultural, economic and human capital for Chinese SMEs (Chan, 2000; Li, 2000).

Clarke, Yue and Von Glinow (1999) illustrate the example of ethnic Chinese business communities establishing their business order by creating a range of information organizations, mutual help societies, and ethnic networks to support and develop mutual interests across countries. Peng's (2004) study finds that in villages with strong lineage networks, private entrepreneurs have a better chance of prevailing. Krug and Metha's (2004) study finds that Chinese entrepreneurs often begin their career in the sector with a small personal endowment, of which the single most valuable component is their personal networks. In this way, the Chinese social network bounded by personal ties and ethnic commonalities goes beyond being a coordinating mechanism of economic activities: it acts as an informal institutional structure keeping in order the economic exchanges among members.

The Chinese network system of social connections, strong and ethnic ties, trust and commitment, is a necessary means to offset the liabilities of smallness and newness hampering the development of Chinese SMEs (Peng, 2001b). Boisot and Child (1996) label the system 'network capitalism', and signify it as the driver for the transnational economic power of Chinese ethnic networks.

3.3.4 Constraints of the Chinese Network System in Internationalization

Recognizing the personal strong-tie networking orientation of the Chinese network system, Hitt, Lee and Yucel (2002:368) comment that:

“Strong ties alone may not provide all that is needed for gaining and maintaining competitive advantage in the global market. While firms need high quality and dependable information, they also need a variety of information... Thus, weak ties are also necessary because they can provide a greater diversity of information”.

Other scholars studying the Chinese network system often make similar comments (Peng and Luo, 2000; Tong and Yong, 1998).

International business development involves higher risks and uncertainties, heavier resource investment, and greater demand for experiential and tacit knowledge (Johanson and Wiedersheim-Paul, 1975). A diversity of networks is required to access the resources and opportunities to pursue business venturing into foreign countries. Zhao and Aram (1995) find that managers from high-growth Chinese firms benefit from broader connections, whereas those from low-growth firms did not. Lee and Tsang (2001) also find that frequency and breadth of networking activities have a positive correlation to firm growth. Both Chow and Ng's (2004), and Krug's (2004) studies show that the strength of family bonds is not as useful as a wider range of friends and networks of associates for business development. Yan and Sorenson (2004) highlight studies showing that successful overseas Chinese entrepreneurs rely both on their information community-based networks and the formal networks. The latter, however, are largely absent in the majority of Chinese SMEs.

A major barrier to Chinese companies expanding abroad is the lack of international knowledge and experience (Wong and Chan, 2003). Most of the owners/managers of Chinese SMEs are unfamiliar with foreign, especially Western countries', market conditions, business rules and practices. Li (2000) highlights a major reason for this limitation being that many Chinese entrepreneurs are often self-made men who do not have much formal schooling, a strong family background, prior business expertise, or other privileges. They require network partners who can provide them with foreign market knowledge, management and business expertise in order to progress in internationalization. Kin and close associates of these owners/managers, however, are also locally concentrated, with limited global exposure themselves (Krug, 2003). These strong-tie networks, therefore, are not effective in providing the specific resources required for foreign development. Krug and Polos (2004) find that when Chinese firms expand beyond their local nexus, the resource base from the original network of strong ties with local administrators and business partners becomes too restrictive. Tseng,

Tansuhaj and Rose's (2004) study shows that existence of strong domestically-oriented social networks of SME owners is negatively related to foreign expansion of the firms. It has been observed that unlike the Japanese and South Koreans, the Chinese have had precious little success outside Asia, and many have simply not tried (Mickelthwait, 1996). Fukuyama (1995) also relates the relative difficulties experienced by Chinese businesses in establishing large and professionally managed corporations to the centrality of the family in Chinese culture, since such centrality may be deficient in social capital. He comments that "while the level of trust within families and, to a lesser extent, extended kinship groups like lineages, is high, it comes at the expense of trust between people who are unrelated. Hence the extraordinary difficulty that Chinese firms have in institutionalizing themselves once the founding family passes from the scene" (Fukuyama, 1995: 90).

Constraints to foreign expansion are to a certain extent explained by the reliance on strong-tie and ethnic-oriented networking traditionally adopted in the Chinese social and business context. Researchers point out that overly embedded social networks result in lock-in relationships (as discussed in section 2.4.5.1.2) which often restrict members from making sound business decisions of optimal economic potential (Adler and Kwon, 2002; Chan and Tong, 2000; Elfring and Hulsink, 2003; Gulati and Gargiulo, 1999; Uzzi, 1997). The new generation of Chinese entrepreneurs is found to strongly support the notion that the traditional Chinese family-oriented business model has hampered their growth (Zapalska and Edwards, 2001). Chan (2000) stresses that one cannot solely depend upon family for obtaining the necessary resources for business development, but must broaden network horizons to include other functional and practical linkages when developing beyond domestic boundaries. Peng (2005) also cites that the difficulty of turnaround after the Asian financial crisis to a certain extent demonstrates the problem of over-embeddedness of relational or family ties.

3.3.5 Adaptation of the Chinese Network System to the International Business Arena

Luo (1997:48), in a study of the Chinese network system, mentions that "it is an imperative for Chinese domestic firms to make a good coupling between the conventional wisdom of *guanxi* and modern management philosophies introduced from the West following the continuous opening up of the Chinese economy". Other scholars support this notion (Chung and Hamilton, 2002; Guthrie, 1998; Hitt, Lee and Yucel, 2002; Hwang, 1987).

Guthrie (1998) points out that in order to maintain competitiveness in the global market, economic actors in China should consider business decisions that make the most economic sense

rather than those based on social relations that have fewer economic incentives. Liu and Roos (2006:437) also suggest that in the unfettered sectors of China which have been liberated by the introduction of the market economy and the accession to the WTO, “the role of guanxi [personal networks/connections] has lost ground to a different set of market-driven competitive roles, which now tend to determine winners and losers”. It is further commented that the ‘blind pursuit of guanxi’ can result in “liabilities, deal-killing, and an image that implies inadequate quality of offerings” (p.434). Tse (2006:5) supports this notion and points out that “what you know is already more important than who you know [in the unfettered sectors in China], and will be more so in the future”.

Increasing involvement in the global market, and business dealings with foreign players, require Chinese businessmen to combine the concepts of professionalism and formalism in business relationships (Tong and Yong, 1998). Krug and Belschak’s (2002) study shows the increasing role of economic factors in choosing and maintaining business relations by Chinese entrepreneurs. They comment that market mechanisms, after the private business sector has been developing for twenty years, seem to work effectively enough to allow selection of suitable business partners according to economic criteria. Trimarchi and Tamaschke (2004:352), in their study on the business interactions between Hong Kong Chinese and mainland Chinese, draw the conclusion that “the influence of personalism [which places persons and personal relationships at the center] and the Confucian ethos may have been overstated...it would appear that economic forces, rather than cultural ties or personal connections tend to be driving the interactions”. Chinese entrepreneurs, especially the new generation, are less bound by the traditional inclination towards personal strong-tie and ethnic networking. Zapalska and Edwards’ (2001) study further shows that the new generation of entrepreneurs in China has already absorbed many values respected in Western cultures. For instance, they value the professionalism and assimilation of outsiders in their entrepreneurship activities. Chan (2000) finds that many ethnic Chinese entrepreneurs desire that their descendents gain professional knowledge and expertise, which drives the new generation to move away from traditional strong-tie and ethnic relational values to a role more integrated with the mainstream global economy.

3.4 Implications for the Research

This research draws empirical evidence from the Chinese context. Review of existing theoretical and empirical studies on the networking behaviour and business development of SMEs in the Chinese context illuminates the core ideas and main arguments underpinning this research. The influence of networking on the business development of SMEs in the context,

which is akin to other contexts generally, is evident. However, it is believed that the empirical evidence from the context helps to construct a fuller picture that illustrates not only the [positive] effects of networks on business activities which are mostly the concern of existing studies, but also the dynamism in networking that causes [possibly negatively] variations in network outcomes. It directly lends support to the argument against networks being universally beneficial to business activities.

The dynamism of networking observed in this context is revealed by the constraints resulting from reliance on long-standing networking practice that appears to support domestic and regional business development so far, and in the need for firms to adjust and adapt networking in order to enable their foreign business development. As elaborated in the preceding section, even though it is deeply rooted in the culture and appears to perform the function of supporting the business development of firms within the region, traditional strong-tie personal-oriented networking shows limitations to and even imposes constraints upon firms' pursuit of business development beyond the domestic and regional nexus into the international business arena. The different network outcomes illuminates the main argument of this study that networks are not universally beneficial and that they can be either facilitators of or inhibitors to business development. Due to the specific conditions and resource requirements for the pursuit of internationalization (which involves higher risks and uncertainties, stronger resource commitment, and more importantly, distinctive market knowledge and practice), the networking behaviour of the firm must be aligned and adapted accordingly to develop networks and network positions from which specific strengths and benefits for foreign business development can be actually realized.

In Hong Kong, the ethnic Chinese monoculture is under strong expatriate influence. In mainland China, continuous progress towards a market economy has led to the gradual establishment of formal market mechanisms and a change of values for the new generation of business practitioners. Environmental and organizational changes have led to questioning of the ongoing importance of personal networking based on tie strength in the Chinese context (Fan, 2002; Guthrie, 1998; Krug and Belschak, 2002; Trimarchi and Tamaschke, 2004). Furthermore, although traditional ethnic networks have driven the transnational development of ethnic Chinese companies across the Asian region, they also impose limitations on the firms' broader development in the international market. Considering the diversities of business relationships in the global marketplace, it has been witnessed that Chinese companies have had to adjust their networking behaviour and develop networking capabilities in order to extend their global network coverage for international expansion. Lin and Zhang (2005) cite the successful

restructuring of networking behaviour of SMEs in Taiwan's publishing industry. Breaking out from Chinese ethnic-oriented networking behaviour, these SMEs take networking activities up to the strategic level to support growth and enhance competitiveness. They explore networking opportunities based on their own competence as well as partnering goals, irrespective of whether the target network partners are families or friends. Networking becomes a deliberate effort to acquire network resources that match the needs of the company. Networking, in this way, is developed as a strategic capability. Peng and Luo (2000:498), though agreeing that social networks and personal ties are crucial for business success in the Chinese context because of its cultural values, stress that "beyond a certain limit, managers' time and resources may be better spent on developing strategic capabilities than on engaging in excessive networking". The proposition corroborates that of this research, and hence justifies the focus on explaining networking as a capability of the firm which shapes network outcomes to impact on international expansion. The proposition and the empirical findings with reference to the Chinese context are insightful to SMEs in general for more optimum use of limited resources for effective networking to achieve internationalization.

Taylor (2002) stresses that adjustment of networking behaviour for promoting international development of Chinese firms requires Chinese businesspeople to have global initiatives and orientation. Numerous empirical studies in small business and entrepreneurship research stress the dependence of firm activities and performance on key decision-makers' characteristics (Lee and Tsang, 2001; Tseng et al., 2004). It is therefore presumed in this study that a differentiating factor that shapes and directs networking behaviour at the level of the firm, as other business decisions and activities of SMEs, is the key decision-maker. In the Chinese context, the key decision-maker's characteristics often outweigh others as the prime factor determining the behaviour of the firm. The Chinese culture of paternalism, family-centeredness, and hierarchical order has a strong influence in both the social and business context; centralized governance and top-down decision-making in most Chinese firms are rooted in this culture. Owners of the firms basically make all vital decisions (Ahlstrom et al., 2004b; Hofstede, 1991; Holt, 1997; Lee, 1996; Redding, 1995; Zapalska and Edwards, 2001). It is found that the authoritative decision-making approach is followed in traditional as well as in entrepreneurial Chinese firms (Ahlstrom et al., 2004b). For example, the president of the China Council for the Promotion of Private Economy emphasizes that most Chinese private SMEs are under the deterministic influence of their key decision-makers: "a wrong decision from the top boss would immediately causes a collapse of the enterprise" (Zhang J., 2004). Empirical research on SMEs in the Chinese context, therefore, provides a solid setting in which the influence of the key decision-maker is stressed. The

Chinese context facilitates the exploration of more fine-grained understanding of the key decision-maker as a primary determinant of networking behaviour in the internationalization of SMEs.

It is expected that the research findings will, to a certain extent, enrich the knowledge of the business development of SMEs in the region, which are active participants in the international business arena. Although it is acknowledged that the SME sector forms a core pillar of the domestic economy, research on the internationalization of Chinese firms mostly has its focus placed on larger enterprises; attention paid to the (international) business development of SMEs is relatively limited (Anderson et al., 2003; Shi, Ho and Siu, 2001; Sit, 1982; Siu, 2000; Siu and Liu, 2005; Yu, 2000). In reality, Chinese SMEs in mainland China and Hong Kong alike have accumulated rich international business knowledge and experience, and are active actors in different forms of business relationships such as trading intermediaries, suppliers, distributors, and original equipment/design manufacturers (OEMs/ODMs) with foreign companies in the global marketplace. Regional knowledge, therefore, is conducive to outlining a holistic picture of the internationalization of SMEs.

4 RESEARCH METHODOLOGY

This chapter explains the choice of research methodology of this research, and justifies the appropriateness of its choice.

The chapter begins with a brief overview of the general research approaches and methods employed in business and management research. Confined to the focus of this research on investigating the *association pertaining to networking and the internationalization of SMEs*, and *the influence of the key decision-maker on the networking behaviour of SMEs*, the methodology commonly applied to network and SME studies is discussed. The choice of research approach and method is then explained and justified. Finally, a detailed description of the design and implementation of the research methods adopted in this study is presented.

4.1 Overview of Major Research Methodology

It is suggested that any research approach and method has inherent shortfalls, and hence the choice of specific approach and method inevitably limits the conclusions that can be drawn (Hurmerinta-Peltomaki and Nummela, 2006; McGrath, 1982; Yin, 1994). Fundamental understanding of the characteristics of alternative research approaches and methods is therefore essential to support the selection of appropriate methodology, and to acknowledge the limitations of the findings.

4.1.1 Research Approaches

Research approaches are classified into different dichotomies. One of the most common classifications is between *quantitative* and *qualitative* research. The classification is based on the objectives of the approach, the nature of the data collected, and the ways they are analyzed (Coviello, 2005; Van Maanen, 1979). Qualitative research chiefly aims at exploring, describing, explaining and understanding a phenomenon; by collecting contextual data within its natural context, analyzes and interprets its contents and meanings to generate comprehensive explanations (Curran and Blackburn, 2001; Mason, 2006; O'Donnell and Cummins, 1999; Van Maanen, 1979; Yeung, 1995). As Leavy (1994:107) elaborates,

“Qualitative research is essentially an inductive approach to theory generation. The focus for study tends to be on processes rather than on structures, and on dynamic rather than static phenomena. The emphasis tends to be on description and explanation rather than on prescription and prediction”.

Quantitative research, on the other hand, is basically a deductive approach which concerns itself with confirming or rejecting pre-defined hypotheses based on existing models (Coviello and

McAuley, 1999). By collecting and analyzing numerical data, including data converted into numeric format, the hypotheses are tested using statistical methods to draw conclusions.

Research conclusions derived from qualitative research are “rich, full, earthy, holistic and real” (Miles, 1979:590). However, such findings are believed to be subjective and context-bounded, and hence generalizations which can be drawn from them are limited. Quantitative research is believed to provide objective evidence to support/reject specific hypotheses based on logical reasoning, and hence it allows generalization and prediction. However, quantitative research generally does not support probing into more complex and dynamic interactions between the research object and its context to gain in-depth understanding. Although the quantitative approach has prevailed as a traditional research approach in business and management studies for a long time (Podsakoff and Dalton, 1987), the qualitative approach is increasingly employed. Nevertheless, as Van Maanen (1979:520) stresses, “qualitative methodology and quantitative methodology are not mutually exclusive”. It is suggested that the two approaches can be integrated into the same research (Coviello, 2005; Patton, 1990; Romano, 1988; Strauss and Corbin, 1990).

Another common classification is between the *empirical and theoretical approach* (Remenyi et al, 1998). The former draws conclusions by studying and observing in the real world what is happening regarding the research object at the time of the research. The latter summarizes and studies the existing literature, based on which new or different perspectives (theories) in the research subject are constructed: there is no direct involvement in data collection in the real life context. Two approaches are often not independent but are intertwined. As Remenyi et al. (1998:32) point out, “there are always theoretical assumptions associated with the collection of evidence [empirically], and there is always evidence that underpins theory”. Scandura and Williams (2000) mention that the literature review is generally a core deductive process in research that provides researchers with propositions/hypotheses for empirical study.

The proposition about the integration of the qualitative and quantitative approach, and the intertwining theoretical and empirical approach, is directly associated with the definition of the research as *inductive-* or *deductive-oriented* - another pair of research approaches to be considered. The inductive approach generally supports theory generation, while the deductive approach is for theory testing. The former generates a theory based on the empirical data collected when there are few or no theoretical preconceptions; the latter develops hypotheses based on existing theories and tests them against the data collected. The fundamental distinction of the two approaches, therefore, lies in which of them comes first, theory or empirical data. However, Perry (1988:788) points out that “it is unlikely that any researcher could genuinely

separate the two processes” because, as mentioned in the preceding paragraph, a certain theoretical foundation is required to design and implement empirical study.

4.1.2 Research Methods

As with the distinction between research approaches, there are different research methods for data collection and analysis. A brief evaluation of commonly applied research methods, mainly based on McGrath’s (1982) three dimensions of research trade-offs, is summarized as follows:

Table 4-1 Evaluation of Commonly Applied Research Methods

| Methods | Precision and control of measurement | Realism of context | Population Generalization | Additional concerns |
|-----------------------|--------------------------------------|--------------------|---------------------------|---|
| Laboratory experiment | Maximized | Low | Low | <ul style="list-style-type: none">• Too artificial• Business and management issues cannot easily and convincingly be set up into a controlled setting |
| Field experiment | High | High | Low | <ul style="list-style-type: none">• Artificial• Requires high commitment and support from organization for researcher to access |
| Action research | Low | Maximized | Low | <ul style="list-style-type: none">• Requires ability to combine the role of consultant and academic researcher• Time-intensive• Requires high commitment and support from organization for researcher to access |
| Sample survey | Low | Low | High | <ul style="list-style-type: none">• Evidence collected can be relatively superficial• Different response bias, and statistical validity and reliability issues |
| Case study | Low | Maximized | Low | <ul style="list-style-type: none">• Bias of both the recipient (researcher) and supplier of information• Data can be too rich, broad and complex to be analyzed• Time-intensive |
| Ethnography | Low | Maximized | Low | <ul style="list-style-type: none">• Time-intensive• Requires support and acceptance of participation by researcher as insider |

Source: The author, with reference to Bryman (1989), McGrath (1982), Remenyi et al. (1998), and Scandura and Williams (2000)

4.2 Major Research Methodology in the Studies on SME Internationalization and Networking

Similar to other business and management studies, the literature on SME internationalization, including the earlier studies focused on export behaviour, has been dominated by traditional quantitative research (Chetty, 1996; Coviello and McAuley, 1999; Fillis, 2001). The research often extends the theoretical and empirical findings on the internationalization of large multinationals, based on which conceptualization in terms of constructs, propositions and hypotheses are readily replicated to the context of SMEs for quantitative analysis. General network studies also chiefly employ quantitative research in studying networks' structural dimensions such as size, range and density; and there is still limited effort put into investigating the more dynamic aspects such as the network process and networking behaviour (Borch and Arthur, 1995; O'Donnell and Cummins, 1999; Shaw, 2006).

Although qualitative research has remained a minor tradition in comparison to quantitative research for many years in small business research (Curran and Blackburn, 2001), the application of qualitative research to the study of networking and the internationalization of SMEs has increased in recent years. Many researchers stress the value of qualitative research in producing conceptual and contextual insights into these relatively young fields which are highly in need of new theory generation. They emphasize the appropriateness of qualitative analysis for exploration and description of dynamic aspects of business activities, including networking and the internationalization of SMEs, which it is unrealistic to study in isolation from the socio-economic context (Arenius, 2005; Borch and Arthur, 1995; Coviello and McAuley, 1999; Fillis, 2001; Greening, Barringer and Macy, 1996; Hill and Wright, 2001; Jack, 2005; Leavy, 1994; O'Donnell and Cummins, 1999; Shaw, 2006). Hoang and Antoncic (2003:183) make a plea for "more qualitative, inductive research [in network-based studies] that will stimulate further work by introducing new theoretical ideas", which they believe is often dismissed simply because of perceived shortcomings in the findings with regard to generalization and prediction.

Recognizing the complementary strengths of individual research approaches and methods, researchers advocate using multi-method studies on networking and the internationalization of SMEs (Coviello and McAuley, 1999; Hoang and Antoncic, 2003; Monsted, 1995; O'Donnell and Cummins, 1999; Rialp, Rialp and Knight, 2005; Yeung, 1995). Rialp, Rialp and Knight (2005:157), in a study of rapidly internationalizing companies, stress that "the overwhelming use of a single method approach of data collection and data analysis may not fully capture the key issues and processes under investigation...further research should make a more diversified use of these highly compatible methodologies, applying a multiple-method approach in conducting

empirical inquiry”. Jick (1979:604), who explains the objective of methodological triangulation, points out that “the effectiveness of triangulation [of research methods] rests on the premise that the weaknesses in each single method will be compensated by the counter-balancing strengths of another”.

4.3 Research Methodology Employed in This Study

4.3.1 Choice of Research Approach

In response to the call for multiple-method research to describe and explain the networking behaviour and internationalization of SMEs, *this study pursues methodological triangulation by entailing both qualitative and quantitative approaches in two stages of data collection and analysis* (Jick, 1979). According to Scandura and Williams (2000), using both qualitative data and quantitative data for analysis allows a researcher to maximize the research’s internal validity with contextualized and rich qualitative data as well as gaining external validity from generalizable quantitative data. Hurmerinta-Peltomaki and Nummela (2006:442) also point out that a mixed method research approach comprised of both qualitative and quantitative research enhances the facilitation of the research process, improvement of validity of data, and enrichment of understanding of the research subject.

Despite the presence of an extensive body of network research in different disciplines, there is limited literature addressing the networking behaviour of SMEs, and even less investigating their networking behaviour specifically in relation to pursuit of internationalization. However, the literature review of existing theoretical and empirical studies on the two subject areas - networking and internationalization - lays the theoretical foundation for the development of the research’s conceptual framework (presented in Chapter 2), upon which the design of the empirical studies is based.

4.3.2 Choice of Research Method

The choice of research method should be based primarily on the type of research questions and the nature of research objects (Leavy, 1994; Romano, 1988; Yin, 1994). Additionally, Yeung (1995) and Remenyi et al. (1998) stress that feasibility in terms of research resource constraints, and implementation difficulties due to social and cultural resistance of the research population, must be considered. Yeung (1995:314-315) comments as follows:

“We may have a perfectly valid and reliable design in theory [say, postal survey]. In practice, however, we may face serious social and cultural resistance to postal survey in the business community. This practical difficulty not only may jeopardize our field research, but also may render our research method invalid and unreliable”.

Taken into consideration the three criteria - type of research questions, nature of research objects, and the practicality of implementing the research - case study and survey are believed to be the optimum combination of methods for this research. They provide both qualitative and quantitative data to achieve triangulation.

Case study method is a distinctive research method from experimental and survey method (Eisenhardt, 1989; Halinen and Tornroos, 2005; Hammersley and Gomm, 2000; Yin, 1989). Case study method is commonly defined based on Yin's definition (1994:13), which defines a case study "as an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". The underlying idea of a case study is that it focuses on understanding in depth and breadth the specific situation/phenomenon to be studied within its context (Eisenhardt, 1989). Stake (2000:23) elaborates that "a case is often thought of as a constituent member [which need not be a person or enterprise but any entity] of a target population". A research adopting case study method can conduct single or multiple case studies (Yin, 1994). Multiple case studies on organizational entities were conducted in this research.

Survey method involves information collection from a larger sample of the target population, which is selected based on systematic and representative sampling methods, by means of a standardized questionnaire administered identically to all the target respondents in the sample population (Krosnick, 1999).

With regard to *practical considerations*, experimental research including laboratory and field experiment is basically not workable to address the research objects. This is because highly complex, interactive, and dynamic networking and internationalization activities can hardly be re-created in a controlled setting for study (Yeung, 1997). Requirements for a large amount of time and strong commitment by participative organizations to implementing the action research and ethnographic research make them difficult to put into practice, particularly in the Chinese business context, where the business community is generally reluctant to disclose company information of any kind or spend resources on academic research. It explains the dominant employment of case study and survey method in similar research because they are considered relatively more practicable.

Regarding the *research objectives*, this research aims to explore and explain the networking behaviour of SMEs, and examine its association with the internationalization of firms. There is a need for new conceptual insights in this neglected area, which can only be derived from developing fine-grained understanding of 'how' networking behaviour occurs and manifests itself in the unique context of SMEs, and 'how' it relates to internationalization. Case study

method, which uses multiple sources of evidence, is the method of preference for addressing ‘how’ questions; it enables the exploration and explanation of a phenomenon comprehensively within its natural social situations (Stake, 2000; Yin, 1994). The flexibility of the case study method facilitates the discovery of considerably broad and rich facets of a phenomenon, and thus allows new insights to emerge from within its complexities even when little in the way of established literature or prior empirical findings is available (Chetty, 1996; Eisenhardt, 1989; Halinen and Tornroos, 2005).

With regard to the *research objects*, the proposition that the case study method is the most appropriate method to understand the two core objects – SMEs and networking – of this study is widely supported (Borch and Arthur, 1995; Chetty, 1996; Coviello, 2006; Fillis, 2001; Hill and Wright, 2001; Liesch et al., 2003; Perren and Ram, 2004; Romano, 1988; Shaw, 2006).

Romano (1988:35) comments that existing studies on small businesses lack the understanding of their interactions with the environment: he states that “to comprehend fully the detailed issues of small business, consideration must be given to the social dynamics and the character of the owner managers”. Considering SMEs’ distinctive individuality, subjectivity, and intertwining social and business contexts, it is not viable to study the object in isolation from its natural social setting. A research method which allows the researcher to remain close and involved with the participants, and to understand their standpoint and realities is required to obtain a real and holistic explanation of SME activities.

Networks are also embedded in a social context (Granovetter, 1985; Uzzi, 1997), and hence they need to be studied within that context (Brass et al., 2004). Moreover, networking is basically a loosely coupled system with different actors interacting with one another in many different ways at different points in time; networks and networking behaviour, in other words, are highly flexible and dynamic in nature. The ability to capture the process-based mechanisms inherent in the dynamism of networks and networking makes case study the most viable research method for network analysis (Borch and Arthur, 1995; Coviello, 2005; Easton, 1995; Halinen and Tornroos, 2005; Havnes and Senneseth, 2001; Shaw, 2006).

Considering the power of the case study method to probe into a phenomenon in considerable breadth and depth, it is primarily employed in this research for qualitative analysis to derive insights into the main research questions, and to support hypothesis formulation for quantitative research and interpretation of quantitative results. Although some researchers (e.g., Borch and Arthur, 1995; Coviello, 2006) have suggested that quantitative analysis can be integrated into the qualitative analysis of case study by transforming, organizing and analyzing qualitative case data in quantitative form, case study is fundamentally qualitative-oriented in nature (Leavy, 1994;

Stake, 2000). While case study provides holistic understanding with a distinctive immediacy to the real life context, the contextualized findings inherent in case study are relatively limited in their generalizability, even when quantitative analysis is integrated within the case study.

In order to assess the validity of the findings and to increase the confidence of statistical generalization and prediction, the employment of a large sample survey as an independent but complementary method to support the statistical analysis of the findings of case studies is justified (Hurmerinta-Peltomak and Nummela, 2006). Researchers using qualitative analysis are encouraged to systematize their observations by utilizing sampling techniques and collecting survey data to quantify their findings in order to validate the results for generalization (Jick, 1979; Romano, 1988). Hoang and Antoncic (2003) specify that insights derived from qualitative analysis often provide solid and key dimensions for quantitative research. Referring to the objectives of this research, it is believed that any causal claims regarding networking behaviour and the internationalization of SMEs discovered in the case studies can be more rigorously tested using survey data obtained from a larger sample. The survey can also support the collection of descriptive data from a larger sample to validate the descriptive findings of the research objects generated from the case studies. Achieving statistical generalization enables more reliable prediction of the findings in the real life context, and provides stronger replication validity.

Case study and survey method are adopted at two empirical research stages respectively in this study. The *first stage of qualitative case studies* aims to obtain fine-grained and comprehensive understanding of the constructs and their interactions (associations), i.e., the key decision-maker, networking behaviour, network resources and internationalization, as outlined in the conceptual framework of this research. The case findings are used to identify the latent variables and to specify their hypothesized associations for statistical testing; they are also used as empirical evidence to interpret and explain the quantitative results. The *second stage of survey method* collects larger sample data to conduct rigorous statistical testing of the hypotheses for quantitative analysis. In this way, the mixed qualitative and quantitative research approach contributes to providing more compelling contextual insights as well as generalizable evidence on the networking behaviour and internationalization of SMEs to support theory extension and building.

4.4 Design and Implementation of Research

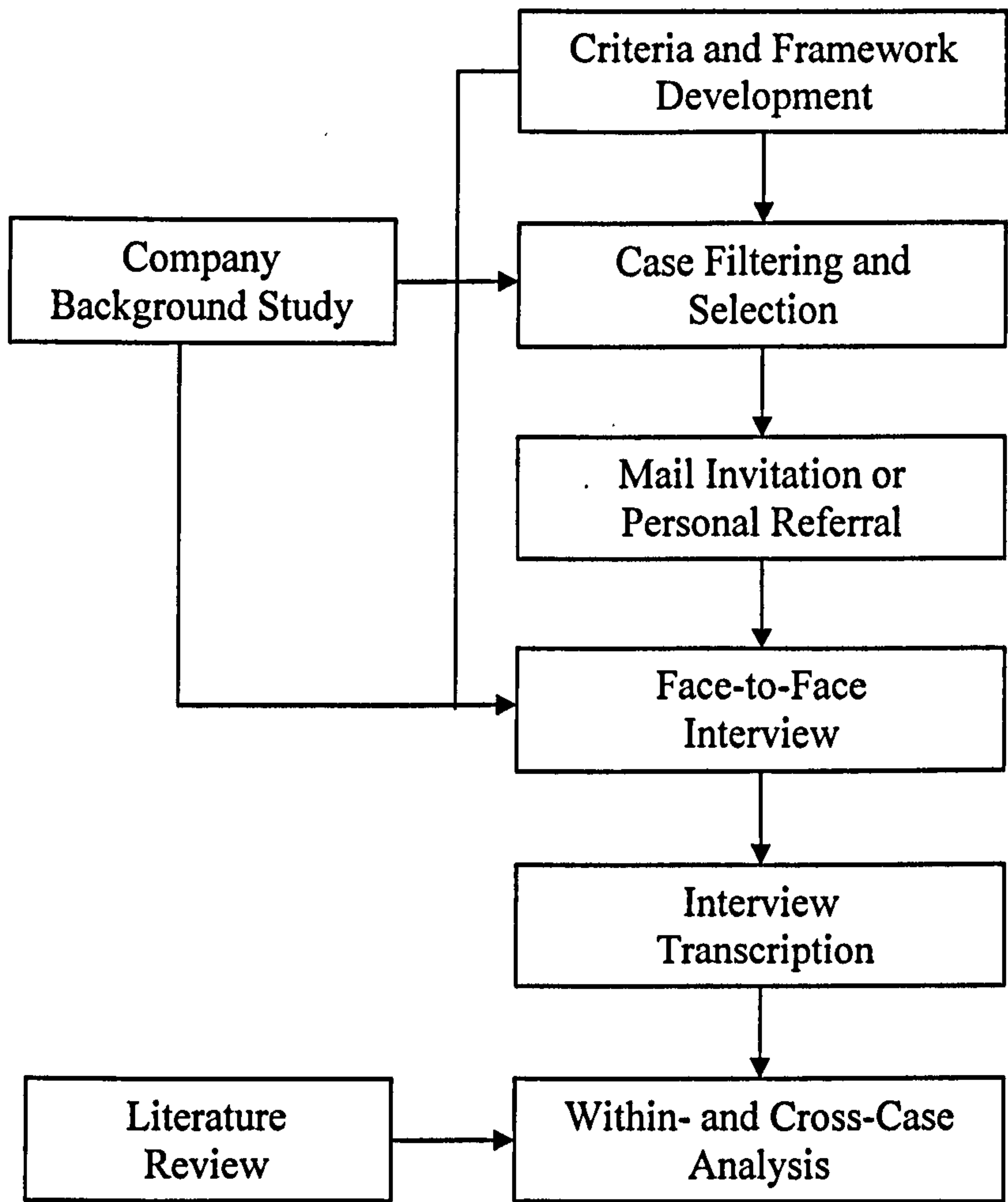
4.4.1 First Stage - Qualitative Case Studies

Through investigating the real life experience of the case subjects, the qualitative case studies build contextual understanding of the research topic. The rich qualitative case data,

which are collected primarily to address the ‘how’ and ‘why’ aspects pertaining to the internationalization, networking behaviour, and key decision-maker attributes of the case subjects, are used to develop hypotheses for quantitative analysis and interpret the results.

4.4.1.1 Qualitative Case Study Research Process

Figure 4-1 Qualitative Case Study Research Process



Source: The author

4.4.1.2 Case Selection

Eight purposely selected cases are conducted, which fall within the optimal range of the number of cases recommended for qualitative research (Eisenhardt, 1989; Hedges, 1985; Perry, 1998). Multiple cases enable comparison, replication and extension among individual cases, and the evidence is therefore often considered more compelling (Chetty, 1996; Yin, 1994). Purposive sampling is necessary to achieve replication and extension of an exploratory study, and it ensures that the case subjects are easy, willing, and open to interact and to share information in relatively long and in-depth face-to-face interviews. Hence, purposive case study maximizes the richness, validity and depth of the information obtained (Eisenhardt, 1989; Perry, 1998; Stake, 1995; Yin, 1994).

‘Typical’ and ‘replicable’ case logics were followed to select the cases rather than selecting cases that were heterogeneous and extreme (polar) (Eisenhardt, 1989; Gomm, Hammersley and Foster, 2004). In correspondence with the objectives of this research, three selection criteria of the cases are used.

1. The companies were founded and had started internationalization as small- and medium-sized enterprises defined by number of employees adopted in this study.
2. The founder(s) and key decision-maker(s) of the companies are Chinese.
3. The companies had progressed to different stages of internationalization.

In addition to the background study of the companies before the interview, the interviewees were also asked in the interview to self-report the size and stage of the business development of their companies to confirm a match with the criteria. All the companies had internationalized right at inception or at an early stage of start-up. The internationalization of the companies had progressed since start-up, and they had wholly-owned operations or joint ventures in foreign locations at the time of the interview.

Other than these three criteria, the companies have different characteristics in terms of business sector, origin, and founder’s background, which are reported in the tables as follows:

Table 4-2: Business Sectors of the Case Companies*

| | Manufacturing | Non-manufacturing |
|--------------------------|--|---|
| Tradition Industry | <ul style="list-style-type: none"> • Neptune Toys and gifts developer and manufacturer • Saturn Jewellery developer and manufacturer • Uranus Garment accessories manufacturer | <ul style="list-style-type: none"> • Mars Overseas education consultant • Venus Soft furnishing trading house |
| High-Technology Industry | <ul style="list-style-type: none"> • Mercury Display integrated circuits (ICs) solution provider (outsource production) | <ul style="list-style-type: none"> • Jupiter Testing laboratory • Terra Software developer |

*Fictional names are provided for the companies to disguise their identities for confidentiality reason.
Source: The author

The definition of the high-technology industries is based on the commonly used industry-based definitions adopted in the U.S. (Incontext, 2000, Appendix 2).

Six out of the eight companies - Neptune, Saturn, Uranus, Mars, Venus and Jupiter - were identified within and contacted through the author’s social networks (Leavy, 1994). Personal bonding ensured the willingness of the interviewees to share rich and valid information. The founder of Uranus, for example, pointed out specifically that he trusted the author with his

company's information because of a referral by a good friend; otherwise, he would never have spared the time out of his busy schedule. Mercury and Terra were contacted through direct mail invitation after detailed screening of a group of prospective companies. The two companies were renowned in their business sectors in the region, and they fully met the three selection criteria mentioned above. Both of the companies were public listed on the Stock Exchange of Hong Kong. There was a great deal of information such as company prospectuses, news and reports available for public access to enable enriching and checking of the primary interview data. Two other companies in the high-technology industries had responded to the invitation and requested further clarification of the research. After several mail exchanges, the key decision-makers could not arrange the interview in time for the study due to individual reasons. One of the companies instead took part in the survey conducted later.

4.4.1.3 Data Collection and Analysis

In-depth face-to-face interviews with the key informants of the companies, including the founders of six companies, the general manager of Jupiter, and the corporate communication representative of Mercury, were conducted for primary data collection. Coviello (2005:42) points out that "research on the dynamics and processes of entrepreneurial firm networks requires a holistic and humanist approach including observation and in-depth interviewing of entrepreneurs". Hurmerinta-Peltomaki and Nummela (2006:447) also suggest that data collection is to a certain extent context-dependent, and personal interactions and relationships seem essential to the collection of reliable data in Asian countries.

The general manager of Jupiter and the corporate communication representative of Mercury were deemed to be creditable key informants of their companies. The general manager was the key person responsible for the business development of Jupiter. The corporate communication representative had started working in Mercury since its start-up. Her main responsibility was providing and communicating company information to external stakeholders, and hence she was well-informed about the company's business activities.

The personal interview protocol followed a predefined set of semi-structured questions (Appendix 3). Broad questions based on the same framework of themes in correspondence with the research focus were asked in each of the interviews. The framework is basically composed of three main themes as follows:

1. The (foreign) business development of the company.
2. The roles of networks and networking in the foreign business development of the company.

However, the labels 'networks' and 'networking' were not directly conveyed to the

interviewees but were denoted in the interviews to be different relationships, personal and business, involved in their business development.

3. Self-reporting and assessment of the influence of the founder/key decision-maker on the direction of foreign business development and activities including networking of the company.

The framework was required to provide certain standardized aspects to conduct cross-case comparison in multiple-case studies (Arenius, 2005; Miles and Huberman, 1994). However, interviewees were encouraged to express openly and freely their personal understanding and opinions, whereas the framework was referred to as a guideline to ensure key issues were addressed and relevant information was obtained. The semi-structured interviews provided the researcher the flexibility to ask questions in a standard manner when the interviewees were reactive or occupied in irrelevant discussions, and to alter the order of questions to probe freely into details subsequent to the interviewees' responses (Hoepfl, 1997; Yeung, 1997). Face-to-face interview enabled the interviewer to interact with the interviewees responsively, and to observe and identify their personal attributes. Direct observation served as an important source of evidence in the case study (Yin, 1994). All interviews were tape-recorded, and the interviews were transcribed for coding and analysis.

It is acknowledged that multiple interviews or a longitudinal study are highly recommended for a case study. Nevertheless, it is difficult to get more than one interview in a small company or in an Asian organization, particularly with the key decision-maker (Leavy, 1994; Perry, 1998). Smaller firms generally have few slack resources and the key decision-maker is often too occupied by business activities at all levels to spare time for additional tasks, especially when they are not perceived to present direct business benefits (Bartholomew and Smith, 2006). This study has the same limitation. The author was offered only one interview in most cases, except for the cases of Mars and Saturn, where two interviews at 3-month intervals were conducted. Each interview lasted from one and a half hours to two hours. In order to achieve data triangulation to support the building of fuller cases, secondary data included inquiries with third parties who had knowledge of the companies and the key decision-makers, company publications and records, press speeches of and interviews with the key decision-makers, and news scripts of the companies were collected and used to validate and enrich the primary interview data (Eisenhardt, 1989; Stake, 2000; Yin, 1994).

Within- and cross-case analyses were conducted with reference to the recommendations by Eisenhardt (1989). Leavy (1994:111) suggests that "in case-based qualitative research, much of the real creativity and contributions actually happen during the writing process". Within-case

analysis began with a detailed write-up for each case with the objective of becoming familiar with each case as a stand-alone entity, and to let the unique patterns of the case emerge through the rich description (Curran and Blackburn, 2001; Eisenhardt, 1989; Halinen and Tornroos, 2005; Stake, 1994). Curran and Blackburn (2001:104) point out, the “thick description” is “more than just a simple, literary account...there will frequently be the beginnings of a more theorized treatment in the form of possible analytical categories and propositions suggesting links between elements in the phenomenon, which can be tested in further research”. The conceptual framework of the study was referred to broadly in order to derive the themes and constructs from the cases, and complying and contrasting facts and evidence were specified. This allowed themes and constructs of each case to converge at a broad level with reference to the conceptual model, and at the same time to diverge at the case level.

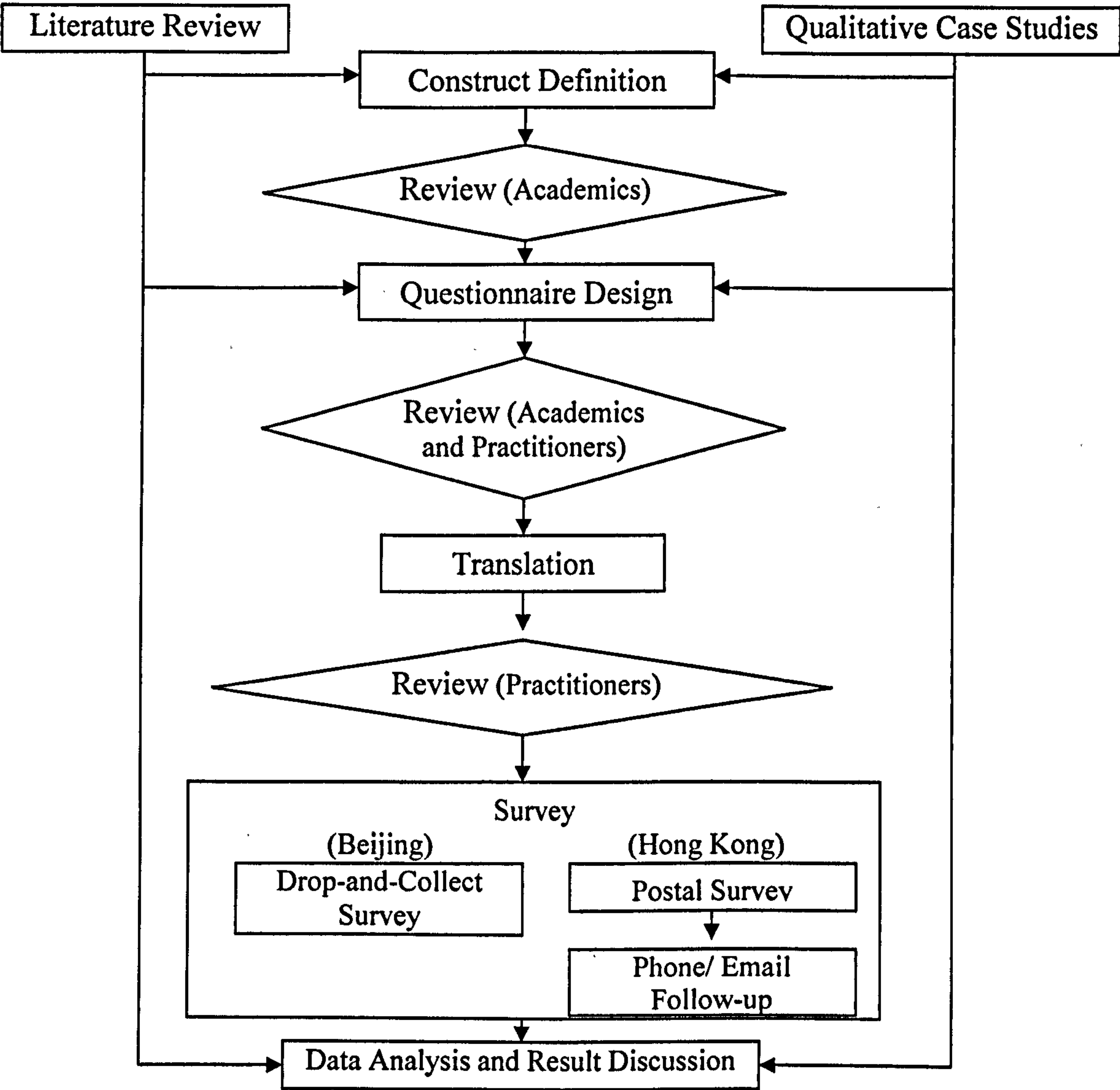
Cross-case analysis was conducted based on the themes and constructs identified in each case. Facts and evidence were compared and contrasted in order to search for cross-case patterns. To increase the thoroughness and sophistication of the cross-case replications, different mixes of cases were grouped to compare similarities and differences in different dimensions. Miles and Huberman’ (1994) descriptive and display matrices were applied in the course of the analysis.

Different groups of cross-case analyses were conducted, and the findings organized and structured in a number of divergent ways to reach data exhaustion before the conclusions were finalized and reported. The findings of the case studies are presented in Chapter 5.

4.4.2 Second Stage - Quantitative Research

4.4.2.1 Quantitative Research Process

Figure 4-2 Quantitative Research Process



Source: The author

4.4.2.2 Construct Definition

The proposed constructs are defined and operationalized based on the existing literature, and the findings of the case studies. The proposed constructs in terms of operationalized variables and measures were sent for review to five academics (Appendix 4) before the detailed survey instrument was defined and designed accordingly.

4.4.2.3 Questionnaire Design

The questionnaire (Appendix 5a) is divided into four sections, each of which includes questions corresponding to the section topic. The four sections are as follows:

- *Section One: Profile of the Company.* The section has five questions that record the company's background information, including year of establishment, domestic and foreign employee numbers, main business and product, and ownership type. This section collects data of the control variables in the quantitative analysis.
- *Section Two: Degree of Foreign Business Development of the Company.* The section has six questions that collect data about the internationalization of the company. The first two questions collect data about the first step of internationalization, which include the year the company started foreign business activity, the foreign business activity first conducted, the foreign country in which it was conducted, and the degree of influence of a list of pre-defined factors on the commencement of foreign business. The list of pre-defined factors is adapted from the study of Holmlund and Kock (1998). The succeeding three questions collect data about the internationalization of the company to date, which cover the business activities, the geographical span of foreign countries/regions, and the percentage of foreign sales to total sales. The final question is a self-assessment of the company's foreign business performance in comparison with direct key competitors on four items. The questions in this section capture data of the dependent variable of internationalization in the quantitative analysis.
- *Section Three: Business Networking Behaviour of the Company (for Foreign Business Development).* The section has five questions assessing the business networking behaviour of the company in different aspects. It also records the amount of resources in a pre-defined list obtained from the networks. All the questions apply the five-point Likert scale, and different response anchors are applied according to the target information to be obtained by individual questions. The questions capture data of the variables of networking behaviour and network resources in the quantitative analysis.

- *Section Four: Profile of the Key Decision-Maker.* The section has five questions assessing the key decision-maker’s personal attributes. There are also two questions attempting to validate the credibility of the target respondent.

Detailed descriptions of the operationalization of the items in the questionnaire, and the factor analysis and reliability test results are presented in Section 6.

Table 4-3 Sources for Information for the Research Questions

| Research Questions | | Sources of Information |
|--------------------|--|---|
| Q1 | How does networking behaviour influence the internationalization of SMEs? | <ul style="list-style-type: none"> • Qualitative case findings • Quantitative analysis results <ul style="list-style-type: none"> ○ Questionnaire Section 3 <ul style="list-style-type: none"> ▪ Networking behaviour ▪ The availability of network resources ○ Questionnaire Section 1 <ul style="list-style-type: none"> ▪ Time of initial foreign business development ▪ Geographical span of foreign countries/regions ▪ Percentage of foreign sales to total sales |
| Q2 | What and how do key decision-maker attributes affect the networking behaviour of SMEs? | <ul style="list-style-type: none"> • Qualitative case findings • Quantitative analysis results <ul style="list-style-type: none"> ○ Questionnaire Section 4 <ul style="list-style-type: none"> ▪ The key decision-maker’s attributes ○ Questionnaire Section 3 <ul style="list-style-type: none"> ▪ Networking behaviour |

Source: The author

The questionnaire uses the phase ‘foreign business development’ to denote ‘internationalization’. It is because the word ‘internationalization’, either in English or in Chinese, may not be comprehended by the target respondents or may lead to different interpretations. A concise definition of ‘foreign business development/activities’ applied in this study is printed in Section Two of the questionnaire to ensure clarity and consistency of understanding. The definition printed on the questionnaire is as follows:

“Foreign business activities INCLUDE exporting, licensing/franchising, outsourcing/subcontracting, collaborations, joint venture, and wholly-owned operations abroad’.

Cross-border business activities between Hong Kong and mainland China ARE REGARDED as foreign business development.”

The decision to use a five-point Likert scale consistently in all rating-scale questions takes into consideration the expected level of acceptance by the target respondents. Studies have confirmed that ratings are less complicated and time-consuming to use than ranking, and thus,

general respondents are more willing and able to complete rating questions in the questionnaire (Alwin and Krosnick, 2001; McIntyre and Ryans, 1977).

The choice of the number of scales is still arbitrary despite various debates on the topic. The five-point scale falls into the optimal range of the three- to nine-point scale commonly agreed to capture the most variance with minimal loss of reliability (Churchill and Peter, 1984; Cox, 1980). Between the two most popular choices, the five-point scale is chosen over the seven-point scale in this study with reference to studies showing that Likert-scale reliability increases only up to the use of five points without significant change in further increases of points (Cicchetti, Showalter and Tyrer, 1985; Lissitz and Green, 1975). This means that results from five-point and seven-point scale measurement do not cause much variation. The five-point scale is more easily interpreted and understood by the target respondents, and will result in fewer item omissions. The seven-point scale, on the other hand, increases cognitive loading of the respondents and the perceived congestion of the questionnaire. It is expected that the use of the seven-point scale will further impose pressure on the low response expected of the relatively time-conscious and materialistic Chinese SME practitioners, who are relatively indifferent to as well as inexperienced with academic research and surveys.

The questionnaire was sent for review to academic peers and business practitioners (Appendix 4). Based on the received comments, the constructs, corresponding measures, measurement methods and the phrasing and ordering of the questions were clarified and modified several times to ensure the validity of the contents before the finalized version was approved.

4.4.2.4 Questionnaire Translation

In order to ensure semantic equivalence, the English version of the questionnaire was forward-backward translated into a traditional Chinese version for the survey in Hong Kong (Appendix 5b), and into a simplified Chinese version for the survey in mainland China. The forward-backward translation followed the suggestions of Brislin (1970), which are commonly adopted in similar research on Chinese firms (Cheung and Chow, 1999; Holt, 1997; Shi, Ho and Siu, 2001).

After the English version of the questionnaire was finalized, it was sent for translation into traditional Chinese by a Chinese professional translator in mainland China who has knowledge in both traditional and simplified Chinese, and is fluent in English. The translated copy in traditional Chinese was then sent for translation back into English by another professional translator in Hong Kong. The backward-translated English questionnaire was compared and checked with the original English version for variations by the author and a third party in Hong

Kong, who has research and questionnaire design experience. The author and the third party are fluent in Cantonese (mother tongue of Hong Kongers), Putonghua (official language of mainland China), and English. Although some differences in the wording of sentences were identified, it was agreed that the differences did not affect the semantic contents of the sentences as a whole.

After the forward-backward translation, the questionnaire in traditional Chinese was sent for review by two parties in Hong Kong who have specialized knowledge in linguistics. Both reviewers are native Chinese, fluent in Cantonese, Putonghua, and English. They shared the opinion that the questionnaire was translated from English to traditional Chinese only in a literal sense (i.e., word-by-word and phrase-by-phrase). Although the translation was fundamentally correct semantically, native Chinese speakers would find some wordings and expressions unnatural and different from their common use. It raised the concern that the target respondents might need quite a lot of time to read and interpret the meanings of the questions. It was likely to de-motivate them to fill in the questionnaire, and hence negatively affect the response rate. Cultural adaptation, therefore, was conducted to minimize the conceptual and cultural problems associated with translation from a foreign language version of the questionnaire (Behling and Law, 2000). The wordings and expressions were reviewed and modified as necessary into the native Cantonese expressions and syntax commonly used in Hong Kong by an independent party who has linguistic knowledge of the Chinese language.

The modified traditional Chinese questionnaire was then converted into a simplified Chinese version for the survey to be conducted in mainland China. Since Cantonese involves some unique regional dialect expressions, the wordings and expressions are sometimes very different from those of Putonghua, and hence are unintelligible by Putonghua speakers. Cantonese dialect expressions in the questionnaire were detected and modified into expressions commonly used in Putonghua. In this questionnaire, however, significant differences in dialect expressions were not found.

The traditional Chinese and the simplified Chinese version questionnaire were sent to two groups of Cantonese- and Putonghua-speaking business practitioners for review and comments respectively. Each group was comprised of three people, including small business owners, marketing managers or business development managers. They were requested to fill in the questionnaire and feed back any comments on all aspects. Each respondent was contacted individually for in-depth discussion regarding their comments. The major comments obtained and addressed are summarized as follows:

1. The respondents did not have problems interpreting the questions, and comprehending the core concepts of ‘foreign business activities’, ‘networks’, ‘networking’. The items (measures) of individual questions were found to be comprehensive and intelligible.
2. It was commented that the ordering of the questions (e.g., Section 4), and the ordering of the items of specific questions (e.g., Section 3-2 Network Development Channel) might discourage the respondents from completing the questions. Since this would directly affect the response rate and the completeness of the data collected, the ordering was revised accordingly.
3. It was commented that the presentation of the questionnaire was quite academic, and it was time-demanding (~20 minutes for 4 pages) to complete. The two issues were not directly rectified because the 4-page questionnaire was considered relatively condensed. However, information regarding the nature of the research and the approximate completion time was explained in the covering letter enclosed with the questionnaire in order to ensure the target respondents were psychologically prepared.

4.4.2.5 Survey Sampling in Hong Kong

The Hong Kong Trade Development Council’s (TDC) online sourcing directory was used to compile the survey sample (<http://sourcing.tdctrade.com>). Of the many company directories prepared by different official and private institutions, it was found that the company records maintained in the TDC directory provided the most complete information for the purpose of screening (Appendix 6).

In accordance with the research objectives, the same three criteria as those in case selection were used to select the survey samples. The criteria were as follows:

1. Companies are SMEs in terms of number of employees.
2. The founder(s) and key decision-maker(s) of the company are native Chinese.
3. The company is already involved in foreign business activities.

Other than these three criteria, survey samples were selected randomly to include companies of mixed characteristics. In total, 400 companies that were identified as meeting the above criteria made up the initial sample of the study.

Taking into consideration the high volatility and mobility of Hong Kong SMEs, which close business or change office rapidly (Yeung, 1995), the address of each company was verified by checking the recorded address in different directories and the company website to minimize the problem of failed delivery. Despite substantial screening and verification efforts, 16 out of the

400 companies selected had either moved or ceased trading in the survey period, and hence could not be contacted successfully. Thus, the valid sample size is reduced to 384.

4.4.2.6 Data Collection

4.4.2.6.1 Data Collection in Hong Kong

Studies have found that key decision-makers of small firms are particularly difficult respondents from whom to gain data via a survey (Bartholomew and Smith, 2006; Baruch, 1999; Curran and Blackburn, 2001). Consultations with three researchers prior to the survey, who are located in the UK, mainland China and Hong Kong and have research experience in Hong Kong and mainland China, also raised the concern of the habitually low survey response rate in both regions. Chinese SME practitioners are still reluctant to participate in surveys because of concerns around information disclosure and the unrecognizable benefits from participation. Ward, Pearson and Entrekin (2002) mention that normal postal questionnaire in Chinese business communities can often expect only a 1 to 10 percent response rate. The SME business practitioners in Hong Kong were particularly time-conscious in such a fast-moving and materialistic society (Ellis, 2000). Following the recommendations of existing studies regarding different methods to increase survey response, several were incorporated into the survey design in an attempt to raise the response rate (Bartholomew and Smith, 2006; Dennis, 2003). The methods applied are as follows:

1. Including a covering letter that described in detail the nature of the survey. Emphasis was put on the benefits of survey findings to the respondents, and on strict confidentiality to tackle the 'respondent crisis' of information disclosure (Yeung, 1995). The local origin of the author was stressed to demonstrate regional affiliation to the firm. Respondents were promised they would be sent a copy of the summary of findings. A prepaid return envelope was enclosed with the survey.
2. Sending more than half of the questionnaires (due to financial constraint all could not be sent) from the UK with the official university stamp on the envelope to create credibility and endorsement effects.
3. Enclosing a souvenir bearing the university logo as an incentive.
4. Seeking support of local business associations to encourage the participation of their members. Six business associations of SMEs were identified and contacted. One agreed to help distribute the questionnaire to its members through email; two letters were returned marked as 'failed delivery'.
5. Addressing the target respondent's name on the mail and sending it directly to the person.

In total, 400 questionnaires were posted in 3 batches (200-100-100) over a period of 3 weeks. The postal survey is believed to be the most effective way to access the owner-managers of small Hong Kong firms (Siu and Kirby, 1999; Shi, Ho and Siu, 2001). Distributing the questionnaire in batches allowed the author enough time to conduct follow-up batch by batch. Seven questionnaires were returned as undelivered after the initial distribution.

Follow-up emails were sent two weeks after the initial distribution (beginning in the last week of June). The emails were directly addressed and sent to the target respondents, whenever their personal email addresses could be located. Otherwise, the emails were sent to the email addresses of the companies designated for general enquiries. The latter form of email delivery could seldom get past the gate-keeper to reach the target respondents, and hence yielded no response.

A telephone survey was conducted as a second follow-up a month after the initial distribution, i.e., two weeks after the first follow-up (mid-July). Telephone follow-up was conducted through to the completion date of the survey (end of August). In the first week of the telephone survey, it was found that most of the target respondents were always off-site. It was decided to send a reminder email again in parallel (first week of August). During the follow-up period, it was found that an additional 9 companies had either moved or ceased trading: they could not be contacted successfully by either email or telephone, and the company websites were also expired. These 9 companies together with the 7 from which mails were returned as undelivered after initial distribution were counted as invalid samples. The final number of prospective respondents to which the questionnaires were successfully distributed is 384.

Table 4-4: Details of the Survey in Hong Kong

| Contact | Means | Responses (Accumulated Response Rate*) |
|----------------------|---------------------------------|--|
| Initial distribution | Postal | 31 (8%) |
| First Follow-up | Email | 36 (17%) |
| Second Follow-up | Telephone (plus email reminder) | 22 (23.1%) |
| Personal Networks | Direct submission | 21 |
| | Total Response | 110 |
| | Usable Response | 110 |
| | Usable Response Rate | 27.2% |

*Based on the 384 questionnaires distributed successfully
Source: The author

Eighty-nine completed questionnaires out of the 384 formally distributed questionnaires were returned. This is a 23.1% response rate, which is quite satisfactory compared to previous surveys on SMEs in Hong Kong (Chan and Foster, 1999; Shi, Ho and Siu, 2001; Siu, 2000). An additional 21 completed questionnaires were collected through the author’s personal networks. No completed questionnaire was received from other members of the SME association, except

the vice-chairman who was in contact to offer support. This illustrates the indifference of Hong Kong SMEs to academic research and surveys. Even though they were encouraged by the business association with which they were affiliated, the committee and general members alike were still reluctant to spend time participating in the survey. The one questionnaire from the vice-chairman of the association in contact was counted in the questionnaires from the author's personal networks.

In total, 110 completed questionnaires were obtained, representing a 27.2% overall response rate. After screening, all the questionnaires were usable. It is found that some data were missing in some questions. The missing data were mostly found in two sections: 1) Company profile in Section One. These data could be obtained based on the information provided in the TDC directory and/or the company websites; 2) The key decision-maker's foreign stay includes 'Number of Years' and 'Country of Stay' in Section Four. The two fields are simply complementary to the primary question directly asking whether the key decision-maker had stayed abroad. This primary question was answered by all respondents.

4.4.2.6.2 Data Collection in Mainland China (Beijing)

Due to the constraints regarding direct access to companies and local regulations on surveying, a local professional market research company was employed to conduct the survey in Beijing. The survey in mainland China was originally planned to be conducted in Shenzhen, for the reasons that it is proximate to Hong Kong in geographical location, forms part of a regional (Guangdong/Canton) sub-culture, and was one of the earliest Open Economic Zones on the mainland with a well-established SME sector. However, the research company in Shenzhen with which the author was in contact abandoned the project at the last moment, which placed the author under extreme time constraint to find another company in the region. The author decided to change the survey location to Beijing following a referral by a local contact to a relatively more credible market research and business consulting company. Beijing has one of the fastest-growing SME clusters alongside Shenzhen, Wenzhou and Jiangsu on mainland China, one which is strongly promoted by the official institutions (People's Daily, 25 Nov 2004; Rong, 2005). It is, therefore, believed that the survey on the SMEs in Beijing can provide equally representative findings.

The founder (the contact person) of the market research and business consulting company in Beijing (Beijing Yumu Consulting Co., Ltd., <http://www.yumuconsulting.com>) was an academic researcher whose research interest was also in the business development of SMEs. He maintains a database of SMEs in the region, from within which companies of mixed industries that match

the three selection criteria specified in this study were randomly drawn for this survey. A drop-and-collect survey was conducted by a group of research assistants from the company, which was expected to yield a higher response rate (Brown, 1987; Ibeh and Brock, 2004). In total, 102 completed questionnaires were obtained from the 163 companies contacted, representing a 62.5% response rate. Two of the 102 completed questionnaires were dropped after screening, because the number of employees in the companies was substantially larger than the pre-defined criterion.

Table 4-5 Details of the Survey in Beijing

| Contact | Means | Responses (Response Rate) |
|----------------------|-----------------------------|---------------------------|
| Initial distribution | Drop-and-Collect | 102 (62.5%) |
| | Total Response | 102 |
| | Usable Response | 100 (61.3%) |
| | Usable Response Rate | 61.3% |

Source: The author

Reliability of survey data is a major concern when employing third parties to conduct surveys in mainland China. The research company whose service was employed in this study was recommended by a personal friend in Beijing who had assessed the creditability of the company. In addition, the research assistants were required to record the name, company, and contact details of the respondents on each questionnaire completed. All the returned questionnaires have the respondents' information recorded, and some of them have business cards enclosed.

In sum, *a total of 210 completed questionnaires representing a 38.4% usable response rate* were collected from Hong Kong and Beijing for the quantitative analysis of this study. There is still no consensus on the optimum sample size for quantitative study. The sample size of 210, however, meets the minimum subject-to-item ratio of 10:1 (the largest number of items in a single question in the questionnaire of this study is 20) suggested by Nunnally (1978:421), and a fair sample size of 200 recommended for factor analysis (e.g., by Bryant and Yarnold, 1995; Comfrey and Lee, 1992; Farh, 2006; Guadagnoli and Wayne, 1988; Hinkin, 1995). It also meets the minimum requirement of the subject-to-variable ratio of 15:1 (the number of variables in the study is less than 20) suggested by Pedhazur (1997:207) for multiple regression test. The statistical analysis of the survey data, including factor analysis, reliability test, analysis of descriptive data, and regression test are presented and discussed in Chapter 6.

4.4.2.7 Non-response Bias Tests

Non-response bias on the Hong Kong survey data was assessed by dividing the responses received right after the initial distribution (early responses) and those received after the second follow-up (late responses). This approach is based on the assumption that those respondents who

took longer or required more reminders to reply closely resemble the non-respondents (Armstrong and Overton, 1977; Pearl and Fairley, 1985). Non-response bias cannot be tested on the Beijing data because the research company was not required to disclose the data on those companies refusing to participate in the survey, and the completed questionnaires were delivered to the author in one batch which could not be classified into early and late responses.

The means of two demographic variables – the age of the firms and the size of the firms in terms of number of employees – were compared using t-test. The t-test statistics indicate that the differences of the means of both variables are not significant between the two groups of responses ($p>0.05$), and it is believed that non-response bias is apparently not a problem. The t-test results are summarized as follows:

Table 4-6: Non-Response Bias Test Results

| Variables | T | Sig. (2-tailed) |
|-------------------|--------|-----------------|
| Age of the firms | -0.684 | 0.497 |
| Size of the firms | 0.318 | 0.752 |

df = 51

Source: The author

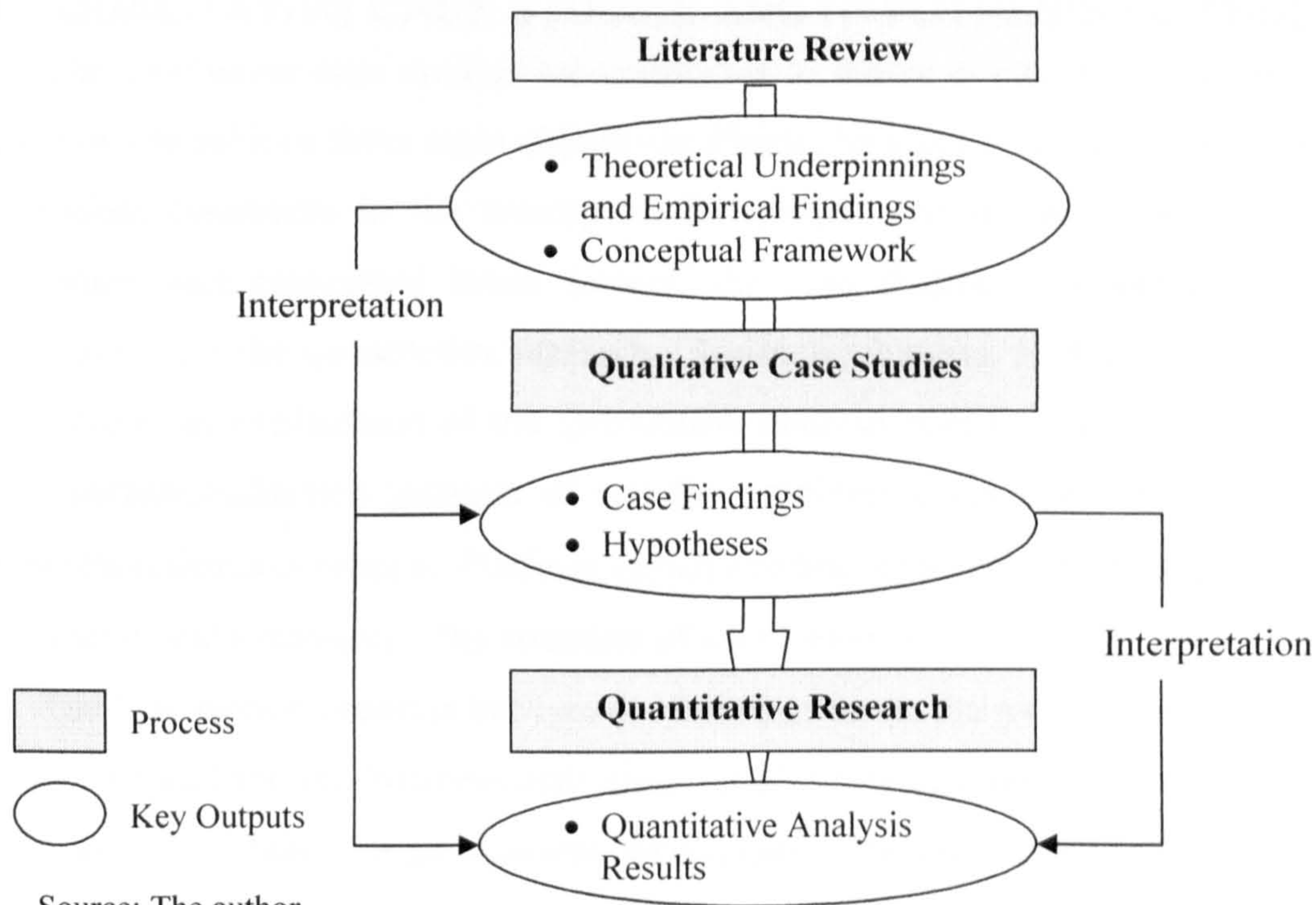
4.5 Summary of the Research Process

This chapter justifies and explains the research approaches and methods adopted in this study. Acknowledging the characteristics of the major research approaches and methods, methodological triangulation is realized in this study through incorporating both a qualitative and quantitative approach respectively into a two-stage research process.

Considered the limited amount of existing literature on the topic, the primary objective of the research at the first stage is to enrich the understanding of the topic, so that rich conceptual and contextual information can be obtained to support the identification of latent factors, the formulation of hypotheses for quantitative analysis, and the interpretation of the quantitative analysis results. Qualitative case study method is justified to be the appropriate method at this stage for two main reasons: firstly, the research questions of this study focus on the exploration and explanation of the topic; secondly, the research objects are dynamic and context-specific which must be investigated within context.

A survey, as the most common method to collect quantitative data from a large sample, was conducted to enable more rigorous testing of the hypotheses, which are defined based on the qualitative findings. Because the statistical analysis is considered relatively objective, it allows the theoretical generalizable case findings to be developed into statistical generalizable findings for replication and extension. The inclusion of the two methods, therefore, is essential to increase the robustness of the research and the validity of the results.

Figure 4-3 Overview of the Research Process of this Study



Although a mixed research approach entailing both qualitative and quantitative methods is adopted to maximize the research validity, the research design inherits certain limitations due to time and resource constraints. The major limitations, which include single respondents in both case studies and survey, single face-to-face interviews in most cases, survey sampling in only two Chinese regions, and cross-sectional study, may affect the potential generalization of the research findings. The limitations of the research are discussed in detail in Chapter 8.

5 QUALITATIVE CASE STUDIES AND HYPOTHESIS FORMULATION

The qualitative case studies are conducted to derive exploratory insights into the research questions to achieve three main objectives: Firstly, by identifying the latent factors (variables) of individual constructs in the conceptual framework, and the associations between individual constructs and associated latent factors, the case findings support the formulation of the hypotheses for the quantitative research. Secondly, the case findings support the interpretation and enrich the explanation of the quantitative analysis results. Thirdly, the cases shed light on the internationalization patterns of and the problems encountered by the companies in their internationalization process. Findings enrich existing understanding to support further theoretical replication and extension. The structure of the chapter is as follows:

The first section presents background information on the nature of each company's business, its start-up and foreign business activities, initial choice of foreign location(s) and entry mode(s), and plans for further foreign business development. The problems encountered by the companies, which can indicate specific resource requirements for pursuing internationalization, are also specified to illustrate the effects of networking on addressing the problems of internationalization of SMEs in the subsequent discussion.

The second section explores the networking behaviour of the companies, and investigates the influence of networking behaviour on the availability of network resources and internationalization. This section provides insights into the research question upon how networking behaviour influences the internationalization of SMEs. Hypotheses are formulated according to the case findings. Building on the findings, the utilization and role of strong- and weak-tie networks in the case companies' pursuit of the internationalization is elaborated specifically.

The third section assesses the influence of key decision-makers within the companies on internationalization and networking behaviour, based on which common key attributes of the key decision-makers are identified. This section provides insights to the research question regarding which key decision-maker attributes affect SME networking at the level of the firm, and how they do so.

Each of the above three sections begins with a detailed within-case analysis of each company, and concludes with a cross-case analysis.

5.1 The Internationalization of the Companies

5.1.1 Within-Case Analysis

5.1.1.1 Mars

Established in 1999, Mars was an overseas education consulting agency. It provided student recruitment services to foreign universities. Target customers included those students in mainland China who planned to study abroad, and those Chinese students who were already studying in the foreign countries where the company had business and who required further education consulting services. Revenues of the company came from both the foreign universities and the Chinese students. The former were labelled as ‘clients’ and the latter as ‘customers’ by the founder for clear differentiation.

Initial Foreign Location

Mars had focused on recruiting students for universities in the UK since its start-up. Six years after its establishment, almost all of its clients were still UK universities. The initial choice of the UK market was made based on two reasons: firstly, the UK market occupied one third of the total overseas study market of mainland China, and secondly, the founder had studied and worked in the UK prior to starting up the business.

“I have the knowledge of the market, business laws, and I have personal contacts”.

Initial Entry Mode

In the period following its start-up but before establishing a physical office in the UK, Mars engaged a local part-time employee to handle enquiries and coordination with local customers and clients using a mobile phone. The founder also made frequent business trips to the UK to discuss business with existing and potential clients.

After five years, in early 2004 Mars opened its first foreign office in the UK. The office was located within the campus of a university which was the company’s leading client. The university not only provided the office but also subsidized all the operational expenses except the salaries of the staff. According to the founder, Mars basically acted as an outsourced recruitment service provider to the university. Later in the same year, Mars opened another self-funded office in another city in the UK. The opening of the second office coincided with a time when Mars was negotiating agency contracts with some local universities which it later confirmed. This second office was soon temporarily closed after only one semester, for cost-saving reasons. At the time of the present study, the founder still had not decided whether there was a need to re-open this office. The office site was the property of a personal friend, and hence allowed the founder certain flexibility with regard to its rental and operation.

The founder did recognize certain competitive advantages to having a foreign office. The physical presence of a foreign office enhanced the perceived creditability of the company in the eyes of its Chinese customers and foreign clients, and it enabled the company to expand its business scope to include Chinese students already in the country. The founder, however, stressed that cost-effectiveness was still the major consideration governing whether to establish and maintain a foreign office.

“The office has to be self-sufficient. It must cover its costs. This is my main consideration of setting up office overseas”.

Further Foreign Business Development

The founder was planning to expand the company’s client base to Australia and Canada. The two countries together comprised one third of the total overseas market of mainland China, and the student visa application for them was less complicated than that of the US. Expansion to cover more foreign markets was seen as necessary to diversify the risks of relying solely on the UK market. The company was also planning to expand its customer base to other regions such as Hong Kong, in addition to Shenzhen and Beijing.

As well as diversifying the business horizontally to new foreign markets, the founder also planned to diversify into different business areas.

Major Problems of Pursuing Internationalization

Resource constraints, particularly limited capital, were the major problems to Mars’ progress into internationalization. Cost control and resource allocation, therefore, were critical to the survival and growth of the company.

The founder was reluctant to apply for loans from formal channels, as the start-up of the company had been basically self-funded. He obtained a portion of the start-up fund from his parents, but he was reluctant to approach other relatives for funding. Official organizations and banks were thought to be unsupportive to small businesses. Furthermore, funding and subsidies these organizations provided to small companies were unjustified in light of the application time and efforts required. “I will not waste the time for the insignificant funding”, commented the founder.

The founder had the idea of setting up a foreign office early after the start-up, but the idea was not put into action until five years later. The major barrier was the high cost of running an overseas office. According to the founder, the resources required for opening and running a foreign office could be invested alternatively in advertising in China or opening more home offices. Both of these alternatives had a direct impact on the target customer base.

“It [a foreign office] involves high costs if I have to open and run the office myself. I have taken a long time to evaluate how to implement the idea with minimal costs”.

“If my company were a big company, the capital reserves would have allowed me to make several investment mistakes. But it is not the case”.

Resource constraints also made the recruitment of skilled labour difficult. Mars started up with only two salespeople. They had sales experience but not in the same sector. The company had grown to more than ten employees at the time of the interview, with each foreign office operated by one local employee only. None of the employees were professionals in any specialized functions, and in-house training was seen as the most effective means to impart additional skills.

“Big companies can recruit a specialized marketing professional. We require only undergraduates”.

The founder made all business decisions, handled all important contacts of the company, and conducted meetings with key clients abroad personally. Employees were responsible for routine jobs, although the founder realized that management could become a concern if the company opened more offices in different locations.

Although the founder had studied and worked in the UK, he actually had limited business contacts able to provide direct support to the business. The ‘personal contacts’ he mentioned referred only to the Principal of the college from which he graduated. The college did become the company’s first client, but it definitely did not provide adequate business for the company to survive in the international market. The founder had to build up the overseas clientele alone from a modest start.

“I have learnt a lot (when studying in the UK), but I did not build up any network”.

5.1.1.2 Saturn

Established in 1995, Saturn initially operated an office and a ground-floor shop retailing and wholesaling jewellery in Hong Kong. At the early stage of the start-up, Saturn accepted orders from both domestic and foreign customers, and outsourced production to suppliers in Italy and mainland China. In 1996, one year after the start-up, Saturn started exporting to foreign countries and set up its own production plant in mainland China. A few years later, the company had established another production plant and a wholesale section in mainland China. It soon placed business focus mainly on the foreign and mainland Chinese markets. Saturn did not deal with domestic (Hong Kong) customers, except for a few long-term customers who had had business with the company since its start-up.

The Hong Kong office was responsible for exporting to foreign markets, while the mainland Chinese operations were responsible for product manufacturing and wholesaling in mainland China. Saturn chiefly provided original design manufacturing (ODM) services to its customers - that is, it designed and produced products for other brands.

Initial Foreign Location

Location of Exporting

Since it started exporting, Saturn had targeted developing business in the European markets. The initial foreign markets were selected in alignment with the major market segment of the company, that is, the high-end silver jewellery market.

“We earn higher profit from the products we sell to the European customers. We can meet the level of complexity of design that they look for. Although sales volume to the US market is large, product price is usually very low. The profit margin of the products exported to the European markets is relatively higher”.

The export market decision was based not only on initial sales volume and returns, but also on the business direction of the company, its internal capabilities, the market potential and competition, durability of business relationships, and possible differentiation from the main competitors. The market decision was long-term and strategically-oriented.

“The US customers shifted their orders to other suppliers casually...European customers are different. They value unique designs. We are capable of producing complex design prototypes. We can provide them one-stop services, from product designing, prototyping, to production”.

Location of Operations

Like many companies in Hong Kong, Saturn set up its factories in mainland China to take advantage of her low-cost labour and resources. The first factory was set up in a municipality called Haifeng on the coast of Guangdong province, outside the Pearl Delta Region. The founder chose the location mainly because of its “cheaper labour and rent”. Differences in local policies and regulations were expected, and were not considered to be as important as costs.

“We are used to all these differences (different official policies and regulations) after so many years. There are fewer regulations, and they are less complicated than I expected”.

The factory in Haifeng suffered from poor infrastructure and poor labour quality. Cumulatively intolerable conditions made it necessary to move the factory a year later to Shenzhen, a well-developed municipality adjacent to Hong Kong.

Learning from the previous mistake, the founder considered infrastructure as the critical factor when selecting the location of another factory and the wholesale section. The factory and

the wholesale section (composed of an office and a showroom) were set up in a jewellery industry cluster in Shenzhen.

“People in the same business know the district well because there are already many jewellery manufacturing sites. The building (in which the wholesale office and the showroom are located) is situated in the centre of the district. It is specifically designed and constructed for jewellery wholesaling”.

Initial Entry Mode

Saturn started exporting and established its wholly-owned factory in the same year. Export to foreign markets and the establishment of a plant in mainland China, however, were already in planning prior to the incorporation of the company.

Before Saturn started exporting, a ground-floor shop in Hong Kong handled retailing and wholesaling business with domestic and foreign customers. Located in a street with a cluster of jewellery retailers and wholesalers, the ground-floor shop played a significant role in the accumulation of a foreign customer base for developing the export business.

Because of the scattered exporting destinations in Europe, the founder did not find it feasible to set up sales offices in particular countries.

“Our sales to foreign countries are scattered and there is not one single dominant market. If the US market had dominated our exports, we would have set up a sales office in the US. But it is not the case...It is not possible to set up sales offices in all the markets to which we export products. And there will be management problems. Hong Kong is the best location for centralization”.

Further Foreign Business Development

In response to the high potential of the consumer market of mainland China, the founder planned to focus on developing Saturn’s wholesaling business in the country in the immediate future. Products produced for the mainland Chinese market already comprised one-half of the total production volume of its factories. The company had recently obtained the franchise to produce and distribute the character jewellery of a multinational US entertainment enterprise in the China region. Saturn was seeking retail partners in mainland China at the time of the case study, and it also planned to set up sales offices in Shanghai and Beijing to coordinate product distribution.

Saturn also aimed to increase its exports to Japan in the immediate future because of the customers’ spending power and their taste for high quality jewellery. The founder believed that Saturn’s product designs and quality matched Japanese customers’ requirements better than its Korean competitors, who specialized in artificial jewellery.

In addition to its ODM (original design manufacturing) business, Saturn planned to develop its own brand for foreign markets. Once the products of its own brand were ready for distribution, the founder planned to use local agents and distributors in target foreign countries such as Canada and Malaysia to support distribution. The company was already in the process of locating distributors in these target markets.

Major Problems of Pursuing Internationalization

Unlike many small companies, the founder of Saturn did not find funding a major problem in developing foreign business and operations. The start-up of the company was totally self-funded by the two partners, who were a married couple. Starting the wholesaling and retailing business in one shop, Saturn did not require high start-up costs. Cash transactions in the retailing and wholesaling business provided an adequate cash flow to fund daily operations and re-investment in the business. Revenues generated from the retailing and wholesaling business in the mid-1990s, when the economic conditions of Hong Kong were at a peak, provided enough capital to set up the first factory within just one year.

Management was pinpointed as the major problem and a critical factor for the development and operation of the company in different countries. The founder found managing workers from diverse cultures a challenge. Due to different cultural backgrounds, values, and work approaches, there had been conflicts between groups of workers in the factories before. The company, therefore, applied a rigid directive management approach to its operations in mainland China. Formal rules were formulated to manage the workers, who were required to read and follow the rules. On the other hand, a participative management approach was more effective in Hong Kong, where employees were encouraged to voice their opinions and ideas. Neither of the founders had international and management experience prior to starting up Saturn. Hence, they had to hire and rely on personnel with professional management skills and experience to assist in managing the operations. However, recruitment of experienced personnel who had both the requisite product knowledge and cross-cultural management experience was difficult.

The founders did not have initial personal and business networks that could provide direct support to starting and developing foreign business and operations. All business relationships had to be developed and accumulated in the course of the development of the company.

5.1.1.3 Venus

Established by two partners in 1997, Venus was a trading house that sourced soft furnishing products for foreign customers (importers/retailers) from suppliers in mainland China. The company started with a domestic office of thirty employees, and one of the founders travelled

frequently to foreign countries to discuss business with the customers. After one of the founders immigrated to the UK in 1998, a sales office was set up in the country. From then on, one of the founders was stationed in the Chinese office, responsible for product sourcing, and the other founder was stationed in the UK, responsible for sales coordination.

Initial Foreign Location

The UK had been the largest exporting destination of Venus since its start-up. The market comprised 80-90% of the total sales of the company. Initial choice of the market was made because Venus gained a key customer in the UK through an agent right at the start-up. One of the founders also had country-specific knowledge and business networks in the country.

Initial Entry Mode

Although the UK had been its dominant exporting destination, the founder did not think of setting up the sales office until she had gained UK citizenship. It was one year after the start-up of Venus.

“Actually, it is not necessary to set up a sales office in the UK. I set up here only because of my residence here, and it is more convenient for me to do business in the country”.

After the sales office was set up, however, the founder realized that it provided certain advantages for the company over its competitors.

“Our company provides better services to the foreign customers than other companies in mainland China because we are now closer to the customers here [in the UK]”.

“It is more convenient to conduct sales activities directly in the market. Customers develop a higher level of trust of us. If the customers have any problems, they can give me a call and I am in immediate direct contact to discuss and solve the problem with them. The services that are provided on site are better than the services that I could have provided if I were far away in China”.

Physical presence in the market made responsive and direct communications with local customers possible, which substantially increased customers’ confidence and trust in the company’s services.

The founder also mentioned that she had once considered setting up her own factory. However, she abandoned the idea because Venus already had an extensive network of reliable suppliers. She found the current business model more flexible and well-matched to her specialty, whereas a factory would have required higher capital investment.

Further Foreign Business Development

Although the founder expressed interest in expanding the soft furnishing trading business to other European markets, the company planned to keep its business focus on the UK market in the immediate future. She aimed at expanding the existing business in the UK through

intensifying the business relationships with Venus's existing customers, who had high growth potential.

“Our customers here [in the UK] are all very big companies with significant market shares. Our development direction is to try to get more and bigger orders from our regular customers...Our customers have high development potentials, and we have proven that we can better understand and match their requirements because of our long-term business relationships”.

The founder also mentioned that she had no intention to diversify into different business areas of which she had no knowledge or experience.

Major Problems of Pursuing Internationalization

The lack of capital did not impose significant barriers to Venus's developing foreign business. The start-up of the company was self-funded by the two partners. In the course of business development, the founders were able to utilize the company's small-scale operations flexibly to target some large customers and achieve optimal sales and returns.

Recruitment and retention of experienced salespeople were pinpointed as the major problems limiting Venus's further expansion to other foreign markets. The founder mentioned that salespeople who had rich experience in both the Chinese and foreign markets preferred starting up their own business to working for others. The high turnover rate resulted in a constant need for recruitment. Those in the job market did not have much foreign business experience.

“It is difficult to hire an experienced salesperson in China who can handle sales to other markets”.

One of the reasons that the founder was cautious to expand outside the UK was that the founder had rich market knowledge and experience in the UK but not in other markets.

“Our company needs another outstanding salesperson to develop business in other foreign markets”.

She preferred seeking a cooperative opportunity with another experienced salesperson in the business directly to recruiting an inexperienced salesperson who would require in-house training.

5.1.1.4 Neptune

Established in 1980, Neptune was originally a design house for toys, gifts and premium products. The company dealt with both domestic and foreign customers after the start-up. In the mid-1980s, the company changed its business model to incorporate not only design but also development of products and coordination of production for customers. The vertical integration in the supply chain was triggered by customer requirements.

“We had to change our business model because customers found it unjustified to pay for a design concept, which was intangible. We still design the products for our customers, but we also arrange to develop and produce the products. Customers pay for the end products that we deliver. The price that we charge includes the design fee”.

The change of business model proved to be successful and brought stable business. Neptune soon abandoned the domestic market to focus on foreign markets.

Production was subcontracted to suppliers in Hong Kong and mainland China until 1987, when the company set up its own factory in the Guangdong province on the mainland. In 1995, the company set up more factories specializing in producing products of different categories. Neptune, however, still subcontracted half of the production volume to external suppliers.

In early 2000, the company established agency contracts with local salespeople in the US, and set up a design house in the country.

The company mainly dealt with ODM (original design manufacturing) orders from foreign customers. It also produced own brand products to be exported to foreign markets.

Initial Location Choice

Location of Exporting

The US market continued to be Neptune’s largest exporting destination from start-up. Exports to the US occupied over 85% of Neptune’s total sales volume. After the establishment of the EU, the European market surpassed Japan to become the second largest exporting destination of the company.

Initial entry to the US market was not strategically planned, but was reactive to business initiated from customers.

“We could not choose the market as a small business, particularly at the start-up stage. We could not control and decide which market to enter. Customers chose us, and we responded to whatever orders we could get”.

When the initial customer base had been built up gradually in the US, the founder decided to focus on developing business in the market and defined the US as Neptune’s strategic market.

“Some companies in our industries focus on the US market, and some focus on the EU market. We still think that the US market is the largest market of highest returns”.

According to the founder, the decision to focus on the US market was because it is very large and relatively more homogenous than the EU market. The sales volume of each product was very high, and the high volume per product enabled product standardization. Neptune could take advantage of economies of scale and short lead time in the standardized production. Although countries in the EU constituted a sizable market as well, customer taste and preference of individual European countries were heterogeneous. Products had to be customized for each

country. A wider variety of products was needed and sales volume of each product was scattered, and hence was difficult to achieve economies of scale.

Location of Operations

Costs, stability of supply, and labour skills were the major reasons the company chose to set up its production plants in mainland China. The founder had once evaluated an option to shift the production plant to Southeast Asia where labour costs were also very low. The idea was abandoned because the quality of the labour in the Southeast Asian countries, such as Indonesia, did not match the company's requirements. The workers in the Southeast Asian countries were considered to be less hard-working and skilful than the workers in mainland China. Despite the company's Chinese origin, cultural proximity was not the major reason for the choice of location. The founder indeed found the culture, values and work approach of Hong Kongers very different from those of mainland Chinese, even though the differences might be relatively less great than was the case with people in Southeast Asia.

Geographical proximity was pinpointed to be important when making the location choice for foreign operations. Again, it was not because of perceived cultural proximity but rather management effectiveness. Neptune's production plants were all located in the Guangdong province. "The traveling time to and between each location is within three hours". The Guangdong province was the primary choice of the majority of Hong Kong manufacturers in relocating their production operations, particularly in the 1980s. This was because the Guangdong province was relatively well developed and had a better infrastructure than other regions in China at the time. The founder also stressed that the officials in the region welcomed foreign investments and hence were relatively open-minded and supportive to foreign investors. The clustering of Neptune's factories in proximate locations facilitated the coordination and control of its operations.

Initial Entry Model

Neptune had been exporting to the US since its start-up in 1982. Although the US had continued to be its dominant exporting location, Neptune did not progress to setting up a sales office in the country until 2000. This was because Neptune originally mainly dealt with importers and trading houses, which often had local representatives in Hong Kong. The decision to establish a salesforce in the US was made in correspondence with the change of business model to directly deal with retailers and to eliminate intermediate costs. The founder however decided not to set up its wholly-owned sales office in the US but to subcontract the sales and marketing activities to a local sales agency. The reason for this was to take advantage of its local identity and specialties to bridge into the closely-knit local business communities. It also

avoided complex administrative regulations on foreign investors' direct sales activities. Nevertheless, Neptune set up a wholly-owned design house in the US in 2000 with the objectives of signifying its core competence to its customers, and of enhancing direct involvement in the customers' (local retailers') product design process.

Neptune's factories in China were all wholly-owned rather than joint ventures with local manufacturers. The founder stressed that he wanted to retain full control of the facilities by the company. It however continued to outsource part of the production to local suppliers as a complement to in-house production. Combining outsourcing and in-house production allowed the company to plan and leverage its production capacity more flexibly, thus minimizing the effects of cyclic demands on the production and inventory level.

Further Foreign Business Development

Neptune intended to focus on the US market as its main exporting destination in the immediate future. The founder aimed to establish and enhance business relationships with strategic customers to maximize mutual growth and expansion.

Neptune was working to eliminate the intermediary roles of importers and trading houses in its business model, so as to deal with retailers directly in the US market. The change of the business model inspired Neptune to intensify its physical presence in the US through local sales representatives and the design house. The founder pointed out that it was responding to the industrial trend towards eliminate intermediary roles in the supply chain. Unlike companies in the 1970s or 1980s, most of the domestic companies possessed the foreign business knowledge, experience, and communication skills to work with foreign retailers directly. The coordination role of the intermediaries became less significant.

In addition to its main ODM services, Neptune also put more focus on working and promoting its own brands. The founder insisted that Neptune's own brand products would not compete directly with the products it designed and produced for its customers, thus avoiding conflicts of interests.

Major Problems of Pursuing Internationalization

The major problem the company faced in its internationalization was the lack of local knowledge and experience in the foreign locations. Due to differences in culture, values and work ethics, the company met considerable problems when Hong Kong managers were first assigned to manage the factories on the mainland. There were few qualified and trustworthy local managers on the labour market when Neptune established the factory in the 1980s, and hence recruitment of professional managers was very difficult. There were disciplinary problems with local workers. The company had to expend considerable effort to search for and select

relatively stable and trustworthy workers. The problems then became less severe after the company had trained a group of local supervisors and managers who had been working in the company long enough to be trusted.

It was also difficult to enter some ethnocentric business communities in the foreign markets, such as the Jewish community, without the support of a local representative. Localization of business associates and management personnel was stressed to be necessary to support the foreign development of the company.

Regarding the capital constraints that were faced by the majority of small companies, the founder agreed that capital was the critical factor to new business venturing and development.

“The lack of capital led to risk-aversion of the founders of companies, who will become too cautious to act on the business opportunities responsively. Thus, capital constraints directly and indirectly hinder the growth of the firm”.

The founder of Neptune was skeptical about receiving support from the official channels, although the government had publicly advertised and promoted its support for SMEs. Banks and other financial institutions had restrictive conditions and terms on loans to small business. The ability to create the “first bucket of gold” through the small business founders’ own capabilities and luck was deterministic in enabling the survival and take-off of small companies.

In the case of Neptune, the start-up as a knowledge-intensive design house rather than a capital-intensive manufacturer reduced the pressure of capital constraints. The economic conditions of Hong Kong in the 1980s created a thriving industrial environment for those companies with the capabilities to deal with foreign customers directly. Neptune was able to act on the opportunity with the best timing to accumulate enough capital not only to sustain but also to expand its business. Within a few years of its start-up, the founder could self-fund the establishment of wholly-owned production facilities.

5.1.1.5 Mercury

Established in 1999, Mercury was a display integrated circuit (IC) solution provider for mobile phones, PDAs and LCD TVs in the semiconductor industry. The company was spun off from the Hong Kong subsidiary of a multinational semiconductor developer and manufacturer. The spin-off and the new venture were started up and managed by the management team of the specialized display IC unit originally belonging to the multinational corporation. It had gained the support of a Taiwanese semiconductor company and venture capitalists for the spin-off.

The management team had set as its mission to become the global leader in display IC products in the semiconductor industry right at inception. It produced and marketed products

under its own brand name globally. Within a few years from the start-up, the company's organizational and technology performance was widely recognized; it had won a number of corporate and technology awards worldwide. In 2004, it was successfully listed on the main board of the Hong Kong Stock Exchange. The business grew strongly after the listing. In 2005, it was one of the leaders in the mobile display IC global market.

The major customer of the company since its start-up was the multinational corporation from which it had spun-off. Business with the corporation comprised 40% of the company's total business in 2003 and 30% in 2004. Many of Mercury's customers were multinational enterprises which had subsidiaries worldwide, and the company maintained a 'fabless' business model (i.e., focuses on design and development of products, and outsources most of the production processes). Its headquarters in Hong Kong was responsible for product research, design and development, while it outsourced all the manufacturing processes to external production partners in Taiwan, Korea, China, and Japan. It had direct sales networks, and also had authorized distributors and representatives worldwide. In addition to the technology development base in Hong Kong, it established a technology development centre in Shenzhen, mainland China in 2001 and another centre in Singapore in 2004. The company also formed different partnerships with international enterprises to leverage the industrial technologies.

Initial Foreign Location

Location of Exporting

Mercury designed and delivered components instead of end products to its customers. The company did not choose its initial exporting destinations but shipped the components to the manufacturing locations of its customers. According to the descriptions in its financial reports, the geographical segment revenue was divided up based upon the geographical presence of its customers.

Located in the Asian region, the majority of the company's output was shipped to the production sites of different foreign customers in the same region. The major geographical segments of sales revenue in the year 2004 and 2005 were Taiwan, Hong Kong, Japan, Korea, Singapore, and China. In 2005, sales revenue from exports to Taiwan, Hong Kong and Japan accounted for 90% of the total sales.

Location of Operations

Choices of location of operations were made based on the location's advantages in correspondence with the functions of the operations. Mercury's foreign operations could be divided into two main functions: sales channels and technology development centres.

Locations of sales channels were selected based on the geographical proximity to the customers and the end product markets. Because Taiwan was the geographical segment generating the greatest revenue, the company had established its first direct sales office there in 2000. The company was building up the Taiwan office to include functions such as human resources and administration in addition to sales and customer services. It was to be developed into a large-scale regional office similar to the one in Hong Kong.

The Hong Kong headquarters, the Shenzhen technology development centre, and the Singapore technical development centre specialized in different types of technical development projects respectively.

“The Hong Kong research and development team provides a full range of product developments, while the Shenzhen centre takes on special projects, and the Singapore centre focuses on multimedia ICs and intellectual property (IP) development”.

The Shenzhen centre was launched to provide support to the Hong Kong headquarters on some spill-out projects. Thus, a location close to Hong Kong was chosen to facilitate coordination. The Shenzhen centre was located in a technology park where infrastructure, facilities and an experienced workforce were available.

The project team in the Singapore centre was a specialized unit in the development of multimedia ICs before it was spun-off with Mercury from the multinational corporation, where all the team members were local Singaporeans. The management of Mercury believed that it would give them motivation to increase their productivity and effectiveness if they could work in their home country. The Singapore centre was located in the campus of a high-tech-oriented university, which provided the company with a well-developed infrastructure, hardware and software facilities, and equipment for different technology-intensive projects.

“The availability of experienced IC design engineers was one of the key reasons that Mercury set up shop in Singapore” (Singapore Economic Development Board).

The company did not own its production facilities. It had maintained the ‘fabless’ business model since its start-up, and had subcontracted production to factories in Korea, Taiwan, and China. Mercury’s suppliers were mainly Taiwanese manufacturers. Since Taiwan had launched the earliest science and technology park specializing in the display ICs sector of the semiconductor industry, the production technology of Taiwanese manufacturers in the industry was mature and advanced. This was the reason that Mercury used Taiwanese manufacturers extensively. In recent years, many of the Taiwanese manufacturers have relocated their production facilities to China. Mercury had therefore increased subcontracting to mainland Chinese subsidiaries of these Taiwanese manufacturers. The semiconductor industry in Korea

was also well-developed, and had achieved remarkable technological development in some specialized areas. Production of specialized parts was subcontracted to Korean manufacturers to take advantage of their advanced technology.

Initial Entry Mode

The company chose between direct sales offices, authorized representatives, and dealers when expanding its sales and distribution channels in foreign locations. It had opened sales offices in Taiwan, China, and the US; had assigned authorized representatives in China, Japan, Korea, Southeast Asia, and Europe; had worldwide dealers.

The major consideration in choosing a sales channel was the country-specific business environment. It was believed that sales activities in Japan and Korea were better supported by localized salesforces because of the language barrier and the distinctive business cultures of the countries. Mercury had cooperated with its authorized representative in Korea since its start-up, which was capable of providing not only sales services, but also product design and development support to customers at the early stage of product development before transferring the orders to Mercury. The authorized representatives in Germany and Finland invited Mercury to establish cooperation after they had learnt of the company at an exhibition and had studied the company for two years. Since Germany and Finland were the major end-product markets of display ICs, Mercury responded to the invitations of the two local representatives to establish sales networks in the countries, in order to strengthen its brand name in these important end-product markets.

Further Foreign Business Development

Mercury had been dedicated to becoming a leader in the display IC sector since its start-up.

“In the future, when people think about display IC, we want them to think of (Mercury), just as today they think of Intel when it comes to microprocessors” (Bacani, 2005, CFO Asia).

Mercury proactively expanded the company through the development of new products and new customer bases.

Recognizing the risks in relying on a few dominant customers, the company enlarged its customer base worldwide through extensive direct and authorized sales networks. The company extended its sales networks not only in developed countries but also in developing regions such as China, India, and throughout Southeast Asia that had demonstrated high growth potential.

Building on its core competence to develop faster and better IC chips and technology, Mercury aimed at expanding its product portfolio in the display IC sector.

“The Group will provide total display IC solutions for various market applications and aims to excel in both the panel area and display system area” (Annual Report 2005, Managing Director’s Chatroom, p.16).

It is believed that staying in the forefront of the technology to develop innovative products is the most effective way to attract new customers.

Major Problems of Pursuing Internationalization

Mercury’s management team brought with them a certain amount of assets, laboratory equipment and intellectual property when the company was spun off from the multinational corporation.

“We were lucky because we were a spin-off...A true Hong Kong startup will hit barriers when seeking investment for expansion and in attracting talent” (Wilson, 2000, Electronic Business Asia).

Although the company had a strong background, and initial investments into the new venture were secured by a Taiwanese company, the management team and some venture capitalists, the founder was still turned down by loan officers of banks when trying to apply for business loans. Like other SMEs, Mercury failed to get significant financial support from the home government even though the government had begun to publicly promote high-tech industrial development at the time Mercury was founded.

Mercury raised and leveraged its own funding and capital in the course of its development. It achieved strong growth and outstanding business performance soon after its start-up. However, the management team continued to place emphasis on cost-control to optimize the use of resources. The financial director of the company commented as follows:

“You need to focus on the must-have, not the nice-to-have”.

“Whenever revenue grows by 100 percent, I expect expenses to grow by no more than two-thirds”. (Bacani, 2005, CFO Asia)

Cost-effectiveness was one of the key management principles of Mercury which contributed to its solid financial position.

Another challenge to the company’s development was to find ways and means to stay ahead of the competition.

“In this competitive market, it is paramount to stay ahead of technology frontiers” (Annual Report 2005, Chairman’s Statement, p.13).

Developing advanced technology requires heavy investments in financial and human capital. Mercury relied on a well-educated work force with specialized knowledge and experience in the field to sustain its core competence. While recruitment and retention of talent in SMEs were often stressed to be difficult, Mercury’s turnover rate was extremely low. Mercury treasured

talent as one of its most important assets to achieving success, and hence introduced many incentive schemes to promote a sense of belonging and ownership in its employees. Mercury's recruitment and management approaches were highly effective in overcoming the problem of attracting and retaining knowledgeable workers faced by many SMEs in their expansion in the global marketplace.

5.1.1.6 Uranus

Established in 1995, Uranus was initially an exporter of garment accessories to foreign customers. It did not have its own production facilities at the time of start-up, and production was subcontracted to manufacturers in China. In 1997, the founder joined a venture with a supplier on the mainland to set up a factory. From the time, all the orders were produced in-house by the joint venture factory, while the office in Hong Kong was maintained to coordinate sales orders with foreign customers and to perform administrative functions of the company.

Initial Location Choice

Location of Exporting

Uranus produced garment accessories instead of end products for foreign garment manufacturers. The products, therefore, were delivered to where the end products of the customers were manufactured. Because many of the foreign customers had production facilities in Mainland China, products were mainly delivered directly to the customers' local manufacturing sites.

Customers from the US accounted for the largest proportion of the business of Uranus. Initial foreign markets were not selected deliberately. Uranus' customers were accumulated from the founder's past jobs, or were referred to Uranus by existing customers. The founder commented that the company could not select its customers at the start-up stage, but had to act on all the orders received in order to build up its customer base.

Location of Operations

At the early stage of the start-up, Uranus had outsourced production to manufacturers in China. The major reason for using Chinese manufacturers was not because of cultural proximity. It was based on business considerations including ease of coordination of production and quality control, low production costs, and well-developed production technology for garment products. The founder had already developed good business relationships with many Chinese manufacturers in his past jobs. When he decided to set up his own factory, he did not evaluate the potential of other locations but joined forces with a trustworthy colleague in China to establish the factory there.

Initial Entry Mode

The founder initially started Uranus as an exporter because his past experience was in selling, and the initial start-up investments were much lower. The founder however had noticed the shrinking middle market due to the increased experience of foreign customers in sourcing products directly from manufacturers in Asia; it was also shrinking due to the increased knowledge and skills of manufacturers in dealing directly with foreign customers. He therefore decided to integrate production in Uranus' business model into order to sustain the business.

Rather than setting up a wholly-owned factory, the founder chose a joint venture with a local colleague in China with whom he had worked in his past job. This was because the policies and regulations involved in establishing a joint venture with a Chinese citizen (excluding Hong Kong and Macau citizens who are defined as foreign investors) were much simpler than establishing a wholly-owned foreign-invested plant.

“Local people have a rich knowledge of the local business environment. It is more convenient for local businessmen to apply and register for a new company. The tax rate imposed on locals is much less than that on foreign investors”.

Recognizing that his personal experience was in selling rather than manufacturing, the joint venture with a local partner with manufacturing experience provided Uranus' founder immediate access to production know-how and experience.

Further Foreign Business Development

In the course of the development of the business, the company had established stable business relationships with some large US garment manufacturers, and hence was able to sustain the business. The founder stressed that US garment manufacturers still dominated the global garment industry, thus, Uranus's focus would continue to be on intensifying business relationships with existing customers. The founder did not see the need to shift the focus to customers from other foreign countries.

The founder also did not plan to increase production capacity by establishing another factory. Subcontracting production to cope with excess production capacity was seen as a more flexible and cost-effective option to tackling demand fluctuations.

Major Problems of Pursuing Internationalization

The two major problems that the founder encountered in the internationalization of Uranus were lack of capital and lack of country-specific knowledge.

The founder had limited start-up capital. He had explored different channels for funding to support the business venture and development, and had made applications to banks and government organizations for loans and subsidies, all of which were rejected. He emphatically

remarked that it was almost impossible for SMEs to get adequate loans and subsidies from banks and government organizations because the terms and conditions involved were harsh and unrealistic. He finally decided that it was more practical to self-fund the start-up and to begin Uranus as an exporter. The expansion of the company was also self-funded by reinvesting the operating capital.

The founder mentioned that it was essential to adapt to different business cultures and practices when dealing with business associates from different countries. The founder had rich work experience in different industries, which helped him to develop an open-minded and flexible working style, yet he still found that country-specific knowledge was difficult to acquire and internalize. He therefore commented that it was necessary to recruit local people who understood the local culture. One of the major reasons that he joined a venture with a local manufacturer in China was because he found the culture, attitude, and work ethic of the mainland Chinese very different from that of Hong Kongers.

“It was easier for local people to manage the local workers because their culture is so different from that of Hong Kong. Localized management personnel know a better way to solve the problems of the local workers than we do”.

Local management personnel, however, were difficult to recruit especially when the job responsibilities required people who were trustworthy and committed to the company.

5.1.1.7 Jupiter

Privatized to become an independent testing and certifying organization in the mid 1980s, Jupiter was originally an official unit that provided product testing services for exports from and imports to Hong Kong.

After the privatization, the company had to develop a new customer base to sustain the business. The company extended its services to foreign customers exporting products to mainland China, and Chinese companies exporting products to foreign countries. In order to build up testing capabilities for the safety standards of individual countries, the company developed different forms of collaboration and cooperation with foreign testing and certifying organizations. It acted as an agency to foreign safety certification bodies. It also collaborated with other laboratories in foreign countries; and established a joint venture with state-owned laboratories in mainland China.

The company had foreign offices in the US, Europe and China to coordinate business activities with local customers and certification bodies. Offices on the mainland were

established for coordination initially, but they were gradually equipped with testing facilities to test for customers locally.

Initial Foreign Location and Entry Model

The location and entry mode of Jupiter's foreign operations were decided based on geographical proximity to the major customer base and the market needs.

Foreign offices, such as those in the US, UK, and mainland China, were originally set up to support business development, coordination, and promotion activities. All testing requests received by the offices were forwarded to the Hong Kong headquarters, in which the testing was done.

The testing and certifying industry in mainland China was still regulated by the State, and hence private organizations could not set up independent testing laboratories. Jupiter, therefore, could only join a venture with the state-owned laboratories to develop business in the country. It planned to set up a headquarters in the Guangdong province to manage the expansion of operations on the mainland. The location was chosen because of its language, culture, and geographical proximity to Hong Kong.

“There are only two choices to locate the manufacturing sites of consumer goods (Jupiter's customer base) in mainland China. They are Guangdong province and Zhejiang Delta. The culture of Zhejiang Delta is very different from that of Guangdong. Hong Kong people are Guangdong natives...We are not familiar with the Zhejiang way of thinking. We have little contact with the region, and our business models may also differ. In addition, it is distant from the Hong Kong headquarters. It will be more difficult to provide back-up support. These are the reasons we decided to build our mainland Chinese headquarters in Guangdong”.

Further Foreign Business Development

Business from mainland Chinese customers had expanded rapidly since the 1990s, and dominated 80% of the company's total business. In response to the increasing importance of the mainland Chinese market, the company had continued to invest in enhancing its market power in the country.

“Mainland China represents a major market, which is the development target of many companies from around the world”.

“We are Hong Kong-based and we focus on developing our business in the mainland Chinese market constantly”.

It aimed to strengthen its strategic role to be the bridge between foreign countries and mainland China, to provide testing and certifying services for products not only exported from but also imported into China.

“People always focus on the huge volume of exports from China. The volume of imports into China is indeed very high”.

The company also actively sought collaboration and cooperation with certification bodies of potential new markets other than those of developed countries like the US, such as Eastern Europe and South America.

“These organizations are keen to cooperate with foreign organizations, particularly Chinese organizations because of the huge volume of exports from and imports to China”.

Major Problems of Pursuing Internationalization

Resource constraints were relatively less of a concern to Jupiter compared with other small businesses in the same industry.

“We have enough internal services and supports on our own to develop new services, conduct R&D, and conduct market analyses”.

Considering the complicated industrial structure of the testing and certifying sector, resource disadvantage, in comparison with some dominant large organizations from developed countries such as the US and the EU, was still a major problem affecting the firm’s development and competitiveness in the international market.

Product testing and certifying is a capital-intensive business which requires heavy investment in establishing and maintaining testing facilities and specialized knowledge. Country-specific knowledge and experience to comprehend and apply the local safety standards of individual countries are essential to the diversity and quality of the services provided. In developed countries such as the US and the EU, the country-specific safety standards are commonly known. The testing and certifying market of these countries is mature and highly competitive, and is dominated by certain large local organizations. These large organizations have rich local knowledge and experience, and strong local networks. They also have more resources to advance their testing capabilities and recruit specialized knowledge workers to compete in different countries with different standards. They are more capable of providing one-stop services to both domestic and foreign customers.

In developing countries, safety standards are not well-defined and change frequently. Testing and certifying services are either regulated by the government and are provided by state-owned organizations (as in China), or the services rely heavily on highly specialized localized personnel with comprehensive local knowledge and experience (as in South American countries). In the former case, entry to the market is generally restricted. In the latter case, development of testing services by small foreign testing organizations is very difficult because it is costly to establish local offices or hire specialized personnel with country-specific knowledge.

In both of the above cases, collaboration with local firms becomes the most practical option. Seeking out reliable and trustworthy partners in developing countries with different cultures, values and working approaches is a big challenge to small companies.

5.1.1.8 Terra

Co-founded by a group of information technology (IT) elites in 1996, Terra claimed to be one of the largest computer software and IT solutions providers based in Hong Kong. Its core business was software development. In 1999, it became the first IT company listed on the Growth Enterprises Market (GEM) of Hong Kong, which was the territory's equivalent of America's NASDAQ. The debut listing on the GEM was a cornerstone in the company's development.

Right at the start-up, the founders of Terra envisioned the company as a leading global software developer. The chairman emphasized that the software and IT-related industry was a global business without borders.

“Software development is a global business. There are not many business opportunities in Hong Kong. We have to broaden our regional scope to mainland China, Hong Kong, the US, and Europe. All of these are important business regions. It is important to take into consideration the regional factors of the business. It is not practical to limit our business scope to one region only”.

Hong Kong and mainland China were the two dominant geographical segments contributing to the company's business.

Terra was an early entrant to the software market in mainland China. Its first branch in Guangzhou was established in 1998. It then established operations in different regions such as Beijing, Tianjin, and Shanghai. It also set up subsidiaries, joint ventures, joint stock and associated companies in the country; it entered into collaboration and cooperation with official, private and academic institutions. One of the milestones of its entrance to the market was the joint venture with two subsidiaries of the state institutes to become a major shareholder of the Zhuhai Southern Software Park (ZSSP) in 2000. The ZSSP was later approved and constituted by the Chinese government as one of eleven ‘National Software Industry Bases’.

According to secondary data, Terra actually had aimed to make a grander debut on NASDAQ in the US but accepted a plea from GEM's chairman to list locally. Terra had made attempts to establish presence in the US market, a highly reputable though mature market of IT companies worldwide. It began operation in New York in 2001. Its entrance to the market then suffered a major setback after the 9/11 incident. The US operation was inactivated in the

financial year 2002/ 2003, and overseas strategies were re-evaluated. Terra, however, continued to seek opportunities for alliance targeted at the US market in the following years.

Initial Foreign Location

Mainland China had always been identified as the focal location of the company's investments and expansion.

“Technologically, all solutions offered by the group have the China market in mind and have built-in globalization functionalities” (Annual Report 2000, Chairman's Statement, pp.3-4)

The founders' decision to put substantial and forceful efforts into entering, developing and succeeding in the software development market in mainland China was made on the basis of both national pride and business considerations.

Terra prided itself on being a Chinese-based software development firm and had envisioned the success of Chinese companies in the global marketplace.

“The [Terra] legend is one born out of software and Internet technology by the Chinese, yet with a target to be a world-class technology leader” (Annual Report 2000, Chairman's Statement, p.7).

“As a software company based in Hong Kong, Terra has been, and will be persistently and consistently patriotic to both the PRC and Hong Kong” (Annual Report 2004, Chairman's Statement, p.4)

The chairman recalled an early incident in his career in which a client insisted he sought the support of a renowned foreign computer technology company for his project (even in name only) before agreeing to give him the contract. In this case, the client had made it clear that they were fundamentally satisfied with the project prototype developed, although the foreign company did not have any kind of participation and involvement in its design and development at all.

“This incident gave me a very strong feeling that because Hong Kong had been under the colonial rule of British government for a long time, Chinese companies were looked down on. Chinese companies were seen as second, third and even lower-class companies”.

“I intentionally chose that day [1st July, 1996] to commence the operations of Terra. It was because I held the hope and belief of Chinese companies to be successful” (1st July 1997 is the day of return of Hong Kong's sovereignty to the Chinese government).

From the business point of view, mainland China was “the most under-penetrated substantial market in the world in terms of software and internet”, and “the IT industry, especially the software industry in China is heading for takeoff” (Annual Report 2000, Chairman's statement, p.6).

The chairman commented that the start-up of Terra and its entrance into the mainland Chinese market were executed with impeccable timing, when the admission of China into the World Trade Organization (WTO) was expected, and the Chinese government's policy of

prioritizing IT development had been determined. The favourable macro-environment, therefore, made mainland China a very viable market with enormously promising business opportunities.

Initial Entry Mode

The initial step in Terra's plan to establish and expand its operations in mainland China was to set up a subsidiary company in Guangzhou in 1998. The subsidiary was a cooperative joint venture in name only with a local company. Terra totally owned and ran the company. It was believed that joining a venture with a local company avoided the relatively more complicated and time-consuming administrative regulations and procedures involved in wholly-owned operations by foreign investors.

It was a necessary and strategic decision to establish the joint venture company with a local enterprise held by an official institute in the Zhuhai Southern Software Park (ZSSP) in the same year. The ZSSP was basically a state-developed entity, and hence required direct official ownership of capital and management. The joint venture company one of the anchor tenants in the ZSSP, prepared Terra for the acquisition of a major stake of the ZSSP. The company had become one of the three shareholders, together with two subsidiary enterprises of the official institutes that co-owned the entity in 2000. The joint venture was an important milestone that placed Terra in a highly advantageous and reputable position for its expanding business in mainland China.

"I find them (the two partnering enterprises) to be our strategic partners because they are influential in China. In China, there are eleven State-appointed software parks [and ZSSP is one of them]".

Further Foreign Business Development

Recognizing the huge under-penetrated potential of the Chinese market, Terra would continue to expand aggressively in the country.

"Our strategy is based on exerting the market, resources and talent advantages possessed by China" (Company website: Home>Strategy>Preface)

Continuous expansion into the mainland would be executed through different forms of strategic partnerships and cooperation with prominent official and private parties in specific projects; through commercializing the technological capabilities of the company's in-house designed and developed innovative software solutions - a consolidated platform (namely TCP) - for market applications.

Major Problems of Pursuing Internationalization

The major problems of sustaining the company in the course of its development into a world-class software development company included seeking continuous financing, getting recognition and acceptance in the market, recruiting talents and tackling the changeable industrial environment.

“The biggest problem facing software development companies is that the development involves very high costs. It involves a very long development cycle, and the output will not bring returns in a short time”.

“Low costs, a fast development cycle, and high efficiency were not realized in software development so far”.

The chairman once described to a prominent family which had invested at an early stage how investing into software development was like “throwing money into the ocean”, meaning that the money might quickly disappear without any trace or returns. Because of the long development cycle, the company required stable financing to survive and sustain the business continuously.

“... financing of the company that has its main business in software development was very tight. The investing family was very cautious and conservative about their investment in the company. In this situation, the survival time of the company was not guaranteed”.

Terra took ten years to conceptualize, design and develop its innovative idea of a consolidated platform. Although the company had strong confidence in the consolidated platform being a breakthrough in the software development industry, the chairman also realized that not many parties might share his vision of its distinctive benefits.

In addition to the initial investments from the founders and a prominent family, Terra financed its continuous operations through conducting projects for individual clients. The chairman, however, stressed that financing through individual projects might not be practical and stable enough to sustain a software development company.

“In the software development industry, there is never one project whose size or scope is large enough to support the operations of the company for a reasonably long period. For example, we made 50 million from the MTRC project but the money was spent in a blink. The company cannot rely on project-based business to survive and to grow”.

Listing on the GEM was a deliberate strategy to solve Terra’s financing problems in the long term.

“If I relied solely on the family’s investment, the members might not have the vision and they might be narrow-minded. They would expect fast returns. So I thought of getting support from the market”.

“[Through listing on the GEM], as a company whose main business is software development, we could draw attention and investment from the market. At the time, we raised 4 billion cash in one day. Because of this move, our survival time was guaranteed. With this solid foundation of survival, it was possible to seek further development”.

Gaining market acceptance and recognition was another challenge. Many of the clients still considered the ‘brand name’ of the service providers as important as their actual capabilities. It was difficult for a Chinese-based new player in the software development industry to compete with these renowned foreign companies. Being the first company listed on the GEM in Hong Kong won Terra the fame that, to a large extent, smoothed its development and expansion path in the software development industry, which was traditionally dominated by large foreign companies that were well-established and had substantially more resources to draw upon.

“The listing proved that my business strategy would get market acceptance and recognition. It would guarantee not only our survival but also a broad scope for our further development”.

The chairman commented that the reputation of being the first company listed on the GEM was a strong facilitator for its acquisition of the major stake in the Zhuhai Southern Software Park, and for gaining the Chinese government’s confidence in designating the ZSSP as one of the national software development bases.

Recruiting talents is another big problem for small software development companies. Software development requires specialized skills and knowledge, and involves considerable time and costs to retain and nurture the human capital of the company.

“One of the main difficulties of running a software development business is recruiting talents. The more they are knowledgeable and skilful, the higher their salaries... It is difficult to nurture human capital to form a solid business pillar if the employees do not care about the benefits of the company”.

The chairman stressed that the many significant changes and occurrences in the macro-environment in the past ten years provided a major setback to the development of Terra’s core competence - the consolidated platform. For example, the 9/11 attack had directly affected the company’s entrance into the US market, and the outbreak of SARS had seriously affected its business in mainland China.

“I believe starting a business or developing technology in Hong Kong will not be possible in an unfavorable macro-environment”.

The industrial environment of the software development business was also highly competitive, fragmented, and changeable.

“There are still no well-defined success factors in the software development field”.

“One cannot simply think customers are God and follow their requirements. It is impractical. Software development cannot survive in this way. We have to create a market. We have to create a standard”.

Recognizing the dynamic industrial environment, the chairman emphasized that the preparation and the pursuit of an opportunity with unpredictable results in software development

required great confidence, persistence, will power, and also substantial resources. The chairman pointed out that only the strongest and fittest could survive.

“Ten years are too long and it may not always be worthwhile to spend ten years to realize an opportunity. Many may not survive...In this changeable environment, one has to ask whether he/she is well-prepared to be an opportunist. Otherwise he/she should quit”.

Table 5-1: Summary of the Internationalization Patterns of the Companies

| Company | Year Founded | Year Internationalized | Proportion of foreign sales | Foreign markets | Major Problems Encountered/ Foreseen in Internationalization |
|---------|--------------|------------------------|-----------------------------|----------------------------|--|
| Mars | 1999 | 1999 | 100% | UK*, Australia, Canada | <ul style="list-style-type: none">○ Financing○ Recruitment and retention of employees○ Foreign operation management○ Foreign business network-building |
| Saturn | 1995 | 1996 | >90% | EU*, US | <ul style="list-style-type: none">○ Foreign operation management○ Recruitment and retention of professional managers○ Foreign business network-building |
| Venus | 1997 | 1997 | 100% | UK | <ul style="list-style-type: none">○ Recruitment and retention of experienced sales staff○ Country-specific business knowledge and experience |
| Neptune | 1980 | 1980 | 100% | US*, EU, Japan | <ul style="list-style-type: none">○ Foreign operation management○ Recruitment and retention of localized staff○ Foreign business network-building |
| Mercury | 1999 | 1999 | 100% | Worldwide | <ul style="list-style-type: none">○ Long-term financing○ Rapid technological changes○ Expansion of foreign client base |
| Uranus | 1995 | 1995 | 100% | US*, Mainland China | <ul style="list-style-type: none">○ Financing○ Foreign operation management○ Recruitment and retention of localized staff |
| Jupiter | 1984 | 1984 | >70% | Mainland China*, worldwide | <ul style="list-style-type: none">○ Development and maintenance costs of equipment○ Restricted/ Regulated industrial environment○ Country-specific technical knowledge○ Development and maintenance of foreign partnerships |
| Terra | 1996 | 1998 | >60% | Mainland China*, US | <ul style="list-style-type: none">○ Long-term financing○ Market acceptance and recognition○ Recruitment and retention of talents○ Unpredictable environmental changes |

* Dominant foreign market

Table 5-2: Summary of First Internationalized Step, Foreign Market and Operation Locations

| Company | First Internationalized Step and Foreign Location | First Foreign Operations: Year, Form and Location | Reasons for First Foreign Market/ Location Choice |
|---------|---|---|---|
| Mars | 1999 Agency services to foreign clients ○ UK | 2004* Liaison office * <i>Mobile worker before 2004</i> ○ UK | <ul style="list-style-type: none"> • Market potential • Personal experience of the founder in the country • Personal contacts |
| Saturn | 1995 Outsourcing products ○ Italy and China 1996 Exporting ○ Europe | 1996 Wholly-owned factory ○ China | <ul style="list-style-type: none"> • Market potential • Locational advantages for production |
| Venus | 1997 Product sourcing for foreign clients ○ UK | 1998 Sales office ○ UK | <ul style="list-style-type: none"> • Responded to agent referral • Personal experience of the founder in the country |
| Neptune | 1980 Product design for foreign clients ○ US | 1987 Wholly-owned factory ○ China | <ul style="list-style-type: none"> • Responded to customer orders • Market potential |
| Mercury | 1999 Exporting ○ Taiwan, Japan and Korea Production subcontracting ○ Taiwan and Korea | 2000 Sales office ○ Taiwan | <ul style="list-style-type: none"> • Key client followership • Locational advantages for production |
| Uranus | 1995 Product supplied to foreign clients ○ US Production subcontracting ○ China | 1997 Joint-venture factory ○ China | <ul style="list-style-type: none"> • Responded to customer orders • Prior business experience of the founder in the market • Market potential • Location advantage for production |
| Jupiter | 1984 Testing services for foreign clients ○ Worldwide | Mid-90s Liaison offices ○ US and Europe | <ul style="list-style-type: none"> • Existing business prior to the privatization |
| Terra | 1998 IT projects for foreign clients ○ China | 1998 Subsidiary branch office ○ China | <ul style="list-style-type: none"> • Market potential • Personal experience of the founders in the country |

5.1.2 Cross-Case Analysis

Based on the comprehensive description and analysis of individual cases in the preceding section, cross-case analysis of the internationalization experience of the eight case companies were conducted from which the below commonalities are identified and discussed.

Exporting products or services to foreign customers was the dominant mode to start internationalization (Papadopoulos, 1987; Dhanaraj and Beamish, 2003; Leonidou and Katsikeas, 1996; Vatne, 1995). The internationalization was to a certain extent progressive although the time interval between exporting to established foreign operations was much shortened (Gemser, Brand and Sorge, 2004). Saturn and Terra started exporting products/services and established foreign operations in the same year. Other companies became involved in foreign direct investment between one to ten years after they started exporting. It took about ten years, seven years, and five years for Jupiter, Neptune, and Mars respectively to set up their first foreign operations. Jupiter initially provided services related to foreign products imported to Hong Kong and Hong Kong products exported to foreign countries. The foreign clients often had regional offices in the domestic market with whom Jupiter directly dealt. Neptune originally started up as a design house that did not involve product manufacturing until she changed her business model in the mid-1980s. Although it had established several wholly-owned production facilities since 1987, Neptune still subcontracted to other manufacturers to increase production flexibility. Mars recruited a mobile worker to represent the company in the foreign market before it established the physical office. The cases demonstrate that foreign operations were established in different ownership types other than wholly-owned, such as joint ventures, joint stock companies, affiliated companies by SMEs. Terra even defined acquisition as one of the key strategies to enter and expand in a market. The cases show that the internationalization paths of the SMEs are much more flexible and less deterministic than those proposed in the conventional models (Bell, 1995; Crick and Jones, 1998; Dimitratos et al., 2003; Jones, 2001; Moen, Gavlen and Endresen, 2004; Spence, 2003).

The case companies were able to choose a realistic operation mode to support their foreign business. The flexible choice of operation modes of these smaller companies enabled them to start off foreign operations under resource constraints. In the cases of Mars, Venus, Neptune, Saturn, and Uranus, the self-funded start-up was on a very small scale; the expansion of foreign business was supported by re-investing working capital flexibly (Chow and Fung, 2000). Venus's sales office was operated as a home office adjacent to the

founder's residential place, and part-time workers were employed to minimize the operational costs. The first factory of Saturn was also very small, but it was able to support its high-end jewellery business that looked more for craftsmanship and design quality than for volume. Both Venus and Mercury gave up the idea of internalized production, but placed focus on their core competence to minimize the capital investment. This approach to survive and sustain business by "deploying the minimum assets needed to achieve the desired business results" is described by Starr and MacMillan (1991:81) as a common strategy adopted by smaller firms, which they label "asset parsimony". The case findings are in alignment with other studies on the internationalization of SMEs. For example, Chetty and Campbell-Hunt (2003) find in an empirical study that the firms they sampled managed their pace of internationalization according to what they could bear. Varaldo (1987:220) in a study of the internationalization of Italian SMEs, also makes the comment that "every size and type of firm has its own special way of becoming internationalized". With specific reference to Chinese small firms, Redding (1995:64) points out that "they are refined judges of risk and complexity and they normally have a clear sense of what is beyond their reach organizationally". Their flexibility and adaptability makes these smaller players equally competitive in the world markets (Knight and Cavusgil, 2004; Miller, 1992; Redding, 1995; Yu, 2000).

Companies generally adopted a niche strategy to expand business into foreign markets (Bell et al., 2003; Ganitsky, 1989; Knight, Bell and McNaughton, 2003; Kohn, 1997; Madsen and Servais, 1997; McDougall, Oviatt and Shrader, 2003; Moen, 2000). This tendency to focus on a specialized niche is simply a realistic practice by resource-constrained small firms to concentrate what resources they have, or a strategy to minimize the risks involved in diversification or head-on competition with larger firms (Gomes-Casseres, 1997; Penrose, 1995; Shrader, Oviatt and McDougall, 2000). Except for the founder of Mars, who clearly expressed his interest and plans to diversify the business into different business sectors, the other companies were inclined to concentrate on their core business and sustain core competence in the existing sectors. They defined a clear strategic direction to maintain growth by deploying the potential of a few strategic customers in the existing sectors with whom they had already had long-term business relationships. The finding is consistent with Luk's finding (1996) on the success factors of Hong Kong small business, in which about three quarters of the respondents self-reported "penetrate target niche" to be the most important factor for success in the product market.

All the companies were started up with the vision of doing business in the global marketplace (Knight and Cavusgil, 2004; Johnson, 2003; Madsen and Servais, 1997). Choice of and entry into the initial foreign market to start off the foreign business, however, could be both reactive and proactive (Ellis, 2000; McNaughton, 2003; Papadopoulos, 1987). In the case of Venus, Neptune and Uranus, the choice of the initial foreign market was a reactive one to foreign customers initially referred by the intermediaries and/or responded to the companies' direct marketing (Ellis, 2000; Johnsen and Johnsen, 1999; Meyer and Skak, 2002). Both Neptune and Uranus emphasized that they could not choose their market or customers as a small business at the start-up stage. Client followership was manifest in the case of Mercury. With its ex-parent dominating more than 90% of its total business at the early stage of the spin-off, Mercury had to stick with the key client's business development (Bell, 1995). The founders of Mars, Saturn and Terra, on the other hand, had clear visions of their target markets and had focused on proactively expanding their business in the markets right at the beginning. Regardless of the reactive or proactive choice of initial foreign markets, all the companies were able to adapt their strategic direction and core competence in the course of foreign business development to capitalize on the market potential. Continuous accumulation of experiences and the extension of business networks enabled the companies to deploy their initial foreign markets to become the strategic markets in the pursuit of growth. Significant differences between the internationalization of high-tech companies and traditional companies found in other studies (e.g. Bell, Crick and Young, 2004) are not identified (Belso-Martinez, 2006; Knight, Bell and McNaughton, 2001).

The influence of cultural proximity on the initial and subsequent choices of foreign markets and operation locations was not significant in all the cases. While geographical proximity was regarded as a locational advantage that facilitated coordination and control of foreign operations, geographical closeness was not correlated to psychological distance. All the companies were targeted at entering foreign markets that had the largest market potential and represented the global trends of the business sectors in which they operated (Arenius, 2005; Bell, 1995; Crick and Jones, 1998; Knight, Bell and McNaughton, 2003; Lindqvist, 1997; Madsen and Servais, 1997). All the cases dealt with customers from far-away lead markets such as the US, UK and Europe from an early stage. Neptune and Saturn started off conducting business in both the domestic and foreign markets. Business in the domestic market supported the survival of the companies and their accumulation of resources at the early stage, but the domestic business was abandoned after the companies had gained stable business from the foreign markets. The decision by Jupiter, Saturn and Terra to place their

business focus on the mainland China was made in response to the rapid growth and huge potential of the market rather than to a perceived cultural proximity. Similarly, the decision by Neptune, Saturn and Uranus to establish production facilities in mainland China was made because of the latter's locational advantages of low-cost and high quality production resources. The respective culture and values of Hong Kongers and mainland Chinese were indeed found to be very different despite the same ethnic origin. The findings were in alignment with other studies in the same regional context, which find psychic distance to have very limited influence on the foreign business development of firms from Hong Kong and mainland China (Child, Ng and Wong, 2002; Ellis, 2000; Yeung, 2002). For example, in a study by Zhang and Yuk (1998) on the determinants of Hong Kong firms' investment in mainland China, the Chinese connection factor defined in terms of ethnic ties as considered the least important by most of the respondents, whereas locational specific advantages were the most important.

In summation, the internationalization of the case companies demonstrates heterogeneous patterns in terms of speed, foreign market choice and entry mode. All the eight companies faced constraints on financial resources, human resources, [foreign] management knowledge and skills, foreign market knowledge, and foreign business contacts that impede the internationalization of SMEs in general. However, they actively sought internationalization right at inception or at an early stage of start-up; and were able to establish stable foreign business to survive and grow in their specific sectors. Their experience provides evidence that the internationalization patterns of SMEs are not as deterministic as proposed by the internationalization model, and that internationalization can be enacted by SMEs in a way which matches their specific conditions. It implies that further efforts to explore and explain the key endogenous and exogenous factors driving and enabling SME internationalization are still needed in order to gain a holistic understanding of the phenomenon.

Referring to the experience of the eight companies, *proactive networking to develop key relationships and to create access to network resources* is identified as a common direction through which the companies compensated for their inherent constraints and pursued foreign business development. It supports the focus of this research on defining networking behaviour as a key factor in the internationalization of SMEs.

In alignment with the common understanding, it is also observed that the key decision-makers of all the eight companies alike had dominant control over business direction and correspondent activities. It justifies the inclusion of the key decision-maker as a variable to SMEs' networking behaviour in the research, with which the explanation of networking

behaviour as a key factor in SME internationalization can be enriched. In-depth case description and analysis results that provide fine-grained insights into these two construct - the networking behaviour and the key decision-maker - are presented respectively in the following sections.

5.2 Networking Behaviour for the Internationalization of the Companies

5.2.1 *Within-Case Analysis*

5.2.1.1 Mars

Networking was identified as the most significant and essential activity in support of business development. A combination of informal and formal, personal and organizational channels was used to explore and develop network relationships.

The founder of Mars proactively approached his personal contacts prior to the start-up for information and advice on his business idea, and for prospective business opportunities. At the start-up stage, Mars had limited networks in the industry and in the target foreign market. The personal contacts formed the critical network nodes from which Mars' business networks extended to include new parties that directly benefited the business. Network relationships were utilized to increase the client and customer base, to gain market presence, to acquire resources, to collect market information, to obtain business advice, and to explore potential business opportunities.

The start-up was basically self-funded. The founder obtained a small amount of funding from his parents, but he perceived this more as a means by which they were expressing support for his endeavour. The founder first approached the principal of the UK college at which he studied for advice on the business idea. The college became the company's first client, with whom Mars formally started the business. The personal relationship with the Principal strengthened the business relationship between Mars and the college. Consequently, high commissions and timely payments from the college for Mars' services were crucial as basic operating capital for it to survive in the business, before it could further build up its customer and client base.

Mars started up with three people. Two experienced salespeople were recruited right at the beginning to develop the customer base. These two salespeople approached their personal networks to locate customers. Mars also explored network development opportunities through participation in international education fairs and exhibitions in mainland China, as well as direct marketing and promotion to the key decision-makers of the international offices of foreign universities. After Mars gradually built up its client base, it

initiated cooperation with other agents on the mainland to transfer customers, and shared part of the commissions with them. A group of agents in the same business with whom the founder had closer relationships were sources of practical industrial and market information. It was through these informal but regular industrial exchanges that the potential of the Australian and Canadian markets was identified, and the need to diversify the business was acknowledged. The founder considered joining social clubs whose members comprised experienced and successful businessmen to extend his personal networks and enhance his own business acumen.

Despite the founder being proactive and open-minded in exploiting potential network relationships, the selection of key network parties became more instrumental and calculative over the course of the company's business development. For example, the founder only turned to people of proven business acumen and experience for advice and information. These people were perceived to have high achievements in terms of their education level and/or position in sizable companies, and they were more qualified to provide advice on his business ideas. "It is meaningless to ask someone for advice who is not even up to your own standard", commented the founder.

Though it was not a highly formalized practice, he prioritized his clients, and resources and efforts were allocated to maintain the relationships based on this prioritization. He maintained a system to manage the customer and client relationships, and assigned personnel to keep regular contacts and send greetings on major events. Regular meetings were held with key clients to review performance, and to seek resources and opportunities for further business development.

Key clients not only brought stable business to the company but also other business resources. Key clients acted as the bridge to yet other clients in their networks. The reputation of individual clients was instrumentally exploited to strengthen the company's market position in the foreign market. Some famous universities in Mars' client list did not bring much monetary return because of the low acceptance rate of the students being referred. These clients, however, were a strong selling point to raise Mars' market status and business profile, by means of which prospective network parties were attracted. Taking advantage of the reputation and networks of a key client in a local university community, Mars was referred as an agent to a broader range of universities in the same region. Referral of an in-group trustworthy party was essential to gain initial access to the representatives of these universities and boost their confidence in building business relationships with Mars. This key client also provided the physical and financial resources for Mars to establish its first foreign

office, and subsidized the company's advertising expenses to promote further business development.

Existing customers were a valuable source of prospective customers because the 'word-of-mouth' reputation produced significant effects on Mars' business, particularly when many of the customers had a certain social status. Customer referrals from counterparts in the same business also made up a significant proportion of the company's total number of customers.

Although prioritization was necessary to optimize the utilization of limited resources, all relationships were developed and maintained on a long-term basis. Unnecessary termination of a relationship was avoided for both economic and ethical considerations. For example, Mars still kept the business relationship with its first client because it was supportive to Mars through the start-up stage, even though its business value had greatly diminished over the years. Mars also kept the business relationship with a client who had once employed the service of another agent behind Mars' back, because this client continued to provide Mars with many resources.

Credibility and economic interests were two intertwined mechanisms to sustain mutually satisfying relationships. The founder emphasized trustworthiness and credibility as his watchwords in all business relationships, and in turn he expected Mars' business associates to give the same commitment. Constant interactions and exchanges were seen as essential to nurture the trust between two parties, and hence regular face-to-face contacts were deemed necessary in client and customer relationship management.

5.2.1.2 Saturn

The founders understood that their lack of industrial and business experience could be an impediment to business development. They had no personal friends working in the same business from whom to seek business information and advice. They were therefore proactive in initiating information exchange with customers and suppliers at the start-up in order to learn about products and market trends. The founder would approach her personal friends working in different management functions for general management advice. However, since professional managers were recruited at the early stage, the seeking of management advice from personal friends was not particularly necessary.

The retailing shop acted as an important channel to accumulate the customer base. It also generated the operating capital to fund foreign business development. The founders planned a year ahead and participated in trade fairs to locate customers prior to starting exporting. After

starting the business, Saturn joined the local industrial association to take advantage of the networking events it organized for its members, and the first-hand industrial news and information it sent out regularly. Saturn also used the official trade development council intensively at the start-up stage to obtain customer information. The use of this official channel was substantially reduced after Saturn had built up the business. The founder commented that the support offered by the official channel was too limited to justify the time and effort spent.

Saturn established its factory one year after the start-up. The founders employed two local relatives to manage the factory in mainland China at the beginning because they were reluctant to stay in a remote city outside the Pearl Delta region. The local relatives also had better regional knowledge for managing the local workers, who had a very different culture and attitudes. After the factory was moved to a location near Hong Kong a year later, the founder (the husband) took over control and recruited professional managers to manage the operations. The new factory location was recommended by an acquaintance who had rich local business knowledge and experience. The relationship with this acquaintance was distant and the founders only reactivated the contact when the need arose, because they could not find another person in their networks with the requisite knowledge.

Following the growth of the business, Saturn became more selective in the networking channels and choosing network parties that better matched the company's business direction.

Selection of trade fairs was regarded as a strategic business decision, when costs and returns had to be justified. "There are differences among trade fairs, so we have to decide whether the purposes of a specific fair match our business", commented the founder. In addition to international trade fairs in the home country, Saturn participated in the industry's third-largest global trade fair in Switzerland every year despite the high costs of attendance. This trade fair in Europe provided direct access to the European markets which dominated the company's exporting business. Saturn also attempted to enter the US market, and hence began to attend the trade fairs in that country. Executing the strategic plan to expand business in the Chinese market, the company began to advertise and participate in the local trade fairs to raise its profile, and to attract potential business associates and customers. The establishment of a wholesale section and factory in an industrial cluster on the mainland specially designed and constructed for the jewellery business also facilitated networking activities with customers and suppliers.

Exchanges among industrial counterparts were limited to general business and management information. The founder had made some personal friends who ran business in

the same industry. However, she commented that they would not discuss business issues but would only talk about personal matters when they got together, because business issues inevitably involved sensitive information.

Long-term relationships were maintained through the building of trust, which was explained as being built on continuously satisfying business dealings that provided mutual economic benefits. The trustful relationships between Saturn and its suppliers were illustrated by the founder as follows:

“To build up the trust at the start, you have to make on-time payments to the suppliers. And you must demonstrate to them a fast turnover...When you continue to do business with the same supplier, trust can be built up. Once there is trust, they would provide you with a lot of support regarding product supplies”.

Trust with customers was also cultivated through providing the customers with better services to meet their needs and respond to their problems. Proactive collaboration and communication with customers and suppliers in the production process were stressed as essential in improving customer services, and hence in sustaining the relationships. Although the founder mentioned that she preferred to communicate with foreign customers through emails than through face-to-face meetings because of the language barriers, she was enthusiastic to spend time socializing and nurturing closer relationships personally with key customers.

5.2.1.3 Venus

Having worked in the industry for more than ten years, the founders had brought with them rich industrial experience and extensive business networks that contributed directly to the start-up of the company. The founders were colleagues who had long-term work relationships, so trust and confidence in each others' business and industrial skills laid a solid foundation for the partnership. Their existing reputation in the industry, and customer and supplier networks, were the immediate assets of Venus. It also explains the preference to employ experienced and well-networked salespeople because they had industrial knowledge and experience, and the skills to develop business relationships. More importantly, they brought with them business networks from previous employment. The founder mentioned her plan to seek cooperation opportunities with another experienced salesperson to develop other European markets.

Business friends, mainly importers in the UK, were approached intensively to refer clients; foreign agents were also employed for referrals. Venus was put into contact with some sizable importers and retailers in the UK through a reputable agent in the market. These

companies had become the company's strategic clients. These sizable and well-established companies also guaranteed stable business. Having them as clients significantly enhanced Venus's market presence and reputation among other local importers and retailers, based on which Venus's foreign customer base could be further expanded. The organizational and management systems of these strategic clients were taken as models to improve Venus's internal systems to achieve professionalism. Professional management was regarded as essential to develop and maintain business relationships with foreign clients.

Trade fairs were considered to be the most important and effective channel to extend the customer base.

"An important channel is to participate in different kinds of trade fairs, whether you are targeting the Chinese or overseas customers...Participating in trade fairs is the best way to find customers".

Participation in trade fairs, however, was very expensive. Hence, the company had to be selective in trade fair participation in order to balance costs and results. Although the UK was Venus's dominant export destination, Venus joined the largest trade fair of the industry in Germany to locate customers not only from the UK but also from other countries. Trade fair participation was regarded as a key event of the company. "It is not as simple as putting up a booth. It has to be made properly and professionally", commented the founder. Specialized services were employed to design and coordinate Venus's exhibitions in trade fairs, and preparation would begin half a year in advance. The founder went to different kinds of sourcing fairs or directly to the manufacturing sites of the prospective suppliers regularly to enlarge the company's supplier base.

The founder had explored the networking opportunities and services provided by local trade associations in the UK. However, the general information and networks of these associations were found to have no added value for Venus's business development and consequently contact was abandoned.

"I don't need to attend their networking activities and build networks with people who are irrelevant to Venus's business. I prefer to spend the time and efforts on trade fairs of the industry and make direct contacts with potential customers".

Although she had studied for an MBA in the UK, the alumni network was not maintained because the founder did not find any parties able to provide support or resources to her business. Venus did not engage any counterparts in formal or informal information exchanges because the founder saw them more as competitors. Even with some personal friends who ran businesses in the same industry, the founder was reluctant to exchange business

information and ideas. ‘We treat each other as personal friends, and we never talk business with one another when we get together’, said the founder.

Because of her rich industrial experience and market knowledge of the UK, the founder was not keen to obtain market knowledge and information from general network parties. She preferred to collect market information from various channels, and to filter and analyze the information on her own. Information was mainly collected through informal channels such as visiting retailing shops, discussions with customers, attending exhibitions, visiting manufacturing sites, and reading publications.

Economic benefits were the core consideration in developing and maintaining a business relationship.

“A business relationship always starts from a practical standpoint...we are doing business from a business point of view”.

A good personal relationship between two parties might be important but it could never outweigh the economic benefits. Trust and confidence built up on a basis of mutual economic benefit were fundamental to intensify a business relationship in the long term.

“The reason I work with a supplier for a long time is that I have confidence in his products”.

“If they (the customers) have done business with you for a long period, and they are sure of your capability and trustworthiness because of your track record, they will involve you in their product development from the beginning...the involvement of you in their product development reflects their intention to intensify the relationship”.

Over half of Venus’s customers were repeat customers who had had business relationships with the company for over five to ten years. Many of these customers were sizable companies with promising growth potential in existing and other foreign markets. Further exploitation of the contributions of these strategic relationships to Venus’s business was set as the business direction of the company. Venus kept frequent and regular communications with these strategic clients, and was involved closely in their product design and development process. Performance reviews and information exchanges were conducted on a regular basis with these clients, and their internal communication procedures were strictly followed.

5.2.1.4 Neptune

Networking was pinpointed to be an essential activity of business development in any country. “It is not what you know but who you know that gives you the advantages”, commented the founder.

At the start-up stage, the networking of the company was described as both reactive and proactive. It had to respond to whatever networking opportunities it could get, and to accept whatever customer orders it received to sustain the business. The business contacts accumulated by the founder from his past jobs were important in building up the initial business networks of Neptune at the start-up. Many of the initial orders were referred to Neptune by the founder's former colleagues. The personal reputation of the founder in the industry also created the 'word-of-mouth' effect, which was highly effective in promoting the new company.

Different information channels and media such as industrial publications, market analysis reports, official trade development councils, trade and industrial associations, and the internet were used to locate potential business contacts. Neptune became a member of both the domestic and foreign trade associations to obtain updated market and industrial information. It also had its profile published on the associations' websites and periodicals for broad access.

Trade fairs were a major channel to gain exposure in the industry. Neptune participated in the largest trade fair of the industry in Germany every year. Participation in trade fairs (and the preparations for doing so) was regarded as a strategic decision.

"We have to set the objectives for every exhibition, and then define the display theme and select the matching products...We have to decide what products to promote. We have to decide clearly what kinds of customers we want to attract to build relationships. The whole activity is planned and conducted in alignment with the strategic direction of the company".

The founder acknowledged that most of the customers who approached Neptune in the trade fairs were one-off customers who brought little business value in the long run. He emphasized that the time and resources of a smaller company like Neptune were limited, and hence was not effective to develop and maintain an extensive network of relationships with customers such as these, since they were of insignificant value. Identifying the truly valuable customers to network with after the exhibition was necessary. In order to identify strategic customers, Neptune put much effort into researching the background, business development, and market potential of the target customers before deciding whether to initiate contact. Formal business proposals and customized prototypes were prepared and marketed directly to the key decision-makers of those prospective companies which showed higher potential to develop long-term business relationships with Neptune.

After the company had taken off, network screening became possible; it became crucial to concentrate on strategic business relationships to achieve optimal returns. The company was in a stronger position to choose its customers, and it would receive unsolicited invitations to

develop business relationships. Hence, the need to use diverse network channels to locate new customers decreased.

“We can now choose our customers. We do not want to spend time networking with and doing business with those customers who provide little value to the company’s profits”.

“Our approach is to identify those customers of higher potential for mutual growth. If we can build one serious relationship, we will have repeated business from a reliable business partner in the long-run. It is more valuable to sustaining our business development”.

More than eighty percent of Neptune’s customers had had business relationships with the company for over ten years. The founder elaborated Neptune’s long-term perspective in building and maintaining business relationship as follows:

“When we decide to start a business relationship, we will be fully committed to make it long-lasting. If we provide the customer with the best services and products that create value to their business, they will be able to grow. The customer will place repeated orders of the largest volume to us, and in turn our business will grow too. Mutual commitment and growth are what we look for in a business relationship. The staff of our long-term customers may change jobs or start their own business. Because they have worked with us and know our company is fully committed to our customers, they will contact us for business no matter where they are located or for whom they work. Our company aims at cultivating this kind of loyalty and dependence in our business relationships”.

Trust, honesty, and business value (profits) were seen as equally important to maintain loyalty and dependence in a business relationship. However, it was business value (profits) that ultimately determined the continuation of commitment and trust between business associates.

“They [business associates] continue to do business with you not because they want to return a favour, but because they know you will continue to add value to their business...It is all about value and profits in a business relationship”.

Local professionals were employed to facilitate business development in foreign markets. Although it had the financial capability to set up its own sales office in the US, Neptune chose to subcontract the sales activities to a local sales office. It aimed at taking immediate advantage of the localized personnel’s existing personal networks and country-specific knowledge. Neptune also relied on local management personnel who had the country-specific knowledge to manage its factories in mainland China. These local management personnel had worked for the company since the start-up and received in-house training. They were seen as highly trustworthy and reliable. The local networks of these management personnel were important sources for a steady workforce to overcome the high labour turnover rate in the region. The workers recruited from their networks were relatively more reliable and stable than those recruited from other, more formal channels. Cultivating

personal relationships with the local officials in mainland China was deemed necessary to facilitate the establishment of wholly-owned production facilities. However, the founder emphasized that exchanges with the officials did not involve any illegal or back-door dealings, and that the incorporation of personal favours into business relationships was not a distinctive practice in mainland China but was also common in Western countries.

5.2.1.5 Mercury

As a spin-off from a large multinational enterprise, Mercury had inherited a network of key customers and suppliers at the start-up. The management team members had rich experience in the industry and also had the appreciable reputation and personal networks. Mercury, therefore, did not have to shuffle around diverse networking channels like the majority of new ventures to build up its initial customer and supplier networks.

The multinational from which Mercury was spun off was a significant external resource base for Mercury, and it continued to be the dominant client, providing substantial business. The reputation and referrals of the multinational had a strong influence on the incentive and confidence of other industrial leaders to build business relationships with Mercury.

“Because of our close relationship, the multinational is open to let other companies and suppliers know it is using our display ICs. And the end products they manufacture that use our display ICs were very popular. It, therefore, helps our company to gain reputation in the industry rapidly”.

The business relationship with the multinational also facilitated constant technological exchanges, through which Mercury gained access to the forefront of the market and product information. Some manufacturing systems replicated from the multinational also became the core competence of the company to strengthen its competitiveness in the global marketplace.

Despite the presence of a dominant client right at the start, the company was proactive in initiating contact with prospective customers in different countries to promote the trial use of its products. The industrial community was relatively tight, and companies often acknowledged one another’s expertise. Direct marketing to prospective customers, therefore, was most widely used. The company had maintained a worldwide sales network comprised of direct sales offices, authorized representatives and dealers. Incorporating the resources and expertise of a localized sales force within its sales network provided the company immediate access to their county-specific knowledge, local business ties, distribution channels, and facilities.

Mercury inclined to develop relationships with international enterprises of larger scale and of stronger market presence. Having these companies in the client list created prestigious

effects to boost the company's reputation and market position, and put it in an advantageous position to approach other major market players for business opportunities. International partnerships with world-renowned clients and suppliers were incorporated to be the competitive edge of the company. Relationships were built on a long-term basis that emphasized trustworthiness and reliable goodwill between partners. The company was committed to create mutual interests and sustainable growth with its business partners. As a public listed company, stakeholder relationships were planned and managed at a corporate strategic level. Relationship management and promotion was supported by an internal corporate communication department, and an external professional public relations company. Mercury's network commitment to its business partners was recognized: it had gained a number of awards from its customers, suppliers, industry organizations and the investment community.

The major sustainable advantage of the company was to stay at the forefront of the technology. Intensive technological collaborations and knowledge exchanges with global technology leaders, particularly with the key clients, were pursued as a competitive strategy.

“Our collaboration with international enterprises enabled us to stay [at] the industry forefront, commercializing tomorrow's display technologies” (Annual Report 2004, p.16).

The company also participated actively in technology exhibitions and conferences worldwide. Exhibitions and conferences seldom brought customer orders on-site, but they were key channels to increase the company's exposure in the industry and to obtain first-hand information on the latest technological developments of its counterparts. Employees were encouraged to attend different seminars and visit associated companies to exchange and share technological information and knowledge. Mercury emphasized that its highly-educated and well-experienced workforce was the key asset in its sustainable performance. In order to maintain its talent pool, the company collaborated with local research and academic institutions to provide internship and employment opportunities to well-trained graduates with specialized knowledge. The programmes were beneficial to all parties.

Unlike the majority of SMEs which did not care to network with the official institutions, Mercury was keen to leverage its relationships with official institutions in order to strengthen the company image and to facilitate business development in corresponding countries. Despite the limited support from the home government, Mercury took a leading role in relocating to a science and technology park in response to a government promotion. The move demonstrated its strong commitment to support the home government's direction in promoting high-tech industries. Although the relocation did not bring many tangible benefits,

the gesture was well-received. The home government later hosted a company visit to Mercury for a top Chinese official. The visit created remarkable publicity for the company, and more importantly, the visit by the top official benefited the company in establishing market position on the mainland. The establishment of the technology centre in Singapore received a warm welcome from the official trade department of the host country. In foreign countries where official involvement in both public and private sectors was significant, close relationships with official institutions gave the company a differentiating advantage over its competitors.

5.2.1.6 Uranus

The founder of Uranus stressed that intensive networking was critical to the sustainability and survival of small companies. The owner had already planned to set up his own company in the industry soon after he started working in a large garment-manufacturing company. He took a long time to accumulate business contacts and establish his reputation in the industry, and he had already secured a certain amount of business to support the start-up.

The owner emphasized the importance of trust and commitment among the key parties in the company. He employed his siblings to manage the key functions of sales and accounting. Due to the lack of start-up capital, family members became the most reliable, ready, and cheap source of human resources. The founder also pointed out that they were the most trustworthy people to manage functions that involved sensitive information. “Small- and medium-sized new ventures generally employed family members. It is because they are more trustworthy, and they share the goal”, commented the founder.

He joined a venture with a colleague with whom he had worked in his past job to establish a factory. The reason for joining a venture with this particular Chinese colleague was elaborated as follows:

“We had the same enthusiasm to start up our own business. Among many of my mainland Chinese colleagues, I find that his [the joint venture partner] mindset and work attitude are similar to Hong Kongers. Our work styles match although we have different cultural backgrounds. It is easy to communicate with him”.

Some mainland Chinese colleagues from the past job were also employed to run the production. Joining a venture with and employing local personnel helped to avoid the complicated procedures and higher costs involved in establishing a wholly-owned factory by a foreign investor from Hong Kong. Uranus enjoyed immediate access to country-specific knowledge and production expertise which the founder did not possess. The Chinese colleagues with whom the founder had enjoyed satisfying work relationships formed a

reliable and trustworthy management team to manage the local workers, whose work approaches and ethics were often difficult for foreigners (including Hong Kongers) to understand.

Existing suppliers with whom the founder had had satisfying relationships in the past job ensured the reliable delivery of high quality materials at low price to Uranus, which was important in helping the company achieve cost advantages. These suppliers also provided practical information and advice on the supplies, and hence helped to minimize wastage and unnecessary stock.

“The main competitive advantage of our company is in producing products of lower price but higher quality than our competitors. Good relationships with suppliers are crucial. Because I have long-term relationships with them, they provide high quality materials to me at discount prices the same as to large companies, even though our volume is smaller. Sometimes they even allowed us to prolong the payment period and return redundant materials”.

Information exchanges and collaborations among counterparts were limited. However, Uranus had cooperative relationships with a small group of companies whose founders were friends. The group would share production supplies, and help produce products to meet particular orders if any one of them was in need.

Although he had built up a prospective customer base prior to the start-up, the founder stressed that a company needed to have more business contacts in reserve at the start-up stage. This was because many of the existing contacts would not actually develop and keep the business relationships as they had promised. In addition to his existing business contacts, he located customers at the beginning by using various channels such as industrial websites, trade fairs, the official trade development council, and referrals. The company did not participate in any trade fairs, and did not join any trade and industrial associations. The founder visited different trade fairs personally to collect market information, to get customer and supplier catalogues, and to locate prospective business associates. He would prepare formal business proposals and prototypes, and then directly market to prospective customers. The founder commented that formality was required when networking with foreign business associates. After Uranus had built up its business, the need to use these diverse channels to find new customers became less significant.

“After starting up the company, for a few years we did not have to use other channels to obtain new business. Customers have built up the confidence in us and are willing to give us business orders when we are referred to them by those companies they know and trust”.

Uranus utilized the reputation of larger and better-known companies in its existing contacts to extend its business networks. The founder recognized that resource limitations made it difficult to network extensively through diverse channels, and hence Uranus relied heavily on referrals to extend its customer base. A large proportion of the company's business came from referrals. Maintaining and intensifying existing relationships with repeat customers was found to be more effective and beneficial to small companies than developing new relationships.

5.2.1.7 Jupiter

The company used many channels to develop partnerships and customer networks. The business community of the testing and certifying industry is relatively tight and well developed. As a result, organizations generally acknowledged one another, in particular those reputable organizations operating in individual geographical regions, and so, prospective partners could be located easily. It was an industry-wide practice to initiate communication through direct mailing. Global seminars and meetings among testing and certifying organizations were the major channels through which they networked with counterparts and potential business partners. Visits to different foreign testing organizations were regularly arranged. The internet provided abundant information on different testing organizations around the world, thus, it was an important search channel. Potential business partners were also explored through obtaining information from customers, who often had business relationships with different testing organizations. Sales and marketing personnel also brought with them personal networks for creating partnership opportunities.

Jupiter's customer networks were developed mainly through industrial seminars, trade fairs and exhibitions. The company was proactive in joining trade fairs and exhibitions for relevant products on the Asian, European and American continents. In addition to direct contacts with customers in the trade fairs, the company catalogues distributed at these trade fairs provided key contact information for potential customers. Business promotion and potential customer searches were also done by local branch offices in foreign countries. The customer base was extended further through referrals by existing customers, the personal industry contacts of staff, and collaborating organizations.

Acting as the testing and certifying agent to large foreign testing and certifying organizations whose own homeland safety standards required product testing before import to their countries was the basic business model of small companies in the industry. Because

these large organizations also operated their own offices and branches in different countries, providing agency services to them did not bring much value.

In order to maximize business value and to nurture growth, Jupiter had defined two networking directions in alignment with its strategic direction as follows.

Firstly, it aimed at intensifying collaborative relationships with Chinese state-owned laboratories to uphold its market position in mainland China. With this collaboration, Jupiter gained the right to access their customer base. These favourable partnerships with the state-owned testing and certifying body were deployed to obtain tangible and intangible resources for business development, and to gain reputation and representation in the mainland Chinese market.

“To apply and get approval for establishing a private testing and certifying organization in the country normally takes more than three years and the application may not be successful ultimately. We can establish a branch within six months”.

The strong network relationships with the official partners on the mainland enabled the company to handle complicated testing and certifying procedures more efficiently and effectively than its competitors.

“The major problem of many small- and medium-sized foreign companies is that they do not know the network to get their products tested and certified for the Chinese market. We know how, and more importantly, we know the right person and the right route to get things done...In China, you must develop some kind of ‘friendship’ with the key parties in order to get things done”.

The company also took advantage of the product safety promotion events organized by its official partners. Official policies and activities regarding product testing and certifying created a much stronger and wider impact on customers than any other promotion channels.

Secondly, Jupiter aimed at building partnerships with certifying organizations not yet commonly recognized but who had high potential for further development. Potential partners were identified in market niches that were still not dominated by the large testing organizations, or which large organizations found of little value to their large businesses. Testing and certifying bodies in emerging markets such as Eastern European and South American countries were identified as potential partners with whom the company planned to develop relationships.

Sincerity and long-term vision were stressed as essential to sustain business partnerships and to enable sustainable growth. The overall testing and certifying industrial environment promotes network commitment among counterparts. “Organizations in the industry welcome collaboration and cooperation among counterparts”, stressed the general manager. Formal

and informal exchanges with testing organizations and counterparts were regularly conducted to share technological information and knowledge. It is impractical for every organization to develop testing capabilities and facilities to handle all the tests on its own because of the heavy investments involved. Developing specialized testing expertise, and then cooperating and collaborating with other organizations to share the resources, knowledge and facilities constituted greater collective benefits. Cooperation and collaboration were considered two different forms of business relationships that required different levels of commitment. Cooperation was regarded as transaction-based, which involved less commitment. Development of collaboration had to be built on repeated satisfying cooperation to understand the other party's goals and commitment in order to create a shared vision.

“Our relationships with the Chinese partners always started with cooperation. We consider joining a venture only after some years of cooperation, after we have developed understanding of our partner's practices and business models. Only when the party demonstrates its wish and strong commitment to grow the business together with us will we go ahead to consider joining a venture”.

“If both partners hold a short-term vision, the partnership will not succeed...It is necessary to understand and compromise on the long-term goals between the partners. Short-term profit is not a solid foundation to a successful partnership”.

5.2.1.8 Terra

The founders' reputation in the IT industry, the blaze of publicity the company had attracted since its start-up, and the debut listing as the first company on the GEM effectively drew the attention of prospective network parties to initiate relationships.

Terra was proactive in using diverse channels to promote its brand and to enhance its market presence from start-up. The channels used included incorporating branch offices in the target markets, publicity campaigns through internet and print advertising, direct marketing, technology exhibitions and seminars, and technical briefings on specific products. The company published and distributed an IT magazine periodically. Targeting IT professionals and multinational executives as its major readers, the magazine acted as the company's media channel and marketing tool. The Zhuhai Southern Software Park, in which the company held a major stake, was a centralized base of domestic and international software specialists with whom the company could seek prospective partners for collaboration and cooperation.

A significant growth strategy of Terra is to expand through strategic acquisitions, affiliations, and partnerships. The effective execution of the growth strategy since its start-up reflected the company's proactive and deliberate efforts in environment scanning, market analysis, and networking activities to locate and involve valuable network partners.

“Software development cannot survive in this way [simply following customer requirements]. We have to create a market. We have to create a standard...It has to be worked out and created with the involvement of many strategic parties”.

Right after the start-up, it had begun to acquire technology companies that already had certain market presence in strategic niches, or had strategic networks in its target markets. The identification of acquisition candidates was based on ongoing industry searches, and thorough analyses of quantitative and qualitative factors.

The company also formed extensive cooperative agreements and strategic partnerships with leading companies, official departments and research institutions. Strategic partners were often identified in its strategic client base, as in the case of the joint venture in the Zhuhai Southern Software Park. The cultivation of strategic clients as long-term strategic partners was regarded as a major strategic foundation of its business model.

“It is important that a company can get clients. However, there will be problems if the company can only get one-off clients. Client selection is very important if the company is to get and retain strategic clients. These strategic clients may then be nurtured into strategic partners”.

Terra also acquired a stake in strategically selected affiliates which could provide synergies through the integration of technological and business capabilities. The companies had specified clear affiliate selection criteria, all of which contributed to the company’s core business.

Resources of network partners were deployed substantially to raise market awareness, build market reputation, enhance market presence, obtain immediate human capital, and complement technologies and capabilities. The company’s business networks were comprised of many prominent official departments, blue-chip companies, and large multinationals in a variety of industries. These prominent network partners, which were often cited in the company publications, differentiated its market status and position. According to the chairman, the market influence of these network partners was the most significant asset to the company.

“We can take advantage of their market influence. For those companies with whom we plan to develop strategic partnerships, we will transfer their market influence into the shared asset of our partnership”.

Close relationships with Chinese official departments and their subsidiaries in the industry were highly significant to gain fast entrance and penetration into the market. The company was nominated as the ‘Nation’s Most Innovative Enterprise’ in 2006. According to the chairman, most of the 20 nominees were large corporations.

“It [the nomination] demonstrates that we are on equal footing with some large corporations recognized by the State”.

Collaboration and cooperation with leading organizations and institutions in the industry enabled technology co-development to “save time, energy and people”. The company had regularly partnered with leading hardware and software corporations to tender and complete large projects for strategic clients. The company could thereby gain access to the leading-edge technical resources and support of these leading corporations. Their strong brand and market positions also guaranteed confidence and acceptance in different markets.

The chairman believed that the single key factor to sustaining long-term relationships is the continuous provision of benefits to partners. The company adopted a straightforward approach to leveraging relationships through providing unique benefits to its partners. The chairman was skeptical about trust in business relationships, and he saw betrayal as common among companies. “Betrayal is a definite rule in business behaviours”, commented the founder. With these perspectives, the company insisted on taking a leading and controlling role in business relationships, so that it was best placed to exercise power to safeguard the relationships.

“If a company wants to find a long-term strategic partner in the software development industry, the company needs to have the strong will to be the leader and controller in the relationship”.

5.2.2 Cross-Case Analysis and Hypothesis Formulation

Based on the within-case findings, key generalizations on the networking behaviour of the companies are identified; the influence of the networking behaviour on providing access to external resources and enabling/driving the rapid internationalization of companies is also demonstrated. Several common behavioural aspects of networking behaviour are highlighted. These common behavioural aspects are converted into the latent factors of the networking behaviour construct in the quantitative research, based on which hypotheses are formulated accordingly.

5.2.2.1 Networking Behaviour of the Companies

At the start-up stage, the companies tended to apply a ‘guerrilla’ approach to initiate and respond to networking activities proactively and reactively. The objective of networking activities at this stage was to maximize the diversity and extensiveness of the companies’ business networks (Nummela, 2000). At the same time, when planned effort was put into initiating networking opportunities for the companies through different channels, the companies were responsive to networking invitations, and to accepting referrals and

unsolicited networking requests (Aldrich and Zimmer, 1986; Meyer and Skak, 2002). As the founders of Neptune and Uranus clearly pointed out, newly established small companies seldom have the position and power to choose their partners. However, all the small companies in the case studies still took the initiatives to create networking opportunities.

Initial networking activities generally *started off with personal and business contacts* in key decision-makers' existing networks, particularly the key decision-makers who had rich industrial experience and international experience (Harris and Wheeler, 2005; Holmlund and Kock, 1998; Johannisson, 1988, 2000; Lipparini and Sobrero, 1997; Starr and MacMillan, 1990). However, the networks of the key decision-makers were inadequate for providing sufficient business and resources to survive and sustain foreign business development. This was because the egocentric networks radiating from a single individual were inevitably limited in span and scope, and existing networks might not all be ready for use, or be actually useful to support new international ventures (Rundh, 2001). Mars gained its first client from its founder's personal networks but this alone did not provide sufficient business. Its key clients were mainly obtained through intensive direct marketing. With over ten years' industrial experience, the existing networks of the founder of Neptune mainly concentrated on domestic business, and Neptune relied heavily on direct marketing to locate foreign customers. The founder of Uranus was also skeptical about the support promised by his existing business contacts once he had left the well-established company where he worked in a high position, because these contacts would have to take higher business risks in doing business with his small new company.

A diverse mix of formal and informal, and personal- and organizational-level networking channels was utilized simultaneously to explore network development opportunities and external resource potential prior to and during the start-up stage. Trade fairs and exhibitions, direct marketing, and specialized seminars in the case of high-tech companies were used intensively to seek and initiate networking with prospective business associates at the start-up and throughout the course of foreign business development. Despite their small size and limited resources, the companies tended to participate in the most prominent trade fairs and exhibitions of their respective industries held in both domestic and foreign markets. This is because trade fairs and exhibitions are not only key channels to directly establish contacts with foreign clients/suppliers and gain business orders (Chetty and Campbell-Hunt, 2003; Ellis, 2000; Meyer and Skak, 2002), but also useful for gathering up-to-date market information (Kingsley and Malecki, 2004; Leonidou and Adams-Florou, 1999). Saturn, for example, started participating in trade fairs a year prior to formally starting exporting.

Because of the high resource requirements for attending trade fairs, selection of and preparation for trade fairs and direct marketing were executed as a series of strategic activities by these small firms, deliberately planned in alignment with the business direction (Browning and Adams, 1988; Reid, 1984). Direct and indirect sales forces comprised of experienced salespeople were often built up right at the beginning. Companies preferred to employ more experienced (though more expensive) salespeople, because their sales knowledge, and more importantly, their existing business networks could be immediately transferred to become resources of the new companies.

Different formal organizational-level channels such as trade and industrial associations, official trade development councils, and banks and financial institutes were also extensively approached for potential external resources prior to and at the very early stage of the start-up. However, most of the smaller companies found the formal and institutional channels not supportive and not directly useful to their business specifically, and hence they often reduced and/or completely abandoned them soon after (Baines and Wheelock, 1998; Leonidou and Adams-Florou, 1999; Meyer and Skak, 2002; Robson and Bennen, 2000; Spence, 2003).

Articulation of networking orientation from extensive networking towards intensive networking with high-potential network partners occurred in the course of the companies' business development (Coviello, 2005; Hite and Hesterly, 2001; Greve and Salaff, 2003; Larson and Starr, 1993; Lechner and Dowling, 2003; Nummela, 2004; Steier and Greenwood, 1999).

Networking became deliberate and network screening took place after the companies had established stable business and solid market presence (Butler and Hansen, 1991). The resource constraints of smaller companies and the presence of a clear strategic business direction were two main factors that drove deliberate networking. The companies acknowledged that networking was a resource-intensive activities; it was not effective or practical for small companies under resource constraints to network extensively and excessively without focusing on the companies' business direction in the long run. As O'Donnell (2004:215) states "(networking) is an activity that owner-managers (of small firms) shape to suit their circumstances and the needs of their firms. So, it was found that on occasions, extensive networking was neither necessary nor desirable".

When clear business direction was defined and stable business networks began to build up, the companies placed networking focus on a few high-potential business partners to intensify the relationships. The change corresponds to a proposed evolution from identity-based networking to more calculative-based networking (Hite and Hesterly, 2001). The latter

indicates that the companies consider the potential purposes and functions of the network ties to be the predominant focus of their networking efforts (Nummella, 2000; Shaw, 1997, 2000; Spence, 2003). The cases show that deliberate networking is more likely when companies have gained a more powerful and controlling position from which to choose their network parties (Ritter, Wilkinson and Johnston, 2004).

Dedication of networking resources to strategic clients, and deployment of strategic business relationships to attain mutual growth on the long-term basis were incorporated into the strategic objectives of the companies. When it had survived the start-up stage and had built up a certain market presence, Neptune changed its networking objective while participating in trade fairs from mass marketing for maximizing enquires and orders on-site to locating and filtering prospective clients for long-term key relationship building after the event. In alignment with its strategy to eliminate the intermediaries in its business model, the company was also investing more resources in the US to intensify its business relationships directly with its key customers. Mars had minimized its networking with its first client (a college) after it had built a stronger client base comprised of high-ranking universities in the UK, which the company had defined to be the target segment. Focal and intensive networking with a key client provided it with critical resources to speed up its business expansion in the country. Venus's dedicated efforts to cultivate the relationship with a well-established agent in the industry saw it referred to sizable and reputable clients in the UK, which Venus developed into strategic clients in order to lay a strong foundation for its development in the market. All the companies except Mars and Saturn had clearly set the networking focus on intensifying relationships with existing strategic clients rather than on new relationship development in the immediate future. Research has suggested that being selective in cultivating long-term cooperative relationships with larger and more prominent partners, or partners that can grow with them, is a key strategy of small high-growth firms to strengthen their competitive position in the global economy (Beekman and Robinson, 2004; Lorenzoni and Ornati, 1988; Peng, 2001).

Companies were committed to strategic partnership development. Karagozoglu and Lindell (1998) emphasize that strategic partnerships are particularly significant to SMEs in entering the global market because entry requirements often exceed their inherent resources. The study by Dimitratos et al. (2003) finds similarly that successful managers of small multinational enterprises believe finding competent partners to achieve collaborative advantages is a key factor for success in the international marketplace. Companies in the case studies were keen to nurture the relationships with key clients to become key partners.

Terra's vision to intensify its relationships with strategic clients in mainland China to make them strategic partners had substantially strengthened its market position in the country to achieve rapid penetration. Jupiter's efforts to cultivate the relationships and deploy the resources of its strategic collaborative partners in mainland China had provided it with competitive advantages over its competitors. Deliberate cultivation of the dependence of strategic clients that were generally large and renowned foreign organizations, and intensification of the relationships into strategic partnerships with the companies provided not only more direct business value but also resource-sharing opportunities (Holmlund and Kock, 1998).

In smaller companies, commitment to a business relationship was manifest not only in the allocation of formal organizational resources to relationship management but also in the incorporation of personal-level bonding between the key contacts in the formal business relationship. The finding corresponds to Johannisson's (2000) proposition about the deliberate construction of an entrepreneur's personal networks both as a businessperson and as a private person. As Shaw's study (2006) finds, personalized relationships with key business contacts was a networking tactic that small firms used to exploit and manipulate organizationally-based business relationships. It again demonstrates the inseparable business and social contexts of SMEs. The founders of Mars, Saturn, Venus, Neptune and Uranus all mentioned the need to dedicate personal time and personal favours to the key business contact of strategic clients/customers. It was considered a common business practice worldwide rather than idiosyncratic to the Chinese business context (Geiger and Turley, 2005; Peng, 2005; Schutjens and Stam, 2003; White, 2002; Yoneyama, 1997; Zhou et al., 2003). Hite (2005:132), for example, elaborates the development of arm's length ties (market ties) into fully embedded ties with affection of personal relationships. This evolution of tie is a common path to achieve "relational embeddedness" identified in her case studies.

Long-term interactions and frequent contacts were deemed necessary to develop common understanding and shared vision between business associates, only by means of which could business relationships be intensified and cultivated into strategic partnerships of intensive exchanges (Blankenburg Holm, Eriksson and Johanson, 1999; Jarillo, 1988; Larson, 1992; Lorenzoni and Lipparini, 1999). 'Trust' was specified by the founders in most of the cases to be an important element in long-term relationships (Ring, 1999). However, 'trust' was perceived and interpreted as the outcome of continuous value-added networking and the creation of mutual economic benefits between partners (Ring and Van De Ven, 1992). 'Trust' and 'economic benefits' were inseparable in the business context (Hon, Wilson and Dant,

1993). The interpretation of 'trust' defined in the cases is consistent with the differentiations of different kinds of trust nurtured by different components such as prescriptive personal bonds/ties, affection, goodwill/credibility, competency, mutual orientation, performance, etc.; it is also consistent with the tangling roles of these varying types of trust in network development and maintenance (Hite, 2005; Levin and Cross, 2004; Ring, 1999; Ring and Van de Ven, 1992; Rousseau et al., 1998; Zaheer, McEvily, and Perrone, 1998). Larson (1992:85) in her model of dyadic relationship formation states that "knowing the people and knowing their capabilities" are both prime considerations that precondition and nurture relationships; she elaborates that "the first reflect [the] conclusion that the entrepreneurial firm could work with this group (personal trust), the second that skill and performance (capabilities) could be relied upon (economic trust)". MacKinnon, Chapman and Cumbers' study (2004) on SMEs in the Aberdeen oil industry finds that 'competence' trust is more important, and reputation and competence based on track record of performance and market presence are vital to gain the trust of larger operators and contractors. Bidault and Jarillo (1997:92) explain the preference of companies to maintain long-term relationships with suppliers, and indicate that the preference "does not stem solely from their particular experience....it occurs because of trust developed over time, which enables the clients to anticipate their usual suppliers' behaviour and reactions".

The principle of '*business is all about costs and benefits*' was shared by other founders of the case companies, including Mars, Saturn, Venus, Neptune and Uranus. The founder of Terra explicitly elaborated this perspective as follows:

"One must be able to help its partners, to create a win-win situation, and to accept that the partners may get more benefits sometimes. One must provide its partners the benefits that they are not provided elsewhere. Then there will be a long-term relationship. The maintenance of relationships is all about costs and benefits. Getting benefits is the one and only principle explaining all business behaviours".

While long-term business relationships increased the affective and moral bonding between the two persons in contact, such relationships were fundamentally instrumental in nature for achieving business objectives (Johannisson, 1988). With specific reference to the Chinese business context, Redding (1990:34) emphasizes that "explaining networking in terms of purely ethnic reasons would be simplistic. There are reasons of hard economic and business expediency as well as ethnic loyalties behind much of this behaviour".

Table 5-3 Network Parties Providing Access to External Resources (Other than Primary Economic Transactions)

| | | Mars | Saturn | Venus | Neptune | Uranus | Mercury | Jupiter | Terra |
|--|---|------|--------|-------|---------|--------|---------|---------|-------|
| Personal-level networks (of key decision-makers) | Family and relatives | X | X | | | X | | | |
| | Personal friends | X | X | | | X | | | |
| | Former colleagues | | | X | X | X | X | | X |
| | Business contacts | | | X | X | X | X | X | X |
| Organizational-level networks | Trade and industrial associations | | X | | X | | | | |
| | Professional agents and intermediaries | | | X | X | | X | | |
| | Official trade development councils | | X | | X | X | | | |
| | Counterparts in the same sector (include competitors) | X | | | | | X | X | |
| | Suppliers | | X | X | | X | | | |
| | Strategic clients and partners | X | X | X | X | X | X | X | X |
| | Academic and other research institutes | | | | X | | X | | X |
| | Financial institutes and banks | | | | | | X | | |
| | Official institutes | | | | | | X | | X |
| | | | | | | | | | |

Table 5-4 Key Resources and Their Sources for Internationalization

| | Capital and financing | Human capital | Foreign business networks | Market information and knowledge |
|-----------------------------------|---|---|--|--|
| Mars Initial Start | <ul style="list-style-type: none">▪ Self-funding▪ Parents | <ul style="list-style-type: none">▪ Job market▪ Personal networks | <ul style="list-style-type: none">▪ Founders' personal contacts▪ Internal sales force▪ Fairs and exhibitions▪ Direct marketing | <ul style="list-style-type: none">▪ Informal information collection by founder▪ Exchanges with personal contacts |
| Ongoing | <ul style="list-style-type: none">▪ Operating capital▪ Key client(s) | <ul style="list-style-type: none">▪ Job market | <ul style="list-style-type: none">▪ Referrals by key clients▪ Fairs and exhibitions▪ Advertising▪ Direct marketing▪ Internal sales force | <ul style="list-style-type: none">▪ Informal information collection by founder▪ Exchanges with personal contacts▪ Exchanges with key clients▪ Exchanges with counterparts |
| Saturn Initial Start | <ul style="list-style-type: none">▪ Funding from partners | <ul style="list-style-type: none">▪ Spouse (founding partners)▪ Local relatives to oversee foreign operation (short-term)▪ Job market | <ul style="list-style-type: none">▪ Retailing shop▪ Trade fairs▪ Industrial association | <ul style="list-style-type: none">▪ Exchanges with foreign suppliers and customers▪ Informal information collection by founder▪ Official trade council▪ Industrial associations |
| Ongoing | <ul style="list-style-type: none">▪ Operating capital | <ul style="list-style-type: none">▪ Job market | <ul style="list-style-type: none">▪ Retailing shop (closed 2004)▪ Internal sales force▪ Trade fairs▪ Referrals by key customers | <ul style="list-style-type: none">▪ Internal marketing force▪ Informal information collection▪ Industrial associations▪ Official trade council▪ Exchanges with key customers |
| Venus Initial Start | <ul style="list-style-type: none">▪ Funding from partners | <ul style="list-style-type: none">▪ Colleagues (founding partner)▪ Job market | <ul style="list-style-type: none">▪ Founders' previous business contacts▪ Agent▪ Trade fairs▪ Internal sales force | <ul style="list-style-type: none">▪ Informal information collection▪ Exchanges with suppliers |
| Ongoing | <ul style="list-style-type: none">▪ Operating capital | <ul style="list-style-type: none">▪ Job market | <ul style="list-style-type: none">▪ Trade fairs▪ Agent▪ Referrals by key clients▪ Internal sales force | <ul style="list-style-type: none">▪ Exchanges with key clients▪ Informal information collection▪ Exchange with suppliers |

Table 5-4 Key Resources and Their Sources for Internationalization (Cont.)

| | Capital and financing | Human capital | Business networks | Market information and knowledge |
|------------------------------|---|---|---|---|
| Neptune Initial Start | <ul style="list-style-type: none"> Funding from partners | <ul style="list-style-type: none"> Colleagues (founding partners) Job market | <ul style="list-style-type: none"> Founders' previous work and business contacts Trade fairs Direct marketing Industrial associations | <ul style="list-style-type: none"> Industrial associations Official trade council Market research institutes |
| Ongoing | <ul style="list-style-type: none"> Operating capital | <ul style="list-style-type: none"> Job market Subcontracting (foreign sales, and production) Localized staff referrals | <ul style="list-style-type: none"> Internal and subcontract sales force Referrals by key business contacts Trade fairs Direct marketing | <ul style="list-style-type: none"> Internal marketing force Industrial associations Official trade council Market research institutes |
| Mercury Initial Start | <ul style="list-style-type: none"> Funding from the founding team Venture capitalists A foreign company in the same industry | <ul style="list-style-type: none"> Colleagues (founding team and core staff) Job market Subcontracting (production) | <ul style="list-style-type: none"> Previous business contacts Internal sales force Authorized representatives and dealers Exhibitions and conferences | <ul style="list-style-type: none"> Direct and indirect marketing networks |
| Ongoing | <ul style="list-style-type: none"> Operating capital Equity capital | <ul style="list-style-type: none"> Job market Internship programmes with academic institutes Collaborations Subcontracting (production) | <ul style="list-style-type: none"> Referrals by key business contacts Internal sales force Authorized representatives and dealers Exhibitions and conferences | <ul style="list-style-type: none"> Direct and indirect marketing networks Strategic clients/ partners |
| Uranus Initial Start | <ul style="list-style-type: none"> Self-funding | <ul style="list-style-type: none"> Sibling Job market | <ul style="list-style-type: none"> Founder's previous work and business contacts Trade fairs (as visitor only) Direct marketing | <ul style="list-style-type: none"> Informal information collection by founder Suppliers |
| Ongoing | <ul style="list-style-type: none"> Operating capital | <ul style="list-style-type: none"> Colleagues (joint venture partner) Sibling Job market | <ul style="list-style-type: none"> Referrals by key business contacts Internal sales force Direct marketing | <ul style="list-style-type: none"> Informal information collection by founder Suppliers |

Table 5-4 Key Resources and Their Sources for Internationalization (Cont.)

| | Capital and financing | Human capital | Business networks | Market information and knowledge |
|---------------------------------|---|--|---|--|
| Jupiter Initial Start | <ul style="list-style-type: none"> ▪ Government ▪ Funding from the founding team | <ul style="list-style-type: none"> ▪ Job market | <ul style="list-style-type: none"> ▪ Previous work and business contacts ▪ Trade fairs and exhibitions ▪ Industrial seminars and conferences ▪ Internal sales force ▪ Direct marketing | <ul style="list-style-type: none"> ▪ Direct and indirect marketing networks ▪ Industrial seminars and conferences |
| Ongoing | <ul style="list-style-type: none"> ▪ Operating capital | <ul style="list-style-type: none"> ▪ Job market | <ul style="list-style-type: none"> ▪ Referrals by key business contacts ▪ Trade fairs and exhibitions (end products) ▪ Industrial seminars and conferences ▪ Internal sales force ▪ Collaboration partners ▪ Direct marketing | <ul style="list-style-type: none"> ▪ Direct and indirect marketing networks ▪ Industrial seminars and conferences ▪ Key clients/ partners |
| Terra Initial Start | <ul style="list-style-type: none"> ▪ Funding from the founding team ▪ An anonymous investor | <ul style="list-style-type: none"> ▪ Work and business associates (founding team) ▪ Job market ▪ Acquisitions | <ul style="list-style-type: none"> ▪ Previous work and business contacts ▪ Exhibitions and conferences ▪ Acquisitions ▪ Direct marketing | <ul style="list-style-type: none"> ▪ Direct and indirect marketing network |
| Ongoing | <ul style="list-style-type: none"> ▪ Operating capital ▪ Equity capital | <ul style="list-style-type: none"> ▪ Job market ▪ Acquisitions ▪ Collaborations and affiliations | <ul style="list-style-type: none"> ▪ Referrals by key business contacts ▪ Foreign branches ▪ Direct marketing ▪ Exhibitions and conferences ▪ Acquisitions ▪ Collaboration partners and affiliates | <ul style="list-style-type: none"> ▪ Direct and indirect marketing network ▪ Strategic partners |

5.2.2.2 Networking and Network Resources for the Pursuit of Internationalization

A large proportion of the foreign business in most of the cases was dominated by a few long-term key clients (Schutjens and Stam, 2003). Key foreign clients provided high value business transactions to sustain the business of the case companies amidst strong competition, and they were also remarkable sources of resources to compensate for the inherent resource constraints of the companies in developing foreign business. The significant roles of key clients/ partners in the foreign business development of these SMEs further explain their need and motivation for deliberate networking.

Reputation and the extended business networks of the key clients/partners facilitated the networking activities of the companies, which lacked market presence and position at the start-up stage. Referrals provide SMEs the opportunities to gain initial contacts with the in-group business networks of the key clients/partners. Uzzi (1996) finds that third-party referral networks together with previous personal relations are two primary sources through which embedded ties of an organization can be developed. ‘Word-of-mouth’ is particularly powerful when the referrer is well-recognized and accepted, with a strong reputation in the industry (Lechner and Dowling, 2003). The referee is benefited by the prestige effect through ‘borrowing’ the reputation and brand name of these reputable network parties, with which it can create a certain viability and legitimacy that compensates for its own liabilities of newness and foreignness (Brass et al., 2004; Elfring and Hulsink, 2003; Starr and MacMillan, 1990; Stuart, 1998). Mars, Venus, and Mercury’s business development experience demonstrates the influential role of a single reputable referee in the extension of business networks of new firms in foreign markets. Neptune, Saturn, Uranus, and Terra all had renowned sizable multinationals in their client/partner lists whose reputation and brand names could be utilized by the companies to boost their market image in attracting further networking opportunities.

Network parties, particularly key clients/partners, were utilized to speed up the acquisition of foreign market information and experiential knowledge. The findings find support in other studies (e.g. Leonidou and Adams-Florou, 1999; Kingsley and Malecki, 2004).

The three high-tech companies relied on their capabilities to stay in the forefront of technology in order to sustain their competitiveness in the global marketplace. Zahra, Matherne and Carleton (2003:168) stress that “success in sustaining technological skills often

requires supplementing companies' internal efforts by obtaining knowledge from external sources". To keep up with rapid technological development, companies in high-tech sectors have established more professional and formalized mechanisms to updated market information and knowledge through extensive partnerships and collaborations with a wide range of institutions, or through other direct and indirect sales and marketing channels (Gemser, Brand and Sorge, 2004; Powell, 1998; Stuart, 1998; Zahra, Matherne and Carleton, 2003). The companies in the traditional industries had not established formal market information collection and analysis mechanisms (Ellis, 2000; Papadopoulos, 1988), even though a division of sales and marketing was incorporated into their organizational structures. Frequent informal networking and exchanges, however, took place to acquire market information and knowledge from various business associates such as customers, suppliers, and in some case even counterparts - including competitors (Chell and Baines, 2000; Johnsen and Johnsen, 1999; Kingsley and Malecki, 2004; Meyer and Skak, 2002; O'Donnell, 2004). In the case of Saturn (before it had established its own production facilities), Venus, and Uranus, suppliers were key nodes to specialized market information and knowledge which the firms accessed via their diverse client networks. For example, Saturn used Italian suppliers in addition to mainland Chinese suppliers at the start-up stage despite the higher costs. The former were close to the company's target European market, and hence had the advantage of access to first-hand market and product information. Key clients/partners were particularly important network parties from whom the companies obtained timely and relevant foreign market information and knowledge; they also served as role models for professional organizational and management practices (Bradley, Meyer and Gao, 2006).

It was also observed that the key decision-makers who had rich industrial and international business experience perceived themselves to have higher self-efficacy and strong belief in their own industrial and market insight (Johannisson, 2000). Their motivation to network with general parties for market information and knowledge was low (Lee and Tsang, 2001). The finding is to a certain extent in alignment with Seringhaus' (1986) proposition that small firms have a stronger need for experiential as well as general information at the initial internationalization stage, but will look for more specific information when they progress. Such an attribute further explains the adaptation of deliberate networking with key clients/partners who were perceived to contribute distinctive value in the course of the case companies' business development.

Networks were employed to a certain extent to secure the companies' pool of human capital. In most of the cases except Mars and Saturn, partnerships were formed with network

parties from former work and business relationships. The founding partners of the case companies all had rich industrial experience and specialized know-how to transfer to the business entity right at the start-up; their repeated personal interactions had the trust and confidence built into the partnerships to lay a solid business foundation to ensure survival through the turbulent venturing stage (Loane and Bell, 2006; Neergaard, 2005).

In the case of the high-tech companies, the high demand for talented and knowledgeable workers made it a common practice to collaborate and affiliate with academic and research institutes and other market players in joint projects to take advantage of collective human capital at shared costs. Localized network partners provided important human capital, namely country-specific knowledge and local networks, to speed up the foreign market entry of the companies (Garcia-Canal et al., 2002; Gulati, Nohria and Zaheer, 2000; Liesch et al., 2002; Spence, 2003; Westney, 1993; Young, 1987). For those companies that had foreign operations in less developed regions, like those Hong Kong companies which operated manufacturing facilities in mainland China, the networks of the localized management personnel provided a pool of relatively reliable labour force when the turnover was high and the quality of the workers was unstable. Their local knowledge and experience was highly effective in resolving the problems and conflicts which arose due to cultural differences relating to the local workforce.

However, it is observed that even the smaller companies were inclined to use more formal methods that did not involve networking to recruit qualified staff, in particular knowledge workers and management personnel (Barringer and Greening, 1998; Jennings and Beaver, 1996). Except in the case of Uranus, the amount of reliance on personal networks including kin was insignificant. The findings are in alignment with those of the study by Chell and Baines (2000), who point out that kin can be an impediment to management and business operations. Baines and Wheelock (1999) also find that those small business owners more actively pursuing and achieving growth are more prepared to seek out human resources beyond the family. This may be the result of endeavours by the key decision-maker to achieve and maintain professionalism, which Baines and Wheelock recognized as a key factor in sustaining business as a global market player.

Networks were not significant sources of capital and financial resources to the companies, particularly companies in traditional sectors, in their foreign business development.

Companies in the traditional industries started up on a smaller scale could be self-funded; the need and motivation to deploy network parties for external funding was hence relatively low. An exception is Mars, whose founder obtained a small portion of funding from his

parents to support the start-up, and then obtained the financial resources from the firm's key client to open its first foreign office and subsidize its advertising expenses. In other cases where companies operated in traditional industries, the start-up and the expansion of the companies were basically self-funded. All the founders had approached formal networks such as official departments, banks and other financial institutes to explore external funding opportunities. They were united in the view that these channels were completely unsupportive and useless in the provision of financing support to small start-ups. The findings appear to mirror findings in other contexts, such as Curran et al.'s study (1993) which raises doubts about the quality of much public sector assistance of general SME owner-managers; Birley's study (1985) finds a limited use of formal sources of help by her sample firms. According to a study by Chua (2002) on Hong Kong SMEs, there is a gap between the demand for bank credit by SMEs and the supply of funds by banks; conservative lending policies and cumbersome procedures discourage SME owners from making applications. Chow and Fung (2000) also mention that it is very difficult for small private firms to obtain business financing from formal banking institutions in mainland China; they often therefore have to rely on informal credit market loans that incur high repayments.

The firms' founders were reluctant to access informal networks, including personal contacts, to obtain capital and financial resources. There is a Chinese phrase that says 'talking about money issues damages relationships'. The new venturing process involves great uncertainties and risks. Potential venture failure is likely to be seen by these Chinese businesspeople not only as a disruption to existing relationships if the loan cannot be repaid, but also as a loss of 'face', which is a powerful factor in explaining business decisions and behaviour in the Chinese business context (Hwang, 1987; Redding and Ng, 1982). The companies therefore were started up on a smaller scale; operating capital was reinvested constantly to support expansion. Their internal financing was sufficient to support their development. The need to keep full control of the companies also explains the inclination to use internal financing, which is found to be a common characteristic of Chinese businesspeople (Ahlstrom et al., 2004a). It is believed that Chinese businesspeople have a deep-seated and culturally embedded inclination towards self-ownership and autonomy (Bond, 1986; Redding, 1990; Yeung, 2002). Similar findings regarding the reliance on internal financing by SMEs are also found in studies in other contexts (e.g. Landstrom and Winborg, 1995; Meyer and Skak, 2002). It is also commonly discussed in the entrepreneurship literature that the entrepreneur's desire to maintain independence and self-control (Baines and Wheelock, 1998; Curran et al., 1993; Schutjens and Stam, 2003) and

his/her tendency to gain access to external resources through network relationships are paradoxical. For example, the founder of Neptune mentioned that he abandoned the idea of listing the company and insisted on establishing wholly-owned factories because he wanted to have full control of the company. The founder of Mars also stressed that self-owned business provided him full control, and that he was not keen to own a company in partnership, especially after an unpleasant experience with a former partner.

In the case of Saturn, the founders chose the high-end silver jewellery market because the products' selling point was their unique design and craftsmanship, and hence small scale production was possible. It required less capital to set up the foreign factory, while the profit margin was relatively higher. If the founders had chosen to enter the artificial jewellery segment, the company would have required mass production to achieve economies of scale to compensate for the low margin. Neptune, Venus and Uranus all started up as service providers which did not require many physical assets. Although Neptune later integrated product development and production in the business model, it first chose to subcontract production to low-cost foreign locations to avoid direct capital investment. It continued to subcontract part of the production even though it had established wholly-owned production facilities to optimize its own capital investment. The small scale start-up allowed them to fulfill their need for fixed investments by re-investing the firms' working capital, and hence minimize the reliance on external financing to kick off the foreign business development (Chow and Fung, 2000).

High-tech firms operating in knowledge and capital-intensive industries faced higher demands for start-up capital and long-term financing, thus, wider sources of funding are necessary to survive and grow their foreign business.

Due to high operating costs, a slow development cycle, and unpredictable R&D outcomes, substantial capital investments were required to initiate the operations right from the beginning. The privatization of Jupiter was supported by the home government and a group of prominent local businessmen, so it did not face significant financing problems at the start-up. Mercury and Terra could not rely solely upon the collective resources of founding teams to fund their ventures: external funding was vital to start the businesses. Both companies got substantial external investments to fund the start-up. The investments, however, were not the direct outcome of networking but due rather to the reputation of the founding members and the background of the companies. For example, the anonymous investor in Terra was drawn by the founding team's reputation and fame in the industry, though he/she had not engaged with the team in any work or business relationship. Mercury

was funded by a foreign company in the same industry and venture capitalists because of the reputation of the renowned multinational from which it spun off (Neergaard, 2005). The founder of the company had tried to approach banks for additional loans but was turned down, as were many other small companies. Acknowledging the impracticality of relying on business network partners for long-term capital and financing, the two companies turned to the equity market for financial resources and they were public listed within a few years from start-up. The findings are consistent with Ahlstrom et al.'s study (2004a:31), in which they comment that "fast-growth, high-tech firms rely to a greater extent on equity funding by venture capitalists or market investors, as well as stock options...this emphasis also makes brand-building and corporate reputation more important than ever". Chen (2003) also points out that public listing is regarded as a benchmark for business success which can impress investors and provides valuable resources for firm growth.

In summary, the networking experience of the case companies in supporting their instant and rapid internationalization discussed above shows the following common patterns:

- The companies were *proactive* in exploring and exploiting networking opportunities in alignment with the business vision; at the same time, they were flexible and responsive enough to act on chance encounters.
- The companies investigated and utilized *diverse networking channels*, formal or informal, to explore and exploit network-building opportunities, particularly at the early stage of the start-up.
- The companies were *instrumental and deliberate* in developing and leveraging its network relationships based on business value and development potential to support the pursuit of their business goals.
- The companies were *committed* to nurture long-term relationships with its network partners to achieve mutual growth.
- The companies were keen to *cultivate strategic relationships* with key network partners whom are perceived to have strong market potential to continuously support the companies' business development.

The proactive and aggressive networking behaviour of the case companies appears to be associated with their success in locating prospective foreign clients/customers and gaining foreign business opportunities to enable their rapid internationalization. In the course of internationalization, they were able to leverage relationships with strategic network parties to secure additional resources to support their development. In most of the cases, initial foreign

clients/customers were developed into strategic clients/customers of the companies, who provided the companies with stable sales revenues, referred further (foreign) business opportunities, and opened access to additional resources to enrich the companies' internal resource base. Based on the findings, two hypotheses with regard to the first research question pertaining to the influence of networking behaviour upon internationalization of SMEs are formulated as follows:

H1: Networking behaviour influences the internationalization of SMEs.

H2: Network behaviour influences the availability of network resources for the internationalization of SMEs

Each of the above two hypotheses can be expanded into a subset of hypotheses to test the respective influence of the aforementioned common networking patterns identified in the eight case studies. The subsets of these two hypotheses will be elaborated in Chapter 6, after the key aspects of the networking behaviour construct and their operationalization are clearly specified and validated.

The influence of the availability of network resources on enabling rapid internationalization is clearly evidenced in the cases. All the companies required access to external resources (tangible and intangible) in different degree to support their pursuit of business development. Resources which were specifically related to foreign market and business, including country-specific information and knowledge, international business knowledge, localized business support, and foreign business contacts, were much needed and sought for by the companies. The availability of these resources speeded up the companies' comprehension of foreign market and business conditions, and enabled them to kick-start the development in the markets more rapidly. Although the deployment of networks to obtain fundamental organizational resources such as capital, general human resources and physical resources appears to be less persistent, it does not imply that the companies did not need or want access to these resources. For example, the founders of Uranus and Mercury investigated extensively about external funding opportunities at the start-up, but they gave up because their applications were rejected. Some of the founders simply did not care to try because they were discouraged from obtaining external organizational resources by the restrictive procedures and requirements involved. Some of them preferred to fully own these resources in order to retain full control of the allocation and utilization of the resources to support the companies' business direction (e.g. Mars, Venus, Saturn and Neptune). In some cases (e.g. Mars, Mercury and Jupiter), organizational resources were obtained from strategic clients/customers after the companies had demonstrated their potential for mutual benefits.

The availability of external resources helped compensate for inherent resource constraints of the companies, and speeded up their foreign development. Accordingly, the following hypothesis is suggested:

H3: The availability of network resources positively influences the internationalization of SMEs.

5.2.2.3 The Role of Strong- and Weak-tie Networks in Internationalization

This section aims to provide exploratory insights derived from the case findings into the role of strong- and weak-tie networks in the internationalization of SMEs. Since this topic is not the main research focus of this study, this component of the findings is not included in the quantitative analysis. However, as a topic generally covered in entrepreneurship network studies and Chinese network studies alike, it is a potential area for further investigation, especially with specific reference to the internationalization context (Sharma and Blomstermo, 2003).

The key decision-makers' personal strong-tie networks were the most accessible and reliable source of partners in all the cases, except Mars, for the pooling of capital, experiences, specialized know-how, and emotional support to start up a small business. Shared vision and beliefs, compatible work attitudes and styles, and the complementary capabilities of the prospective partners in the corresponding business sectors were the key selection criteria. The founder of Mars had once partnered with a counterpart with whom he had become acquainted only after starting the company in the operation of a subsidiary office. The partnership ended after just a year because the partner's different business approach and direction led to a breach of trust. Although prescriptive ties (e.g. kin) and affection were not regarded as the sufficient factors in partner selection, long-term relationships and stronger ties between partners were deemed crucial to enable the common understanding and trust that ensure the stability of shared ownership.

In contrast to the common understanding in the entrepreneurship literature (e.g. Bruderl and Preisendorfer, 1998; Greve and Salaff, 2003; Witt, 2004) and the Chinese business studies alike, the roles of *family ties* were not significant in the cases, even at the earliest stage of start-up. Jupiter, Mercury, and Terra had been professionally managed companies right at the start-up, and hence family ties did not play any role in the start-up and development of the companies. In the case of smaller companies, the owners of Mars, Venus, Saturn, and Neptune were not keen to have family members involved in the business. This was because family members often did not possess the skills, knowledge, and other resources that added value to the business, in particular those required to propel growth beyond the

local nexus to international market (Ahlstrom et al., 2004a; Chan, 2000; Chen, 2003; Krug, 2004; Renzulli and Aldrich, 2005; Jack, 2005). More importantly, they were seen as a potential impediment to changes and effective management to sustain business development (Chell and Baines, 2000; Jack, 2005; Leung et al., 2006). The founder of Mars once employed his brother to oversee its foreign office, but he was soon removed because of his reluctance to accept changes and advice on improvements. Saturn employed two local relatives to manage the factory when it was first established. The founder took over control a year later because the relatives were unsupportive of the management systems. The founder of Uranus believed family members were most trustworthy and so he employed his siblings to oversee the accounting and sales functions of the company. However, he understood their lack of functional knowledge and experience, and basically made all the business decisions himself.

Personal strong-tie networks had limited roles in the cases: this can also be explained by the fact that the founders/key decision-makers were ‘self-made’ businessmen, who did not have strong family business backgrounds. Their strong-tie networks, particularly the kinship networks, were usually domestically concentrated with limited exposure to foreign countries (Chow and Ng, 2004; Krug and Polos, 2004; Tseng, Tansuhaj and Rose, 2004). They could not bridge them to foreign business networks and provide them with foreign market knowledge to support the companies’ internationalization. On the other hand, the high social content and affection inherent in such relationships may hinder the entrepreneurs in making sound business decisions in the professional foreign business environment (Elfring and Hulsink, 2003; Gulati and Gargiulo, 1999; Uzzi, 1997). The cases of Mars, Venus and Saturn demonstrate the key decision-makers’ preference to “integrate the business closely into business networks and [tendency] to remove it from family influence” (Baines and Wheelock, 1998:31). In the latter’s study of small business growth, it is found that those business owners who pursue business achievement and growth actively are energetic users of non-family networks for business development.

Referring to the findings discussed in the preceding section, *weak-tie networks* were more effective to channel and diffuse novel resources, information and knowledge for internationalization (Burt, 1992; Granovetter, 1973; Sharma and Blomstermo, 2003; Loane and Bell, 2006). Among the diverse weak-tie networks, work and business networks accumulated from previous jobs had been most intensively accessed and deployed throughout the venturing process. The founder of Mars turned to the foreign contacts he had established during his previous job in the hospitality industry for business advice and ideas. Those

expatriates who had worked at senior positions in multinationals were perceived to have proven capabilities to analyze foreign business situations and to provide solid advice on foreign business. The founder of Venus also showed more enthusiasm to conduct frequent informal information exchanges with the foreign business contacts accumulated from her previous jobs. The founders of Saturn sought advice on foreign location of production facilities from an acquaintance with whom they did not subsequently keep up contact. According to the founder, “[the contact] just came to my mind in an instant” because he was operating in the region to which they planned to relocate the production facilities. These localized weak ties are effective local bridges to disparate segments, and they bring with them novel information and knowledge (Burt, 1992).

The use of *ethnic ties* (e.g., found in Clarke, Yue and Von Glinow, 1999; Ibeh, 2003; Rauch and Trindade, 2002; Zafarullah et al., 1998) in foreign countries to extend business networks was also not significant in the case studies. An exception is the case of Mars, whose founder had become acquainted with a group of Chinese businessmen in the UK. The founder was bridged into wider local networks, from which general business information and advice could be drawn and potential business opportunities could be explored. On the other hand, the founder of Venus had no motivation to keep in contact with her Chinese classmates in the UK because she found they provide limited support to her business. On the other hand, she preferred to spend time socializing with foreign contacts in the market for potential resource and business development opportunities. The findings are consistent with the study by Chen (2003:1127) of the ethnic Chinese [Taiwanese] context, in which he comments that “the principal benefits of local linkages come from the assimilation of local human and financial resources, rather than the support of local ethnic groups”.

In summary, the case findings do not appear to show tie strength to be influential in the networking orientation and activities of the companies in pursuit of internationalization. The role and effect of strong-tie networks on promoting the internationalization of the companies was very limited. As Renzulli and Aldrich (2005:327) suggest, “they may provide mostly emotional, rather than instrumental support or unique information”. Weak-tie networks, especially those directly involved in foreign business, were perceived to be more significant to providing the support required for foreign business development (Loane and Bell, 2006; Sharma and Blomstermo, 2003). All the case companies’ founders were not constrained by their personal network horizons, but were open and flexible enough to exploring and exploiting prospective networks. Their flexible actions and open attitudes to locate and pursue networking opportunities outside the boundaries of strong ties were critical to their

realizing business opportunities and achieving rapid foreign business development in the global marketplace (Chell and Baines, 2000; Meyer and Skak, 2002).

5.3 The Influence of the Key Decision-Maker on the Internationalization and Networking Behaviour of the Companies

5.3.1 *Within-Case Analysis*

5.3.1.1 Mars

Key Decision-Maker's Personal Experience and Networks

The founder of Mars had no work experience in the education consulting business. He worked in the service industry after university graduation, where he became acquainted with some expatriate businessmen and executives through the job. They became personal contacts to whom he could turn for international business and management advice.

He studied and worked in the UK for several years. During his stay in the UK, he had built certain personal networks in the country upon which he had drawn in varying degrees to support the start-up and development of Mars. His personal experience in the UK acted as an important selling point for his credibility and capability to provide customers with reliable overseas education services. The founder's experience in the UK and in the service industry strengthened his networking and interpersonal skills. He was confident and felt at ease to approach and communicate with foreigners for network-building.

International Business Vision

The founder had a long-term vision for his overall business development, with the business goal of owning a listed enterprise of diversified business in 10-15 years' time. He planned not only to expand Mars' current business into new markets but also to diversify into different business areas. He kept generating different business ideas and seeking new opportunities, and saw his appreciation of the merits of diversification as an advantageous attribute for the development of his business.

He described himself as an opportunist who was open to all possible business opportunities regardless of geographical boundary. However, he emphasized the importance of planning and timing when acting on an opportunity in order to minimize risk and found formality impractical and inflexible to small businesses. He therefore did not perform market analysis and strategic planning formally, but informally on a regular basis, since he was keen to study and learn from the experiences of successful business people and companies.

The founder believed a capable founder and management team were critical to market comprehension and company growth in the global marketplace. The participation and

involvement of kin in the company was regarded as a significant barrier to implementing changes and achieving professional management in the course of business expansion.

5.3.1.2 Saturn

Key Decision-Maker's Personal Experience and Networks

The founder (the interviewee) stressed that neither she nor her husband (the co-founder) have a high level of education, and had no international and industrial experience prior to founding Saturn. They decided to start up a company in the jewellery business because of personal interest rather than past experience.

The founders had very limited personal networks to provide direct support to Saturn's start-up and foreign business development. The majority of the business relationships were developed and accumulated after Saturn was in business.

International Business Vision

Despite the lack of high level of education and of industrial and international experience, Saturn's founders aspired to start an exporting business to foreign markets, and to establish a wholly-owned factory in less than a year after the start-up. They found the domestic market (Hong Kong) too small, and so outward expansion was necessary to survive and to nurture the business.

Although the founder stressed that she was incapable of performing strategic planning, she held a long-term view of and strategic thinking toward Saturn's foreign business direction. Positioning at the market segment of high-end silver products with sophisticated designs avoided direct competition with cheaper artificial products from South Korea, and guaranteed higher profit margins to the business. The concentration on exporting to European customers, who were more conscious about product designs and quality, was in alignment with the company's target market position and its internal capabilities.

The founder's comprehension of and responsiveness to the market were also reflected in their decision to exploit the consumer market of mainland China. China had developed beyond a low-cost production base to a profitable consumer market by the late 1990s. Locating sales offices in Beijing and Shanghai, two of the cities with the highest living standards and spending power in China, matched the demand for high-end jewellery products. The decision to also enter the Japanese market was in response to the recovery of the Japanese economy, and Japanese customers' preferences and spending power on sophisticated jewellery.

The founder emphasized the importance of professional management to foreign business development. Experienced managers were employed to manage key functions, such as product design, marketing, and human resources. They were encouraged to participate in business planning and proposals. The founder resisted the idea of involving family members in the business because their involvement was often a major barrier to effective management.

5.3.1.3 Venus

Key Decision-Maker's Personal Experience and Networks

The two founders of Venus both had over 10 years' experience in the exporting business of soft furnishing products. They were familiar with the sales channels of the business, and had accumulated wide business networks, including customers, suppliers, and intermediaries.

The founder (the interviewee) stressed that her rich market and product knowledge was the source of Venus's competitive advantage. She emphasized that it was necessary to have in-depth understanding of the local market, and to be responsive to market changes in order to fully interpret foreign customers' requirements. As a UK citizen who had resided in the country for a long time, she was close enough to the market to internalize the country-specific knowledge. She could be involved directly in customers' product design and development and provide ideas with confidence.

"I have the advantage because I am familiar with the UK as well as the Chinese market. Regarding product knowledge, I have been working in the business for so long that I have already become some kind of an expert".

International Business Vision

Although she hoped to expand to more foreign markets outside of the UK, she was cautious about expansion because she did not have market knowledge and experience of other countries. While she was seeking partners with country-specific knowledge of other foreign markets for potential geographical expansion, she put the business focus on intensifying business relationships with existing customers in order to fully exploit their potential. She found the strategy of devoting limited resources to strengthen relationships with strategic customers more practical and beneficial to achieve growth.

Observing the downturn of the middle market and the huge intermediary costs, the founder took advantage of her rich business, management and international knowledge to initiate direct contact with retailers. The business strategy led to the development of business relationships directly with foreign end customers, and the elimination of intermediary costs.

The founder did not conduct strategic planning and business decision-making in as formal a manner as she had learnt during her MBA study. She collected market information and performed analysis informally on a regular basis from various sources. Among the many sources of information, the most reliable and updated market information was obtained through her frequent interactions with customers.

Effective management was seen as important to ensuring product and service quality, and hence the competitiveness of the company in foreign markets. The company had a clear division of labour. She preferred recruiting specialized personnel to spending time on in-house staff training, and she did not have any kin working in the company because they lack the requisite skills. The partnership with a colleague from the previous job was based on complementary skills, and knowledge of the domestic and the foreign markets. Major business decisions were made by the two founders, who attended to management issues down to daily operations. “I have to know everything going on in my company”, commented the founder.

5.3.1.4 Neptune

Key Decision-Maker's Personal Experience and Networks

The founder and his business partners were educated and trained in product design, which was the main reason for starting Neptune as a design house. He had worked for a manufacturer in the industry for many years before he executed his business idea. Therefore, he had built up extensive personal networks and a personal reputation in the industry prior to the start-up.

The founder continued to develop design capability as the core competence of the company. In the course of the business development, he also completed management programmes to enrich his knowledge and skills for running and managing the company.

Strengthening Neptune's internal capabilities was determined to be fundamental to create better business value for the company's stakeholders, to build reputation, and hence pursue growth amidst challenges in the global marketplace. He emphasized that diligence, strong commitment, and a continuous learning attitude were the success factors to cope with the requirements of an ever-changing business environment. He was proactive in promoting the “learning organization” culture in his company and encouraged his staff to acquire knowledge.

International Business Vision

The founder emphasized that identification and development of a company's core competence was essential to maintaining long-term competitive power in business development in the global marketplace. He found it short-sighted and insecure to concentrate on a few end products because of cyclic product demands. He put effort into developing Neptune's design capabilities and production technology as core competences, within which a wide spectrum of product applications could be developed for new business opportunities.

The founder invested much effort on market research and analysis to identify potential markets and key players, for which professional marketing personnel were employed. Neptune had a formal system to conduct market information collection, market and target customer analysis, opportunity identification, business planning, and business proposals. Although the process was time-consuming and costly, it had brought strategic foreign customers of higher value and stronger commitment for long-term mutual development.

5.3.1.5 Mercury

Key Decision-Maker's Personal Experience and Network

Members of the top management team were mostly colleagues at the multinational enterprise from which Mercury had spun off. They all had rich knowledge and experience of the industry, and were well-trained in the running and management of a global business. The chairman of the company had over 30 years of experience in the semiconductor industry, and had founded a leading computer manufacturing company in Taiwan. The founder and managing director also had over 20 years of global experience in the industry. Hence, the strong industrial and management background of Mercury's management team was critical to steering the development direction of the company in the rapidly changing high-technology industry.

"The semiconductor and cell phone industries always follow cycles; some times are better than others. While [Mercury] is a relatively young company, we have considerable management experience, and so we know how to handle these cycles" (Cook, 2002, Nikkei Electronics Asia).

The background of the company as a spin-off from a world-renowned technological multinational was a strong foundation on which the company could grow at a relatively fast pace. The former parent company not only guaranteed a certain amount of business to survive the start-up but also the reputation and business networks upon which Mercury could draw to develop the business. Mercury was in an advantageous position to access and approach other large multinationals for business.

International Business Vision

The management team had a clear international vision for Mercury right at the start-up, to be a leading company in the global display IC market.

“When we started the company, our main goal was to become a global semiconductor company. This is a tall order for any new company, and we had to make sure that we got a lot of things right from the outset” (Cook, 2002, Nikkei Electronics Asia).

Mercury was positioned by the management team as a specialist in a market segment in the semiconductor industry. Resources were devoted to building up expertise in the segment in order to build the core competence. Mercury’s dedication to becoming a leader in the segment was demonstrated by its insistence on producing and marketing products of its own brand name right at the start-up.

“In the future, when people think about display IC, we want them to think of (Mercury). Just as today they think of Intel when it comes to microprocessors” (Bacani, 2005, CFO Asia).

The company applied the ‘fabless’ business model to dedicate in-house resources to design and development of products, while production was outsourced. The model enabled flexible production capacity at minimal capital investment while the company could place full focus on product design and development.

“Theoretically, we are big enough to build our own wafer fabrication factory, but we will need to spend not only money, but also to invest time and expertise...We have staked a place in this segment and we will work happily within it” (Bacani, 2005, CFO Asia).

Formal strategic planning was in place. The management team continually planned ahead to stay in the forefront of the industry. In addition to seeking market penetration for its mature business, it sought diversification into new product segments that applied the core competence to offset the cyclic downturn of any single application, in order to sustain long-term growth of the company.

“Each market may experience a different level of expansion. As our display ICs portfolio covers nearly all major types of end user market applications, we believe our products and business will benefit from the growth of any of these end user markets” (Annual Report 2004, p.19).

Highly structured and formalized management systems were deliberately designed. For this purpose, the company employed knowledge workers who were well-educated and trained in individual functions. The management team found professional management of the company essential to the integrity of corporate governance as a global company.

5.3.1.6 Uranus

Key Decision-Maker's Personal Experience and Networks

The founder had worked in the garment manufacturing industry for over 10 years before establishing Uranus. He also had work experience in government departments and insurance companies. This pre-industrial work experience provided him with the knowledge of how different organizations and people work, and hence helped him to develop a flexible work style. The work experience in the insurance industry contributed to his proactive attitude, and provided the interpersonal and sales skills essential to pursuing his business goals in the exporting business.

The 10 years' industrial experience laid a solid foundation for his starting up and developing Uranus. He already had extensive product knowledge, personal reputation, and business networks in the industry prior to the start-up.

“You need someone in the industry to support the initial start of a new company. If you know that you need at least ten people to survive the start-up, you have to build a network of at least two or three times more beforehand. Because there are a lot of factors that will make them change their mind later...Personal reputation in the industry is important because it is how you can get other people's trust and confidence in your business capabilities, so that they are willing to establish business relationships with you. If they had not heard of your works and achievements in the industry, they will not even consider you for trial orders”.

The founder had strong confidence in his industrial experience and knowledge. He made all the business decisions of Uranus including that concerning the joint venture factory. He stressed that continuous learning and improvement were necessary to upgrade the knowledge and skills to remain competitive in the global marketplace. Hence, he would research and learn from the experiences of others, successful or otherwise; he also required his employees to attend training relevant to their jobs.

International Business Vision

The founder had developed the business idea soon after he had started work in the garment manufacturing company. Setting up his own company, therefore, had been defined as his career goal.

“I took up a job in the (garment) industry to see if I could develop my career. I wanted a career instead of a job in the industry...I decided that I would set up my own company in the industry at the very beginning. I therefore worked very hard to collect all the necessary information, to extend my contacts, and to build my reputation in the industry through the job. I worked to be promoted to a senior position in the company to gain recognition and fame among the counterparts. All of these were preparations for my business venturing”.

The founder commented that it was unrealistic to set five- and ten-year strategic plans for a SME. Formality was regarded as impractical and inflexible, and hence the company did not have a formal management system in place. He also found formal market research and analysis useless to companies operating in the global fashion industry, in which changes could be dramatic. He preferred to use different channels to access and update market information informally and flexibly. He defined the business direction and planned activities based on the preceding year's business performance. Because of unpredictable fashion trends, responsive and flexible actions to catch up with those trends were crucial.

According to the founder, the US garment manufacturers still played the leading role in the global garment industry. Because the company had already had some strategic customers who were large US multinational garment manufacturers, he preferred to maintain steady growth and to keep production capacity optimal.

The founder employed his siblings to manage the two key management functions - accounting and sales - in the office even though they did not have relevant knowledge and skills. The founder found that the sensitive nature of two functions required individuals who were highly trustworthy and reliable. Meanwhile, skilled localized management personnel were employed to manage the joint venture factory.

5.3.1.7 Jupiter

Key Decision-Maker's Personal Experience and Networks

The background of the company as a spin-off from the official department, and the social status of the board of directors were critical factors in the company's establishing close relationships with mainland Chinese state-owned testing and certifying organizations.

“China's state-owned laboratories are eager to collaborate with Hong Kong organizations. It is because Hong Kong organizations understand the business models of China and foreign countries. We are Chinese and we share the same culture and language. Our non-profit background also makes it easier to promote positive exchange with Chinese officials. The background of our founders and board of directors also influence the establishment of relationships with Chinese officials. Sometimes it requires higher position personnel to initiate the exchanges”.

International Business Vision

The company held a clear strategic focus to sustain its position under strong competition from large foreign organizations in the industry. The company also had a formal plan of the development direction and target growth for the next five years.

“We do not look upon some dominant players for our business development direction, but we look upon the market...we base it on the specific market needs of a location to decide on the business strategies”.

The company had a well-defined geographical and customer segment. It aimed at taking advantage of close relationships with the state-owned laboratories in China to strengthen its position in this high potential market. While large testing and certifying organizations placed their focus on serving large corporations, Jupiter targeted Chinese SMEs that occupied more than 90% of the private companies in the country. Since some customers still thought that they could pay for the products to pass the test and be certified, Jupiter put additional efforts into working with them and educating them about the foreign standards of product testing and certification for long-term benefits.

Service quality was stressed to be the key factor to win over the large organizations where procedures were relatively bureaucratic. A sustainable global business reputation in the testing and certifying industry was built on the trustworthiness and validity of test reports. Consequently, Jupiter insisted on producing high quality test reports even when under pressure from customers.

Professional managers were employed to run and manage the company. These managers had specialized knowledge and experience of the products as well as of the safety standards of different countries. Hong Kong management personnel who had richer international experience were also employed to manage the operations in mainland China in order to ensure the effectiveness.

“Our Chinese colleagues are at a disadvantage when they deal with foreign business...The international exposure is our [Hong Kong staff's] advantage over our Chinese colleagues”.

5.3.1.8 Terra

Key Decision-Maker's Personal Experience and Networks

The founders of Terra were a group of information technology elites in the industry who had rich industrial experience and prominent personal reputations. In the high-technology industry where brand name and reputation are critical to gaining the awareness, recognition and acceptance of the market and general clients, the distinctive personal background of the founders put Terra in an advantageous position to attract attention and initial investment at the start-up. When talking about the initial investment from an anonymous family, the chairman commented as follows:

“I did not ask for their investment myself. The family member came to see me several times. They read in the news about a famous person (the Chairman and CEO) planning to start the high-tech business. This famous person got the trust of IBM; and he got a significant contract, that is the contract of the Stock Exchange. It was a historical record of a domestic company being able to get such a significant contract”.

The chairman had over ten years of experience at senior positions in the industry before founding Terra. He had participated in large IT projects for some official institutes in the Asian region. With his extensive knowledge and experience, he was highly confident in his beliefs, understanding of, and strategic insights into the software development industry.

“This experience and the articulation of this experience provide me the confidence that I have the strongest competitive advantages in this field. It is very important”.

The chairman was a strong directive leader, who defined a clear direction for its subordinates.

“They only need to understand what I ask them to do. It will be a waste of their time if they question whether my suggestions are right or wrong. The leadership is so strong because I have been practicing in the field for a long time. I have gone through and done all the things they are now doing”.

The chairman described himself as an “honest” entrepreneur in the software development industry. An “honest entrepreneur” was explained as someone who could think forwards to prepare well for an opportunity to turn up at any time, and then act on the opportunity to be the first to succeed. It was also the key attribute of a strong leader.

“It is a pleasant thing in life to become an honest opportunist. It should be the nature and pride of a leader. If one is not proud of taking opportunity but is only satisfied with some routine jobs, time is wasted”.

International Business Vision

The founders had the vision of developing the Chinese-based IT company into a world-class software development company comparable to renowned foreign market leaders.

The vision was realized in the well-defined core business and corresponding strategies, which in turn were highlighted as one of the foundation pillars for the realization of the vision.

“When starting a company with software development as its main business, a long-term strategy must be in place right at the beginning. There must also be periodic, short-term strategies that are formulated in accordance to the (market and industrial) trend”.

Software development was continuously stressed to be the core business of the company; all the activities were executed to contribute towards the core business. Based on the insight that it was necessary to create a market and a standard in order to stand out and succeed in the global software development industry, the company dedicated its resources and efforts

towards developing and commercializing its innovation idea – a consolidated software development platform. The core idea of the consolidated platform was to substantially increase the speed and effectiveness of software application development, which was seen as a breakthrough compared to the long development cycle and high costs generally involved in software development.

“When we presented the idea of ITP (the former name of the consolidated platform) as a consolidated platform, those in the US found it an innovative and also practical platform. At that time, not many people talked about platform, and even fewer people thought of the idea of a consolidated platform”.

“We have developed powerful and unique development capabilities with the presence of the consolidated platform. The development capabilities enable a short cycle, low costs, and high efficiency”.

The expertise of specialized personnel was seen as another foundation pillar to the development of the consolidated platform to realize the company’s international vision. The chairman emphasized the identification, retention and utilization of elites and talents as a success factor. The latter was achieved through a consistent management culture, an internal elite system, and collaboration with prominent corporations to deploy their human capital.

“As veterans in the industry, we understand that software is a human business. A consistent management culture in an ever changing technological and market environment is the intangible yet most important success factor of the group”. (Annual Report 2000, Chairman Statement, p.4)

Table 5-5: Summary of the Ownership Type and Key Decision-Maker Attributes of the Case Companies

| Case | Ownership Type | Founding Team | Prior Industrial Experience | Prior International Experience | |
|---------|-----------------|--|-----------------------------|--------------------------------|-----------------------------|
| | | | | Foreign Stay | Foreign business Experience |
| Mars | Limited Company | Sole trader | Nil | Yes | Nil |
| Saturn | Limited Company | Two partners - a married couple | Nil | Nil | Nil |
| Venus | Limited Company | Two partners - former colleagues | Over 10 years | Yes | Yes |
| Neptune | Limited Company | Partnership - former colleagues | Over 10 years | Nil | Yes |
| Mercury | Listed Company | Board of directors - former colleagues | Over 10 years | Yes | Yes |
| Uranus | Limited Company | Sole trader | Over 10 years | Nil | Yes |
| Jupiter | Limited Company | Board of directors | Over 10 years | Yes | Yes |
| Terra | Listed Company | Board of directors - industrial associates | Over 10 years | Yes | Yes |

5.3.2 Cross-Case Analysis and Hypothesis Formulation

Certain key generalizations regarding the influence of the key decision-maker on internationalization and networking behaviour of firms emerge from the experiences of the eight case companies. According to the case findings, hypotheses are formulated for the quantitative research to address one of the research questions regarding the influence of key decision-maker upon networking behaviour of SMEs.

The key decision-makers' background to a large extent determined the choice of business sector, in which they re-create their own business that resembled their previous employment (Birley, 1985; Lechner and Dowling, 2003; McDougall, Oviatt and Shrader, 2003). Except for the founders of Mars and Saturn, who had limited prior industrial experience in their sectors, all the others already had rich industrial knowledge and experience, and had worked at senior positions in large corporations for over ten years when they started their companies. In addition to the primary considerations of market size and potential, the internationalization of Mars and Venus shows that prior country-specific experience and the availability of personal networks to a certain extent influenced the selection of the target foreign markets of the companies. The cases show that country-specific experience enhanced the confidence of the founders in doing business in the specific country, and helped them gain the confidence of the clients/ customers who held favourable perceptions of the founders' country-specific knowledge.

The key decision-makers' personal experience determined the availability of the initial networks essential to kick-start the foreign business development of the companies. The key decision makers who had a rich industrial background already had a strong personal reputation among their counterparts and extensive business networks at the start-up of their own companies. They had proprietary access to requisite resources right at the beginning to secure capital, business contacts, and customer orders. The pre-existing networks to a certain extent compensated for the liabilities of smallness and newness of the companies in the early stage, when the companies had not yet gained sufficient market identity and position to initiate network exchanges and derive resources from business networking at firm level (Ellis, 2000; Holmlund and Kock, 1998; Lipparini and Sobrero, 1997; McDougall, Shane and Oviatt, 1994; Witt, 2004; Starr and MacMillan, 1990).

Because of their reputable industrial background, the management team of Mercury was able to secure funding from several venture capitalists after the spin-off; the founder of Terra was also able to get an anonymous investor to finance the start-up. Although they had to self-

fund their companies, the founders of Venus, Neptune, Uranus and Jupiter could secure a certain amount of business orders from their existing business contacts at the start-up. Mercury also had a stable business guaranteed by the multinational from which it was spun off.

In the case of Mars and Saturn, whose founders had no prior industrial experience, they had to find and establish business relationships from scratch. It is indeed a challenging task for small new companies. Because of their small size and newness to the industry, it was difficult for them to gain the confidence and trust from potential business associates to start relationships (Forsgren and Johanson, 1992). Although Mars was able to locate its first client from the founder's personal networks, it could not get enough clients and customers in three to four months after the start-up: "all my friends did not feel optimistic about my business at that time", said the founder. A top manager of Mercury also emphasized the company's advantage as a spin-off from a renowned multinational, because it was unlikely that the multinational clients of the company would divert time and resources to select newcomers as their suppliers (Ford, 1984).

The key decision-makers' personal experience was directly associated with their capabilities and willingness to implement formal market analysis and other management systems right at the start-up (Fischer and Reuber, 2003; Gibbons and O'Connor, 2005; McCarthy, 2003). As public listed companies, it was expected that Mercury and Terra should have well-defined strategies and formalized management systems to direct their development activities in the global marketplace. Jupiter and Neptune, which had been in business for more than 20 years, also had formal organizational and management systems in place. Although Mars, Venus, Saturn and Uranus did not perform formal strategic planning and their management systems were relatively less structured, the key decision-makers all pinpointed that professional management was essential to sustain the business in the world market. The founders of Mars and Venus both earned their MBA degrees in foreign countries, and they were equipped with international management knowledge and skills. The founder of Uranus had management experience accumulated from his past employment at senior positions in large corporations, while the founders of Saturn recruited professional managers to manage key functions. Taking into consideration their limited resources for formalizing management systems, they still found that performing market analysis and business planning informally and regularly matched their companies' conditions to respond to market changes flexibly and responsively (Smeltzer, Fann and Nikolaisen, 1988). The findings correspond to Ibeh's comment (2003:54) that "it is enough that the SME has an

orientation positive to planning, [but] not necessarily engage in formal strategic planning". Siu (2000), and Siu and Liu (2005) in their studies of Hong Kong and Chinese SMEs also find that although key decision-makers of higher-performing SMEs use strategic market planning approaches, they may not undertake more comprehensive and formal situation analyses than their lower-performing counterparts.

The key decision-makers' personal attributes include industrial experience, personal networks and international business vision had a significant influence on the networking behaviour (BarNir and Smith, 2002; Neegaard, 2005; Shaw, 1997; Vatne, 1995). It is observed that those key decision-makers who had rich industrial experience and existing business contacts, such as the founders of Venus, Neptune, Uranus, and Terra, tended to be more self-attributing to their abilities and held a strong belief in their own industrial and business experiential knowledge and insights (Johannisson, 2000). Their motivation to network extensively for general business resources, such as general business and management information and knowledge, was relatively low because of self-reliance and strong independence (Lee and Tsang, 2001). This observation appears to indicate certain features of Curran and Blackburn's definition (1994:172) of "fortress enterprises", in which owner-managers exhibit "extreme reluctance to engage in any behaviour which might lead to a dependence on others or even be seen as showing a need for others". The observation also appears to correspond to Starr and MacMillan's suggestion (1990) that entrepreneurs may be conditioned by their corporate experience to see resources and the acquisition of them from a relatively narrow perspective.

It is also observed that these key decision-makers with rich industrial experience had a higher level of distrust of counterparts, and tended to regard them as competitors with whom business networking and exchanges should preferably be avoided (Van Gils and Zwart, 2004). For example, the founder of Neptune stressed that those counterparts who approached the company for contacts and information at trade fairs just wanted to "copy" the ideas of the company. The founder of Venus also strongly emphasized that virtually all counterparts were competitors, with which no cooperative exchanges were possible. In the cases of Mars and Saturn whose founders did not have industrial experience or any domestic and foreign business contacts prior to the start-up, they were proactive in networking extensively to explore all possible resources and opportunities for pursuing foreign business development. Chan and Foster (1999) also find that Hong Kong businesspeople with less industrial experience have higher self-awareness of their own limitations, and hence are more open to approaching different external channels for information and knowledge. Once the founders

had accumulated certain business and industrial experiences and knowledge after the start-up stage, as observed in the case of Mars and Saturn, they began to seek information and knowledge intensively from a few key sources. The findings indicate that key decision-makers with stronger business insights and ideas derived from past experience are inclined to networking dedicatedly and deliberately with those parties in their existing contacts, who are identified to providing specific strategic business benefits and resources that match the business development goals of their firms (O'Donnell, 2004). Two hypotheses below are formulated accordingly:

H4a: Industrial experience of the key decision-maker positively influences the networking behaviour of SMEs.

H4b: The availability of personal networks of the key decision-maker positively influences the networking behaviour of SMEs.

International business vision appears to be the most significant and influential attribute of the key decision-makers of the eight rapidly internationalized companies. All the key decision-makers in the cases started their business with an international business vision (Dichtl, Koeglmayr and Mueller, 1990; Fletcher, 2000; Johnson, 2004; Moen and Servais, 2002; Nummela, Saarenketo and Puumalainen, 2004). They identified and evaluated business opportunities from a global point of view; and positioned their companies as global market players. Geographical boundaries were not a concern in their development of the business (Madsen and Servais, 1997); Andersson and Wictor (2003: 265) vividly illustrate, “for these entrepreneurs, a global strategy is the most natural strategy”. Founders of Mercury and Terra had envisioned their companies to be global leaders in their corresponding industries. Although the other six companies were small limited companies, the key decision-makers were determined to further enhance their market position and nurture their foreign business. They comprehended the global market environment of their industries and their internal capabilities, based on which they were able to define matching target market niches within which to build networks and to grow in the foreign business environment. Because the companies were positioned to compete in the global marketplace, their networking activities were instrumentally planned and implemented to gain exposure in the international market. Terra, for example, had conducted important road shows targeted at US customers when it was listed in the GEM. Even the smaller companies were willing to allocate and spend resources to participate in international business networking events such as trade fairs and exhibitions in both domestic and foreign countries.

International experience contributes to the key decision-maker's international vision to compete in the global marketplace. In addition to the foreign networks they had built up which could potentially be of use to their developing foreign business, international experience also provided the key decision-makers with the confidence and capabilities of running and managing a global business, in which effective interactions with people from diverse cultures were essential (Andersson and Wictor, 2003; Fischer and Reuber, 2003; Ibeh, 2003; McDougall, Oviatt and Shrader, 2003). Calof and Beamish's study (1995) find that international experience results in a better understanding of the risks, costs, and benefits of foreign markets, which helps speed up the internationalization process. In the cases of Mars and Venus whose founders had worked and stayed abroad, the founders said that they communicated well with foreign business associates because they shared a similar mindset and work approach. Additionally, they found face-to-face communication highly significant in enhancing trust and confidence among business partners. The founder of Venus attributed the competitive advantage of the company to her comprehension and effective communication of foreign customers' requirements. The founders of Mars and Venus both took the marketing and sales responsibilities of the companies upon themselves, and they were particularly keen to be involved in personal interactions with foreign business parties. The findings appears to corroborate Reuber and Fischer's observation (1997:820) that "more internationally experienced management teams use more foreign strategic partners and delay less in obtaining foreign sales after start-up", and to Fletcher's comment (2000:218) that a "global mind set" shapes the entrepreneur's ability to handle cultural diversity and his/her preparedness to take risks in building foreign relationships. In correspondence to the aforementioned findings, a hypothesis is suggested as follows:

H4c: The international business vision of the key decision-maker positively influences the networking behaviour of SMEs.

In summary, the companies with key decision-makers who had rich industrial experience and existing networks were, to a certain extent, at an advantage in starting off a foreign business rapidly. For those key decision-makers who lacked the industrial experience and networks for an easier start, they deployed networking and proactively sought external resources to compensate for their inherent weaknesses and to speed up foreign business development. Even the smaller companies demonstrated their ability to learn to run and manage the business flexibly and professionally in the course of business development, in order to minimize the initial liabilities of smallness, newness, and foreignness. Regardless of the extent of their prior industrial and international experience, the key decision-makers of all

these eight rapidly internationalized companies held a clear international business vision towards establishing and growing their companies as global market players right from the beginning. Their experience provides evidence to Dimistratos et al.'s (2003:169) proposition that "the vision of founders and top management to succeed in the international marketplace brings best results when it is accompanied with their prior international business experience". These attributes of the key decision-makers have significant influence on the internationalization and associated networking activities of these eight companies, which survived the start-up and, in the main, expanded foreign business rapidly.

6 QUANTITATIVE ANALYSIS

This chapter presents and discusses the results of the quantitative analyses of the study based on the survey data collected at the second empirical stage of the research.

The constructs and measures for the quantitative research are first defined. A factor analysis and a reliability test of individual constructs are conducted, and results presented to specify the key latent factors/variables. Descriptive data of the demographic profile and the internationalization patterns of the respondent firms are summarized.

With regard to the two main research questions of the study, regression analyses are utilized to assess firstly, the association of networking behaviour and internationalization, and secondly, the influence of the key decision-maker on networking behaviour. The regression analysis results are presented, interpreted and discussed with reference to the existing literature and the case findings.

6.1 Constructs and Measures of the Study

The measures/items in the questionnaire were sectioned and ordered *practically* to provide an easily understood structure, in order to ensure comprehension of the questions by the target respondents. It aimed to minimize the skipping of questions, or drop-outs due to questions being either too difficult or time-consuming to comprehend.

The factor analyses after the survey were therefore conducted to fulfill *two theoretical purposes* as follows:

Firstly, to *uncover the dimensionality* of the measures/items so as to identify whether there will be a greater number of latent factors to which existing groups of items correlate than those factors initially defined.

Secondly, to *validate a construct* by showing that its constituent items load on the same factor proposed, and to detect and act on those scale items which cross-load on more than one factor.

Both of the purposes are essential to ensure the validity of the construct to support further theory development based on the underlying factors identified.

Principal component and principal axis factoring analysis were conducted to cross-check the proposed constructs, and the two analyses yielded similar results in general (Field, 2005). The choice of orthogonal and oblique rotation was made according to the expected existence of correlation among the latent factors of individual constructs. The results of the principal component are reported. The varimax method was used for orthogonal rotation, whereas the direct oblimin method was used for oblique rotation. All factor analyses conducted had the

initial eigenvalue set at 1 and factor loading at 0.4 as the minimum cutoff. The retention of factors was based mainly on four criteria as follows:

1. The eigenvalue >1 (Kaiser, 1974) that explains more than 50% of the total variance (Diekhoff, 1992).
2. The number of factors above the point of inflexion indicated in the scree test (Cattell, 1966).
3. The factor has a minimum of three items with factor loading >0.4 (Hinkin, 1995; Costello and Osborne, 2005). This is because a factor with too few items may lack content and construct validity, and internal consistency (Nunnally, 1978).
4. The interpretability of the factor extracted.

After a group of items was identified to measure a particular latent factor, reliability statistics including Cronbach's alpha and corrected item-total correlation were checked to confirm the internal consistency of the factors when they are to be applied to new samples.

The factor analysis of a construct was sometimes re-run after the elimination of low-loading and cross-loading items, and of items that affected the overall reliability of the underlying factor. This section only reports the results of the final factor analysis of each construct.

6.1.1 The Independent Variable: The Key Decision-Maker Construct

Based on the literature review and the case findings, *three attributes* of the key decision-maker - the availability of personal networks, industrial experience, and international business vision - are defined to be the key variables of the key decision-maker construct.

'The availability of personal networks' of the key decision-maker was measured by asking the respondents the amount of resources obtained from five categories of personal ties on a five-point Likert scale (1 = None and 5 = A Great Deal). The five categories of personal ties were derived based on the studies of Bruderl and Preisendorfer (1998), and Starr and MacMillan (1990). The mean value of the ratings of all five categories was calculated to be the scale of the resources available in personal networks. Factor analysis of this item is, therefore, not necessary.

'Industrial experience' and 'international business vision' were measured by asking the respondent to rate a list of descriptive statements on a five-point Likert scale (1 = 'Strongly Disagree' and 5 = 'Strongly Agree'). Two sets of factor analyses and corresponding reliability tests were conducted to validate the two factors respectively.

Industrial experience

The factor 'industrial experience' is comprised of six measures which capture not only the key decision maker's general experience but also specific functional experience in the industry suggested by Hitt and Tyler (1991), McDougall, Oviatt and Shrader (2003), Melone (1994) and

Roth (1995). It is expected that these experiential items are correlated, as will be the latent factors (if any). Oblique rotation was therefore used. The six items are as follows:

- The key decision maker...
1. Has significant work experience in the industry
 2. Has significant product knowledge and experience in the industry
 3. Has significant foreign business experience in the industry
 4. Has significant management experience in the industry
 5. Has significant sales and marketing experience in the industry
 6. Has established a good personal reputation and recognition in the industry

Results of Factor Analysis and Reliability Test

The factor analysis of the six items has a KMO of 0.824, which is regarded as great (Kaiser, 1974). The Barlett’s test of sphericity is also significant.

Table 6-1a Industrial Experience - KMO and Bartlett's Test

| | | |
|--|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .824 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 600.745 |
| | Df | 15 |
| | Sig. | .000 |

The six items load on a single factor with a high eigenvalue of 3.57 that explains 59% of the total variance. The extraction of a single factor is consistent with the indication of the scree test.

Table 6-1b Industrial Experience - Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 3.570 | 59.496 | 59.496 | 3.570 | 59.496 | 59.496 |
| 2 | .971 | 16.191 | 75.687 | | | |
| 3 | .503 | 8.380 | 84.067 | | | |

Table 6-1c Industrial Experience - Component Matrix

| | Component |
|---------|-----------|
| | 1 |
| IndExp6 | .822 |
| IndExp5 | .817 |
| IndExp3 | .788 |
| IndExp4 | .766 |
| IndExp1 | .737 |
| IndExp2 | .691 |

Extraction Method: Principal Component Analysis.
a 1 components extracted.

The Cronbach’s alpha of the factor is 0.863, which well passes the cut-off value of 0.7 (Kline, 1999; Nunnally, 1978), and the target value of 0.8. The corrected item-total correlation of all items is over 0.5 to show their convergent validity.

International Business Vision

The measures of the factor ‘international business vision’ were primarily adapted from the four-item international expansion attractiveness construct developed by Burpitt and Rondinelli (1998:60). However, the wording of their last item: “I think that firms like ours trying to do business overseas are really on to something” was found to be too long and vague to be comprehended, thus, it was decided to exclude this item. In order to support the construct with more measures to ensure its stability and consistency, the international growth orientation construct developed by Nummela, Saarenketo and Puumalainen (2004, 2005) was incorporated. The word ‘growth’ in the original construct, however, was replaced by ‘foreign development’ to match explicitly the focus of this study. Some descriptive statements were also found to be highly repetitive, and phrased in too long and abstract a way to be translated and interpreted. This study attempted to grasp the concepts and phrase the statements in a more straightforward manner to ask the respondents directly about their interest in developing foreign business, and the perceived attractiveness and costs of doing so.

The final items used in the questionnaire are phased as follows:

The key decision maker...

1. Is very interested in developing foreign business
 2. Believes developing foreign business is essential to achieving business goals
 3. Believes the most attractive business opportunities lie in foreign markets
 4. Believes the company has to develop foreign business in order to succeed in the future
 5. Finds it costs too many resources to develop foreign business (reverse-phased)
 6. Find the risks involved in developing foreign business are too great (reverse-phased)
-

Items 5 and 6 are reverse-phased with the objective of minimizing the agreement bias of the respondents with regard to the previous items (Cadogan et al., 1999; Nummela, Puumalainen and Saarenketo, 2005). Oblique rotation was applied because of the expected correlation of the factors (if any).

Results of Factor Analysis and Reliability Test

The first factor analysis extracted two underlying factors. Items 5 and 6, which loaded on a single factor, were dropped under the criterion that only those factors with a minimum of 3 items are retained.

The factor analysis of the four retained items has a large KMO of 0.802, and significant Bartlett’s test of sphericity.

Table 6-2a International Business Vision - KMO and Bartlett's Test

| | | |
|--|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .802 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 455.366 |
| | df | 6 |
| | Sig. | .000 |

The four items load on a single factor with a high eigenvalue of 2.953 that explains 73.8% of total variance. The extraction of one factor is consistent with the indication of the scree test. All four items load highly on the factor.

Table 6-2b International Business Vision Factor - Component Matrix

| | Component |
|-----------|-----------|
| | 1 |
| IBVision2 | .880 |
| IBVision3 | .872 |
| IBVision4 | .858 |
| IBVision1 | .826 |

a 1 components extracted.

The factor has a Cronbach’s alpha of 0.881, and the corrected item-total correlation of all the four items is over 0.6.

6.1.2 The Networking Behaviour and the Network Resources Construct as Both Dependent and Independent Variable

6.1.2.1 The Networking Behaviour Construct

Based on the literature review and the case findings, *five factors* are preliminary identified to make up the ‘networking behaviour’ construct. The five factors are ‘networking initiative’, ‘networking commitment’, ‘networking deliberation’, ‘strategic partnering intent’, and ‘networking diversity’. The networking behaviour construct was analyzed separately in the two sets of associations as follows:

- 1. As the dependent variable of the key decision-maker construct;
- 2. As the independent variable of the network resources and the internationalization construct.

Networking Initiative, Commitment, and Deliberation

Twelve descriptive statements measuring the three factors – ‘networking initiative’, ‘networking commitment’ and ‘networking deliberation’ - were allocated into two questions of four and eight items respectively. They were all measured on a five-point Likert scale rating from ‘Strongly Disagree’ (1) to ‘Strongly Agree’ (5).

The twelve statements were originally grouped into one question. Comments from academics and practitioners on the questionnaire design favoured the separation of the items into different questions with different headings to help minimize weak satisficing (i.e., the respondents do not optimize their cognitive process of evaluating all available options but select the first seemingly reasonable option in the list), non-differentiating, and item skipping due to perceived overlapping of items by the respondents (Krosnick, 1999).

The variables 'networking initiative' and 'networking commitment' were primarily modified based on the 'relational embeddedness' and 'network sensing' constructs in the study of Bonner, Kim and Cavusgil (2005), which were again adapted in the study of Wu and Cavusgil (2006). Wordings of the statements, however, were altered to better fit the focus of the study and the comprehension of target respondents. There was no existing construct that could be entirely adapted for the intended 'networking deliberation' factor of this study. A comprehensive list of measures of network competence regarding planning and controlling of network relationships developed by Ritter, Wilkinson and Johnston (2002) was referenced to define the items.

The twelve descriptive statements finally used in the questionnaire are as follows:

The company...

1. Promotes networking as a key activity to achieving foreign business development goals.
 2. Proactively participates in networking events for developing foreign business.
 3. Proactively networks with existing or potential foreign business partners.
 4. Budgets and allocates resources specifically for networking activities for foreign business development.
 5. Has trained personnel and/or a formal system to manage system relationships.
 6. Promotes trust and long-term commitment in business relationships.
 7. Seeks to be flexible and to accommodate partners when problems/needs arise.
 8. Stresses the importance of mutual support between partners during adversity/challenges in business relationships.
 9. Plans networking activities based on business goals.
 10. Regularly evaluates and prioritizes business relationships according to their contributions to business goals.
 11. Regularly compares the company's functions, role, and power with those of the partners in business relationships.
 12. Regularly reviews and improves networking approaches in alignment with business goals.
-

The whole construct was not adapted from an existing one. A large degree of modifications had been made based on different scales in the existing studies to develop the items that specifically matched the focus of this research. The items were reviewed in detail with academics and practitioners during the questionnaire design process to provide several refinements to ensure their content validity. In order to ensure the construct validity, both

exploratory factor analysis and confirmatory factor analysis were conducted to assess this specific construct particularly. Adhering to the recommendations of Gerbing and Hamilton (1996) and Hurley et al. (1997), the total sample (i.e., 210 completed questionnaires) was spilt into two sets of data by survey location. A set was used to conduct exploratory factor analysis, which output was looked upon as a precursor to the confirmatory factor analysis. Individual sets of samples met the minimum sample-to-item ratio of 5-10 to 1 recommended for factor analysis (Bryant and Yarnold, 2005).

Exploratory Factor Analysis

A single exploratory factor analysis using oblique direct oblmin rotation was conducted on all the twelve items because correlation among factors was expected.

The initial factor analysis of the 12 items had item 5 cross-loads on two factors. Since its factor loading is much lower than the other items on the factors, it was decided to drop the item from further analysis.

The factor analysis on the remaining eleven items has a KMO of 0.862, which is excellent. The Bartlett’s test of sphericity is also significant.

Table 6-3a Networking Behaviour Construct (Three Factors) – KMO and Bartlett’s Test

| | | | |
|--|--------------------|--|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | | .862 |
| Bartlett’s Test of Sphericity | Approx. Chi-Square | | 789.543 |
| | df | | 55 |
| | Sig. | | .000 |

Three factors were extracted with an eigenvalue of just over 1, explaining 78.3% of the total variance. Three factors were also indicated in the scree test.

Table 6-3b Networking Behaviour Construct (Three Factors) - Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 5.598 | 50.890 | 50.890 | 5.598 | 50.890 | 50.890 |
| 2 | 1.998 | 18.162 | 69.052 | 1.998 | 18.162 | 69.052 |
| 3 | 1.020 | 9.269 | 78.321 | 1.020 | 9.269 | 78.321 |
| 4 | .698 | 6.346 | 84.668 | | | |
| 5 | .414 | 3.763 | 88.431 | | | |

Table 6-3c Networking Behaviour Construct (Three Factors) - Pattern Matrix

| | Component | | |
|----------|-----------|------|------|
| | 1 | 2 | 3 |
| NetDev9 | .965 | | |
| NetDev10 | .906 | | |
| NetDev12 | .836 | | |
| NetDev11 | .793 | | |
| NetDev2 | | .908 | |
| NetDev4 | | .882 | |
| NetDev3 | | .880 | |
| NetDev1 | | .666 | |
| NetDev7 | | | .902 |
| NetDev8 | | | .881 |
| NetDev6 | | | .709 |

Extraction Method: Principal Component Analysis.
Rotation Method: Oblimin with Kaiser Normalization.
a Rotation converged in 5 iterations.

The three factors extracted all have a Cronbach’s alpha of over 0.8, and a high corrected item-total correlation. The factor analysis and the reliability tests results are summarized as follows:

Table 6-3d Networking Behaviour Construct (Three Factors) – Factor Analysis and Reliability Test Results

| Factor | Item | Interpretation | Cronbach’s alpha | Corrected item-total correlation |
|--------|---------------|-------------------------|------------------|----------------------------------|
| 1 | 9, 10, 11, 12 | Networking Deliberation | 0.930 | >0.8 |
| 2 | 1, 2, 3, 4 | Networking Initiative | 0.867 | >0.5 |
| 3 | 6, 7, 8 | Networking Commitment | 0.860 | >0.69 |

Confirmatory Factor Analysis

Confirmatory factor analysis was conducted on a separate set of sample data from the exploratory factor analysis. In addition to the 3-factor oblique model identified in the aforementioned exploratory factor analysis, three alternative models (1-factor, 2-factor oblique, and 3-factor orthogonal) were assessed to provide a comparison of the fitness of data among different models. The fit indices commonly used are summarized as follows:

Table 6-3e Networking Behaviour Construct (Three Factors) – Fit Indices of Confirmatory Factor Analysis

| Model | X^2 | Df | X^2/df | RMSEA | GFI | NFI | NNFI | CFI |
|---------------------|--------|----|----------|-------|------|------|------|------|
| 1-Factor | 385.29 | 44 | 8.76 | 0.267 | 0.61 | 0.70 | 0.65 | 0.72 |
| 2-Factor oblique | 243.14 | 43 | 5.65 | 0.207 | 0.71 | 0.81 | 0.80 | 0.84 |
| 3-Factor oblique | 65.98 | 41 | 1.61 | 0.075 | 0.90 | 0.94 | 0.97 | 0.97 |
| 3-Factor orthogonal | 112.84 | 44 | 2.56 | 0.12 | 0.84 | 0.90 | 0.92 | 0.93 |

The 3-factor oblique model, which the exploratory factor analysis had identified, is confirmed to have a best fit of data to the construct than the alternative models. The X^2/df ratio

is 1.61, which shows a better fit of data than the others (Bryant and Yarnold, 2005; Kelloway, 1998). The RMSEA is 0.075, which is good according to Brown and Cudeck’s (1993) baseline of <0.08. Although it’s higher than the baseline of <0.06 proposed by Hu and Bentler (1999), the figure still shows a better fit than the others. The CFI is 0.90, which meets the baseline of 0.90. The NNFI (Tucker-Lewis Index [TLI]) and GFI are 0.97 and 0.97 respectively, which exceeds the optimal level of >0.95 to indicate a good fit of data to the construct (Bogozzi and Yi, 1988; Bentler and Bonett, 1980; Hu and Bentler, 1999; Kelloway, 1998).

Both the results of the exploratory and confirmatory factor analysis confirmed the validity of the three factors - ‘networking initiative’, ‘networking commitment’ and ‘networking deliberation’ - in the networking behaviour construct for subsequent regression analysis.

Strategic Partnering Intent

The factor ‘strategic partnering intent’ was operationalized by asking the respondents to rate a list of criteria for the selection of key partners for foreign business development on a five-point Likert scale from ‘Not At All Important’ (1) to ‘Very Important’ (5). A list of nine criteria was derived based on an extensive literature review (Dacin, Hitt and Levitas, 1997; Geringer, 1991; Glasister and Buckley, 1997; Nielsen, 2003) and the case study findings. The list is comprised of specific criteria regarding foreign business development and more general criteria regarding business development broadly.

The nine criteria are as follows:

| |
|---|
| The business partner... |
| 1. Provides immediate business revenue and/or cost benefits |
| 2. Provides complementary resources and/or competences |
| 3. Shares vision and goals to develop foreign business |
| 4. Has established market position in foreign countries |
| 5. Opens access to external resources and/or help in obtaining investment |
| 6. Has a personal relationship with the company’s key decision-maker |
| 7. Has recommendation from contacts of the company’s key decision-maker |
| 8. Is committed to the business relationship with the company |
| 9. Possesses new skills and competence for further expansion |

Results of Factor Analysis and Reliability Test

The initial factor analysis extracted three factors. Two factors had only two items (Items 1 and 8 loaded on one factor; Items 6 and 7 loaded on another factor) respectively. Based on the rule of retaining a factor with a minimum of 3 items to ensure factor stability, the two factors with only two items are not retained. Factor analysis on the remaining five items was re-run.

The factor analysis on the five retained items has a KMO of 0.771, which is good. The Bartlett’s test of sphericity is significant.

Table 6-4a Strategic Partnering Intent - KMO and Bartlett's Test

| | | |
|--|--------------------|---------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .771 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 277.358 |
| | df | 10 |
| | Sig. | .000 |

One factor is extracted with an eigenvalue of 2.68 that explains 53.49% of the total variance. The scree test also indicates one factor clearly above the point of inflexion.

Table 6-4b Strategic Partnering Intent - Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.675 | 53.491 | 53.491 | 2.675 | 53.491 | 53.491 |
| 2 | .795 | 15.899 | 69.390 | | | |
| 3 | .638 | 12.766 | 82.156 | | | |

All the five items have high factor loading on the single factor extracted. All the items reflect a more *instrumentally-oriented selection of key partner* by firms for foreign business development, which aligns with the expected interpretation of the factor as ‘strategic partnering intent’.

Table 6-4c Strategic Partnering Intent - Component Matrix

| | Component |
|----------|-----------|
| | 1 |
| Partner3 | .777 |
| Partner5 | .756 |
| Partner4 | .747 |
| Partner9 | .705 |
| Partner2 | .667 |

Extraction Method: Principal Component Analysis.
a 1 components extracted.

The Cronbach’s alpha of the five items is 0.779, which is below the target value of 0.8 but above the acceptable cutoff of 0.7 (Nunnally, 1978). The corrected item-total correlation of individual items ranges from 0.5 – 0.6.

Networking Diversity

The factor ‘networking diversity’ is measured by the diversity of networking channels the respondents utilized to develop network relationships for foreign business development. A comprehensive list of twenty channels was derived based on an extensive review of literature (e.g., Birley, 1985; Cavusgil and Naor, 1987; Chell and Baines, 2000; Ellis, 2000; Smeltzer, Fann and Nikolaisen 1988), discussions with practitioners, and also the case findings. Respondents were asked to rate the use of each channel on a five-point Likert scale from ‘Not At

All’ (1) to ‘Very Much’ (5). Considering the long list of channels, exploratory factor analyses were conducted to uncover any latent factors associated with individual groups of channels.

| Item No. | Networking Channel | | |
|----------|---|----|---|
| 1 | Family, relatives, and personal friends of the key decision-maker | 11 | Local government departments |
| 2 | Past work and business contacts of the key decision-maker | 12 | Local academic, research, and other professional institutes |
| 3 | Current business partners of the company | 13 | Online marketplace |
| 4 | Agents and intermediaries | 14 | Public advertising media (e.g. magazine, TV, radio) |
| 5 | Domestic trade fairs | 15 | Cold-calling |
| 6 | Foreign trade fairs | 16 | Foreign trade and industrial associates |
| 7 | Local trade and industrial associations | 17 | Foreign academic, research, other professional institutes |
| 8 | Company websites | 18 | Family, relatives, and personal friends of general staff |
| 9 | Chinese ethnic networks | 19 | Past work and business contacts of general staff |
| 10 | Companies in the same industry (including competitors) | 20 | Foreign government departments |

Results of Factor Analysis and Reliability Test

Factor analysis was re-run because of the inconsistent scree test results regarding the number of factors extracted, and because some items (4, 8, 10, 15) failed to load on any factor extracted under the cutoff of factor loading at 0.4.

The final factor analysis of sixteen items has a KMO of 0.792. Bartlett’s Test of sphericity is significant.

Table 6-5a Networking Diversity - KMO and Bartlett’s Test

| | | |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .792 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 1351.075 |
| | df | 120 |
| | Sig. | .000 |

Three factors were extracted with an eigenvalue of 1.696, explaining 56.8% of the total variance.

Table 6-5b Networking Diversity - Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 5.141 | 32.134 | 32.134 | 5.141 | 32.134 | 32.134 |
| 2 | 2.252 | 14.075 | 46.210 | 2.252 | 14.075 | 46.210 |
| 3 | 1.696 | 10.599 | 56.809 | 1.696 | 10.599 | 56.809 |
| 4 | 1.012 | 6.323 | 63.131 | | | |
| 5 | .870 | 5.437 | 68.569 | | | |

Table 6-5c Networking Diversity - Rotated Component Matrix

| | Component | | |
|----------|-----------|------|------|
| | 1 | 2 | 3 |
| NetChn17 | .772 | | |
| NetChn16 | .758 | | |
| NetChn14 | .754 | | |
| NetChn12 | .738 | | |
| NetChn9 | .693 | | |
| NetChn20 | .685 | | |
| NetChn13 | .650 | | |
| NetChn11 | .607 | | |
| NetChn2 | | .768 | |
| NetChn19 | | .700 | |
| NetChn1 | | .667 | |
| NetChn18 | | .608 | |
| NetChn3 | | .595 | |
| NetChn5 | | | .826 |
| NetChn6 | | | .745 |
| NetChn7 | .473 | | .612 |

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
a Rotation converged in 5 iterations.

Three underlying factors were extracted, and the reliability test results are summarized as follows:

Table 6-5d Networking Diversity - Factor Analysis and Reliability Test Results

| Factor | Items | Interpretation | Cronbach's alpha | Corrected item-total correlation |
|--------|-------------------------------|-------------------------------------|------------------|----------------------------------|
| 1 | 9, 11, 12, 13, 14, 16, 17, 20 | Indirect institutional channels | 0.870 | 0.5-0.7 |
| 2 | 1, 2, 3, 18, 19 | Personal contacts | 0.711 | 0.4-0.5 |
| 3 | 5, 6, 7* | Direct business networking channels | 0.718 | 0.5 |

*Channel 7 cross-loads on factor 1 and 3 originally. Adopting Snell and Dean's (1992) approach, it is decided to retain the item in factor 3 because the factor loading is much higher (a difference of 0.14) and it is easier to interpreted. The analysis results confirm the level of diversity of the networking channels defined in the list, and hence support the measure of the 'networking diversity' factor. The mean of the sixteen retained items was calculated to be the scale of the 'networking diversity' factor used in regression analysis. Mean values of the individual factors were also calculated for future analysis.

6.1.2.2 The Network Resources Construct

The ‘network resources’ construct is defined as the dependent variable of the ‘networking behaviour’ construct, and the independent variable of the ‘internationalization’ construct. It was measured by the amount of resources available for firms from network relationships. Respondents were asked to rate a list of ten categories of resources on a five-point Likert scale from ‘None’ (1) to ‘A Great Deal’ (5). The list of the ten resource categories was derived based on literature review (Elfring and Hulsink, 2003; Holmlund and Kock, 1998; Westhead, Wright and Ucbasaran, 2001), discussions with academics and practitioners, and case findings.

The list of resource categories is as follows:

- 1. Capital and financial resources
- 2. Physical resources (e.g. office, plants, machines, equipments)
- 3. Business reputation and status
- 4. Foreign market information and knowledge
- 5. General international business and management knowledge and skills
- 6. Technology and technical know-how
- 7. Foreign client/ customer/ other business contact networks
- 8. Foreign sales and distribution channels
- 9. New business ideas and opportunities
- 10. Human resources

Results of Factor Analysis and Reliability Test

Factor analysis was re-run due to the inconsistent indication of the scree test regarding the number of factors to be extracted, the cross-loading of item 5 on two factors, and the lower reliability of item 9 in its corresponding factor. The final factor analysis of eight items (with item 5 and 9 dropped) has a KMO of 0.7, and a significant Bartlett’s test of sphericity. Two factors are extracted at an eigenvalue of 1.674, which explains 56.7% of the total variance.

The two factors and the reliability results are summarized as follows:

Table 6-6 Network Resources Construct – Factor Analysis and Reliability Test Results

| Factor | Items | Interpretation | Cronbach’s alpha | Corrected Item-total correlation |
|--------|----------------|--------------------------|------------------|----------------------------------|
| 1 | 1, 2, 3, 6, 10 | Organizational resources | 0.727 | 0.4-0.6 |
| 2 | 4, 7, 8 | Foreign resources | 0.744 | 0.4-0.7 |

6.1.3 The Dependent Variable: The Internationalization Construct

The ‘internationalization’ construct is the dependent variable of the ‘networking behaviour’ and the ‘network resources’ construct. Internationalization in this study was measured by the speed of internationalization in terms of a categorical dichotomy variable, of which the samples are classified into two categories: ‘International New Venture’ or ‘Traditional Internationalized Firm’.

Oviatt and McDougall (2005) propose three dimensions, i.e., time of initial entry, country scope, and commitment, to measure the speed of internationalization. Explicit definitions and operationalized measures of the three dimensions, however, are not provided in the paper. This study, therefore, refers to Oviatt and McDougall's (1994:49) original definition of the 'International New Venture' as "a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries" for the operationalization of the internationalization construct. Three dimensions - *time of initial foreign business development*, *significance of the sale of outputs*, and *involvement in multiple countries* - specified in the definition were used as an aggregate measure for the categorization. The three criteria are operationalized as follows:

- The *time of initial foreign business development* is calculated by subtracting the year of a firm's establishment from the year in which the firm started foreign business activities. Firms which *started foreign business activities within 6 years of establishment* are differentiated from those which started foreign business activities after 6 years of establishment. The 6-year cutoff as the operational definition is commonly adopted to define the international new venture (Arenius, 2005; McDougall, Oviatt and Shrader, 2003; Oviatt and McDougall, 1997; Prashantham, 2005a; Spence, 2003; Zahra, 2001).
- The *significance of the sale of outputs* is defined by the percentage of foreign sales revenues to total sales revenues (Oviatt and McDougall, 1997). Cutoff at 25% defined by Knight (1997) is the most commonly applied criterion of 'Born Global' or 'International New Venture' (Andersson and Wictor, 2003; Johnson, 2004; Madsen and Knudsen, 2003; Moen and Servais, 2002). The Hong Kong domestic market on which part of the empirical study was located, however, is much smaller compared to the US and the European markets, and hence cutoff at 25% is deemed unrepresentative of and insignificant to general SMEs which involved in foreign business in the two empirical regions. *Cutoff at >50%* therefore is defined as significant in this study (Prashantham, 2005a; Dimitritos, Hood, Johnson and Slow, 2005).
- The criterion *involvement in multiple countries* is defined by the geographical scope of foreign business activities. There is no precise operational definition of this criterion (Andersson and Wictor, 2003; Coviello, 2006; Madsen and Knudsen, 2003). For example, Madsen and Knudsen (2003) propose using 'continent' as the measure, and that 'business in multiple countries' is defined as a company with business in any other continent(s) outside its home continent. In Andersson and Wictor's study (2003) and Coviello's study (2006), the authors do not explicitly specify how 'multiple countries' in their studies are measured. In this study,

respondents were asked to indicate where in a list of twelve countries/regions their companies had foreign business activities. Based on the business context of Hong Kong and mainland China, the countries/regions were categorized into five groups: 1) Mainland China/Hong Kong, Macau, and Taiwan; 2) Japan and Korea; 3) Southeast Asia, Middle East and Africa; 4) European Union, Australia, and New Zealand; and 5) North and South America. Firms which reported having *foreign business activities in at least two groups of countries/regions* are defined to be involved in multi-country foreign business.

The categorization of countries/regions adopted in this research ensures that any combination of two groups encompasses multiple countries/regions. Furthermore, the categorization also takes into consideration geographical and socio-cultural proximity to ensure that any combination of two groups represents certain diversity. For example, although the business activities among the regions in Group 1 can be justifiably defined as foreign business activities by actual conditions (as discussed in Chapter 3), it is obvious that the regions are basically homogeneous in terms of geographical and cultural distance. The same situation is applied to Japan and Korea (in Group 2), to Australia and New Zealand (in Group 4), and to Canada and the United States (in Group 5). The paired countries are independent countries. Due to the relative proximity in geographical location and culture, however, business activities in any pair of the countries may not truly reflect the fundamental concept of foreignness involved in internationalization. Therefore, those countries/regions that are relatively homogeneous are classified into one group rather than counted as separate countries/regions. The rationale behind this approach is akin to that of the existing studies that apply score weighing to geographical scope by psychic distance in terms of geographical and cultural distance to ensure diversity (e.g. Fischer and Reuber, 1997; Sapienza, Clercq and Sandberg, 2005). It addresses, to a certain extent, the concern regarding the extent of ‘foreignness’ involved in cross-border activities between countries (e.g. business activities among the European countries on the main continent, as discussed by Madsen and Knudsen, 2003). It is believed that the categorization of the countries/regions, and the operationalization of the multi-country criterion as a firm that has business activities in at least two groups of countries/regions adopted in this research, adequately fulfill the ‘involvement in multiple countries’ criterion.

Based on Oviatt and McDougall’s (1994) definition, *all three criteria have to be met for a firm to be classified as ‘International New Venture’, which category is coded as ‘1’*. Those firms that do not meet any one of the three criteria are classified as ‘Traditional Internationalized Firm’, which category is coded as ‘0’.

Table 6-7 Summary of the Factor Analysis and Reliability Test Results of Constructs/Factors

| Constructs | Data Type | Latent Factors/Variables | KMO | Eigenvalue | % of Total Variance Explained | Cronbach's Alpha |
|----------------------------------|-------------|--------------------------------------|-------|------------|-------------------------------|------------------|
| Key Decision-maker | | | | | | |
| Industrial Experience | Ordinal | Industrial Experience | 0.824 | 3.570 | 59.496% | 0.863 |
| International Business Vision | Ordinal | International Business Vision | 0.802 | 2.953 | 73.800% | 0.881 |
| Availability of Personal Network | Ordinal | Personal Network Availability | | | | |
| Networking Behaviour | | | | | | |
| Networking Initiative | Ordinal | Networking Initiative | | | | 0.867 |
| Networking Commitment | Ordinal | Networking Commitment | 0.862 | 1.020 | 78.321% | 0.860 |
| Networking Deliberation | Ordinal | Networking Deliberation | | | | 0.930 |
| Strategic Partnering Intent | Ordinal | Strategic Partnering Intent | 0.771 | 2.675 | 53.491% | 0.779 |
| Networking Diversity | Ordinal | Personal Contacts | | | | 0.711 |
| | | Direct Business Networking Channels | 0.792 | 1.696 | 56.809% | 0.718 |
| | | Indirect Institutional Channels | | | | 0.870 |
| Network Resources | | | | | | |
| Network Resources Availability | Ordinal | Organizational Resources | 0.700 | 1.674 | 56.700% | 0.727 |
| | | Foreign Business Resources | | | | 0.744 |
| Internationalization | | | | | | |
| Speed of Internationalization | Categorical | 'International New Venture' / | | | | |
| | Dichotomy | 'Traditional Internationalized Firm' | | | | |

6.2 Descriptive Data of the Respondent Firms

6.2.1 Demographic Profile

Table 6-8a Distribution of the Respondent Firms – by Size (number of employee)

| <i>(number of employees)</i> | <i>1-50</i> | <i>51-100</i> | <i>101-150</i> | <i>151-200</i> | <i>201-250</i> | Total |
|------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|
| Hong Kong | 91 | 19 | - | - | - | 110 |
| Beijing | 69 | 17 | 7 | 2 | 5 | 100 |
| Total | 160 | 36 | 7 | 2 | 5 | 210 |
| (% to total) | (76.2%) | (17.1%) | (3.3%) | (1%) | (2.4%) | (100%) |

Table 6-8b Distribution of the Respondent Firms – by Age

| <i>(age in year)</i> | <i>1-6</i> | <i>7-12</i> | <i>13-18</i> | <i>19-25</i> | <i>>25</i> | Total |
|----------------------|----------------|----------------|----------------|----------------|---------------|---------------|
| Hong Kong | 27 | 26 | 27 | 15 | 15 | 110 |
| Beijing | 51 | 30 | 10 | 7 | 2 | 100 |
| Total | 78 | 56 | 37 | 22 | 17 | 210 |
| (% to total) | (37.1%) | (26.7%) | (17.6%) | (10.5%) | (8.1%) | (100%) |

Table 6-8c Distribution of the Respondent Firms – by Industry

| <i>Industry</i> | <i>Tradition</i> | <i>High-technology</i> | Total |
|---------------------|------------------|------------------------|---------------|
| Hong Kong | 83 | 27 | 110 |
| Beijing | 70 | 30 | 100 |
| Total | 153 | 57 | 210 |
| (% to total) | (72.9%) | (27.1%) | (100%) |

The majority of the respondent firms in the survey are small firms by the official definitions in terms of number of employees: 76.2% have 50 or fewer employees. The respondent firms are also relatively young, with 37% of the firms having been established for 6 years or fewer (the defined cutoff year of internationalization of INV); in total, 64% have been established for 12 years or fewer. The respondent firms in Beijing are comparatively younger than those in Hong Kong. The respondent firms come from a mix of industries producing traditional (73%) or high-tech (27%) products. The higher percentage of sample firms in traditional industry to a large extent reflects the actual industry distribution in the region, in which the economy is still dominated by firms producing traditional products (Yeung, 2002).

6.2.2 Internationalization of the Respondent Firms

6.2.2.1 Factors Influencing the Commencement of Internationalization

The respondent firms were asked to rate on a five-point Likert scale (1 = ‘Not At All Important’ and 5 = ‘Very Important’) the influence of a list of factors on the commencement of their foreign business development.

Table 6-9a Factors Influencing the Commencement of Internationalization

| Factors | Total | Medium | Mode | SD | Max | Min |
|--|----------|--------|---------------|-------|-----|-----|
| | Mean | | (Frequency %) | | | |
| 1. Business idea at the start-up..... | 3.93 (3) | 4.00 | 5 (43.8%) | 1.216 | 1 | 5 |
| 2. Interest of the key decision-maker in expanding the business..... | 4.43 (1) | 5.00 | 5 (60.0%) | 0.823 | 1 | 5 |
| 3. Demands of key business partners | | | | | | |
| 4. (e.g., customer, supplier, collaborator). | 3.91 (4) | 4.00 | 5 (34.3%) | 0.989 | 1 | 5 |
| 5. Response to Government sponsorship and promotion..... | 2.71 (8) | 3.00 | 2 (26.2%) | 1.343 | 1 | 5 |
| 6. Response to key competitors’ actions.. | 3.29 (7) | 3.00 | 3 (32.9%) | 1.092 | 1 | 5 |
| 7. Response to unsolicited inquiries and orders..... | 3.89 (5) | 4.00 | 5 (37.6%) | 1.092 | 1 | 5 |
| 8. Response to general market and industrial trends..... | 4.00 (2) | 4.00 | 4 (44.8%) | 0.876 | 1 | 5 |
| 9. The key decision-maker has potential networks in foreign countries..... | 3.42 (6) | 3.00 | 4 (25.7%) | 1.196 | 1 | 5 |

Table 6-9b Factors Influencing the Commencement of Internationalization by Survey Location and Industry

| Factors | Mean Value | By Survey Location | | Industry | |
|---|------------|--------------------|---------|-----------|-----------|
| | | Hong Kong | Beijing | Tradition | High-Tech |
| 1. Business idea at the start-up..... | | 4.07 | 3.78 | 3.77 | 4.37 |
| 2. Interest of the key decision-maker in expanding the business..... | | 4.62 | 4.23 | 4.40 | 4.53 |
| 3. Demands of key business partners (e.g., customer, supplier, collaborator)..... | | 3.77 | 4.07 | 3.99 | 3.70 |
| 4. Response to Government sponsorship and promotion..... | | 2.19 | 3.29 | 2.73 | 2.67 |
| 5. Response to key competitors’ actions..... | | 3.21 | 3.38 | 3.20 | 3.54 |
| 6. Response to unsolicited inquiries and orders.... | | 3.63 | 4.17 | 3.94 | 3.74 |
| 7. Response to general market and industrial trends..... | | 4.02 | 3.99 | 4.00 | 4.02 |
| 8. The key decision-maker has potential networks in foreign countries..... | | 3.16 | 3.70 | 3.44 | 3.35 |

According to the results presented above, the interest of the key decision-maker in expanding the business was commonly rated to be the most important factor (4.43) influencing the commencement of foreign business development (Ganitsky, 1989; Holumlund and Kock, 1998). It appears to correspond to the emphasis on the dominant management influence of key decision-makers on stimulating the internationalization of SMEs (Aaby and Slater, 1988; Andersson,

Gabrielsson and Wictor, 2004; Boter, 2003; Cavusgil, 1984; Leonidou, Katsikeas and Piercy, 1998; Morgan and Katsikeas, 1997; Zou and Stan, 1998), which is regarded as an underlying factor to the instant and accelerated internationalization (Andersson and Wictor, 2003; Madsen and Servais, 1997; Oviatt and McDougall, 2005). The business idea at the start-up (3.93) also had strong influence on prompting the firms to commence foreign business development. The influence of the start-up idea was particularly significant to the internationalization of Hong Kong firms (4.07); this corresponds to the market and industrial conditions of a small economy that demands SMEs to develop foreign business to survive and grow (Madsen and Servais, 1997; Rasmussen, Madsen and Evangelista, 2001). It can therefore be expected that general market and industrial trends (4.00) also exercise strong influence on driving the start of the foreign business development. Even the SMEs in Beijing found that general market and industrial trends were important to incite their commencement of foreign business. This may reflect the general national policy of mainland China in the recent years that strongly advocates and promotes firms to go abroad to ensure their survival and competitiveness, in order to cope with increasing domestic competition, and particularly with the influxes of foreign competitors after the accession to the WTO. Therefore, although mainland China is a big market in itself, the changing market structure in the country has the indigenous SMEs facing the situation elaborated by Oviatt and McDougall (1994:52): “with many markets internationalizing, fewer new ventures can escape the confrontations with foreign competition, and more entrepreneurs are adopting a multinational viewpoint”. They are therefore pushed to seek business opportunities beyond their domestic nexus.

Firms in high-technology industry, to a large extent, commenced internationalization in accordance to their start-up business ideas (4.37). The finding confirms that the global-orientation of most knowledge- and technology-intensive industries requires even the smallest and newest firms to pursue instant internationalization; therefore, they have to begin the business with a global view of the markets (Jones, 2001; Karagozoglu and Lindell, 1998; Knight and Cavusgil, 2004; Madsen and Servais, 1997; Oviatt and McDougall, 1997, 2005; Spence, 2003).

Regarding the influence of network parties, key business partners such as customers, suppliers and collaborators (3.91) exercised greater influence than competitors (3.29). In comparison, Beijing firms’ commencement of foreign business development appears to be more a response to external parties’ initiatives than that of Hong Kong firms. In general, the findings

are consistent with the common propositions and empirical findings regarding the driving force of business network parties (Bell, 1995; Coviello and Munro, 1995; Johnsen and Johnsen, 1999), even though there are also some studies that find reaction to demands from co-operative partners or competitors not quite so crucial to triggering SMEs' engagement in international business (Holmlund and Kock, 1998; Karagozoglu and Lindell, 1998).

Government sponsorship and promotion (2.19) was rated as unimportant to foreign business development by Hong Kong SMEs, which are commonly skeptical and doubtful of public sector assistance (Ellis, 2000). On the other hand, Beijing firms found government sponsorship and promotion (3.29) relatively more important to their commencing foreign business. This to a certain extent reflects the favourable policies to support the development of SMEs in the region in which the Beijing firms were sampled, where the SME cluster has been developed, managed and subsidized by some official departments. However, the factor was still regarded as the least important in comparison with the other factors. The findings appear to correspond to studies in other contexts (Curran et al., 1993; Fischer and Reuber, 2003; Gray, 1997; Robson and Bennett, 2000). For example, the study by Curran et al (1993) finds having doubts on public sector assistance is common among SMEs, Robson and Bennett (2000:205) also comment that "it is primarily competitive conditions that simulate growth [,] not government supports".

Unsolicited inquiries and orders (3.89) were another important factor that provided SMEs with impetus to start foreign business development (Ellis, 2000; Johnsen and Johnsen, 1999; Karagozolglu and Lindell, 1998; McNaughton, 2003). It reflects the fact that certain SMEs started their foreign business in response to serendipity rather than according to their own planned direction (Crick and Jones, 2000; Meyer and Skak, 2002; Spence, 2003). Finally, whether the key decision-maker had networks in foreign countries is not a major factor in either region (Loane and Bell, 2006; Rasmussen, Madsen and Evangelista, 2001). The finding provides evidence for the spirit of entrepreneurship in that the entrepreneur is driven primarily by the opportunities spotted and the belief that he/she can obtain the resources to act on those opportunities, and hence is not constrained by existing resources (Brown, Davidsson and Wiklund, 2001; Stevenson and Jarillo, 1990).

6.2.2.2 Initial Step in and First Foreign Market of Internationalization

The respondent firms were asked to indicate their first foreign business activity, and the first foreign country in which they conducted business. The results are summarized as follows:

Table 6-10a First Foreign Business Activity of the Respondent Firms

| | Number of Firms | Total N=210 | Hong Kong N=110 | Beijing N=100 | Traditional N=153 | High-tech N=57 |
|--|-----------------|----------------|--------------------|------------------|----------------------|-------------------|
| Foreign Business Activity | | (100%) | | | | |
| Direct export of products and/or services | | 166 (79%) | 85 (77.3%) | 81 (81%) | 125 (81.7%) | 41 (71.9%) |
| Licensing and/or Franchising abroad | | 10 (4.8%) | 4 (3.6%) | 6 (6%) | 7 (4.6%) | 3 (5.3%) |
| Outsourcing and/or Subcontracting business activities abroad | | 6 (2.9%) | 3 (2.7%) | 3 (3%) | 5 (3.3%) | 1 (1.8%) |
| Collaborations and/or Partnerships (e.g., joint venture, alliance) abroad | | 16 (7.6%) | 7 (6.4%) | 9 (9%) | 8 (5.2%) | 8 (14%) |
| Wholly-owned operations abroad | | 12 (5.7%) | 11 (10%) | 1 (1%) | 8 (5.2%) | 4 (7%) |

Table 6-10b First Foreign Country to Start Foreign Business Activity

| | | Number of Firms | | | | |
|-------|--|-----------------|-----------|---------|-----------|-----------|
| Group | Countries/Regions | Total * | Hong Kong | Beijing | Tradition | High-tech |
| 1 | Mainland China, Hong Kong, Macau, Taiwan | 147 | 54 | 93 | 93 | 54 |
| 2 | Japan/Korea | 105 | 28 | 77 | 79 | 26 |
| 3 | Southeast Asia, Middle East, Africa | 97 | 20 | 77 | 74 | 23 |
| 4 | European Union, Australia, New Zealand | 114 | 59 | 55 | 92 | 22 |
| 5 | North and South America | 98 | 46 | 52 | 80 | 18 |

*Some respondent firms indicate multiple foreign countries, thus, the total number is larger than the number of respondent firms.

The majority of the firms (79%) started their foreign business development through direct exporting. The finding is consistent with other studies because this non-direct investment mode to develop foreign business is relatively less resource-intensive, and is more easily achieved by the resource-constrained SMEs (Bell, 1995; Holmlund and Kock, 1998; Vatne, 1995). About 10% of the Hong Kong respondent firms started their foreign business activity with the most committed mode of internationalization, i.e., the establishment of wholly-owned foreign operations. It can be expected that most of the wholly-owned operations of Hong Kong firms were production facilities established in mainland China to capture low-cost locational advantages. The remaining 15% of the respondent firms started their foreign business development in different modes include licensing, franchising, outsourcing, subcontracting, and forming partnerships and collaboration abroad. Sharma and Blomstermo (2003) point out flexibility and innovation in the use of different modes to pursue foreign market entry as an

attribute of rapidly internationalizing firms (they use the label 'Born Global'). Rundh (2001) also finds that his respondent firms chose to start their internationalization by different entry modes according to the particular market structure, which finding corroborates Kumar and Subramaniam's proposition (1997) of entry mode decisions contingent upon a variety of external and internal factors. The results reflect the fact that the first step of SMEs' internationalization varies, and it may not be as deterministic as suggested by stage theories (Bell, 1995; Jones, 2001; Oviatt and McDougall, 1997; Reid, 1983).

Although the results show that there were more firms that first started their foreign business in ethnic Chinese countries/regions including mainland China (for respondent firms in Hong Kong), Hong Kong (for respondent firms in Beijing), Macau and Taiwan (denotes as Group 1 countries), the number of firms is not significantly larger than those which entered geographically and/or culturally distant countries/regions. In the case of Hong Kong, for example, there were more firms that chose EU, Australia and/or New Zealand as their first foreign markets. It corresponds to Knight, Bell and McNaughton's (2001) suggestion that the ignorance/disregard of psychic distance in internationalization may be particularly prevalent among firms from small open economies when domestic demand is limited. The results indicate that the influence of psychic distance on foreign market selection was not significant for the respondent firms in the two regions. The results corroborate qualitative case findings and quantitative findings of other studies on the same region, and in other contexts (Arenius, 2005; Bell, 1995; Benito and Gripsrud, 1992; Child, Ng and Wong, 2002; Crick and Jones, 2000; Ellis, 2000; Yeung, 2002).

However, the majority of high-tech firms started their foreign business in geographically proximate countries. The underlying reason may not be to do with psychic distance, but it may be due to the business consideration that their products may be relatively more at a disadvantage if competing with the products of well-established multinational companies in developed markets. Emerging markets such as mainland China and the less developed markets may provide more market niche opportunities (Andersson and Wictor, 2003; Bell, 1995; Crick and Jones, 2000). Countries like Taiwan, Korea and Japan in the region, which are relatively proximate, have well-established high-technology industries and are lead markets providing both sourcing and selling opportunities. They can act as a stepping stone for companies to establish market presence and to advance product knowledge for further foreign business development. These

reasons may explain why relatively fewer high-technology firms in the region started their business initially in more distant countries such as North America.

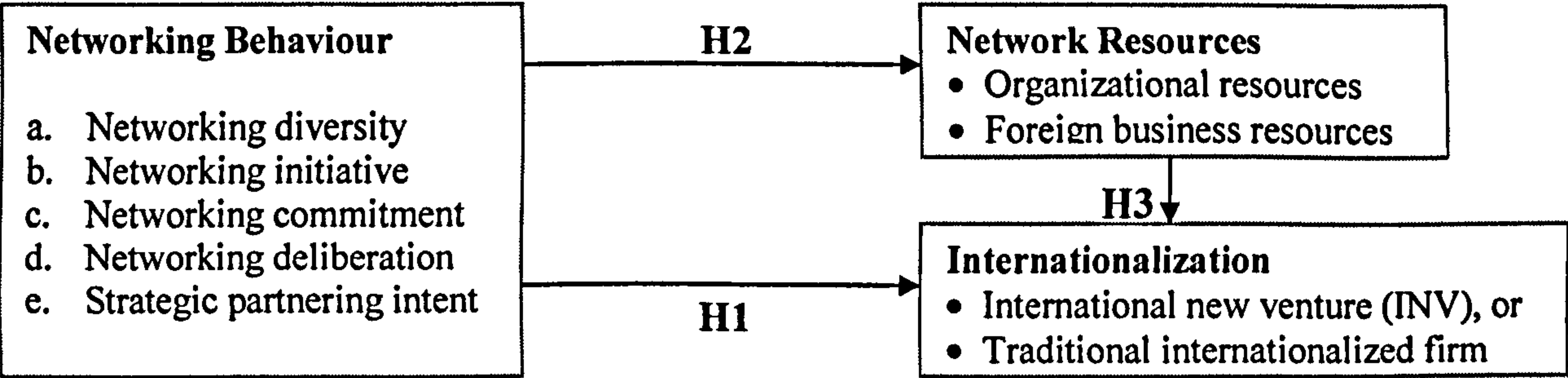
Finally, the respondent firms were asked to self-rate their overall foreign business performance in comparison with their direct key competitors on a five-point Likert scale from ‘Weaker’ (1) to ‘Stronger’ (5). The mean value (3.5) indicates that the majority of the firms found themselves to be slightly stronger in performance than their direct key competitors. The average self-rating of the Hong Kong firms (3.55) and that of the Beijing firms (3.45) are very close. In general, the firms also rated the competitive advantages of their key business partnerships in foreign business as stronger (3.7) than those of their direct key competitors. The average rating given by the Beijing firms (3.8) is slightly higher than that of the Hong Kong firms (3.6). The two self-assessed performance figures, to a certain extent, reflect the respondent firms’ confidence in their business development and competitiveness in foreign markets.

6.3 Hypothesis Formulation for Regression Analysis

To address the two main research questions of the study, i.e., ‘How does networking behaviour influence the internationalization of SMEs?’ and ‘What and how do key decision-maker attributes affect the networking behaviour of SMEs?’, regression analysis was conducted to assess statistically the hypothesized association between the constructs in the two questions respectively. The original hypotheses formulated in accordance with the qualitative case findings (in Chapter 5) are expanded into subsets of hypotheses to cover the latent factors of individual constructs that have been validated and confirmed in the factor analysis results.

Figure 6-1 Hypotheses for Research Question One

‘How does networking behaviour influence the internationalization of SMEs?’



H1. Networking behaviour influences the internationalization of SMEs.

H1a: *Networking diversity* positively influences the internationalization of SMEs.

H1b: *Networking initiative* positively influences the internationalization of SMEs.

H1c: *Networking commitment* positively influences the internationalization of SMEs.

H1d: *Networking deliberation* positively influences the internationalization of SMEs.

H1e: *Strategic partnering intent* positively influences the internationalization of SMEs.

H2. Networking behaviour influences the availability of network resources for the internationalization of SMEs.

H2a: *Networking diversity* positively influences the availability of network resources for internationalization.

H2b: *Networking initiative* positively influences the availability of network resources for internationalization.

H2c: *Networking commitment* positively influences the availability of network resources for internationalization.

H2d: *Networking deliberation* positively influences the availability of network resources for internationalization.

H2c: *Strategic partnering intent* positively influences the availability of network resources for internationalization.

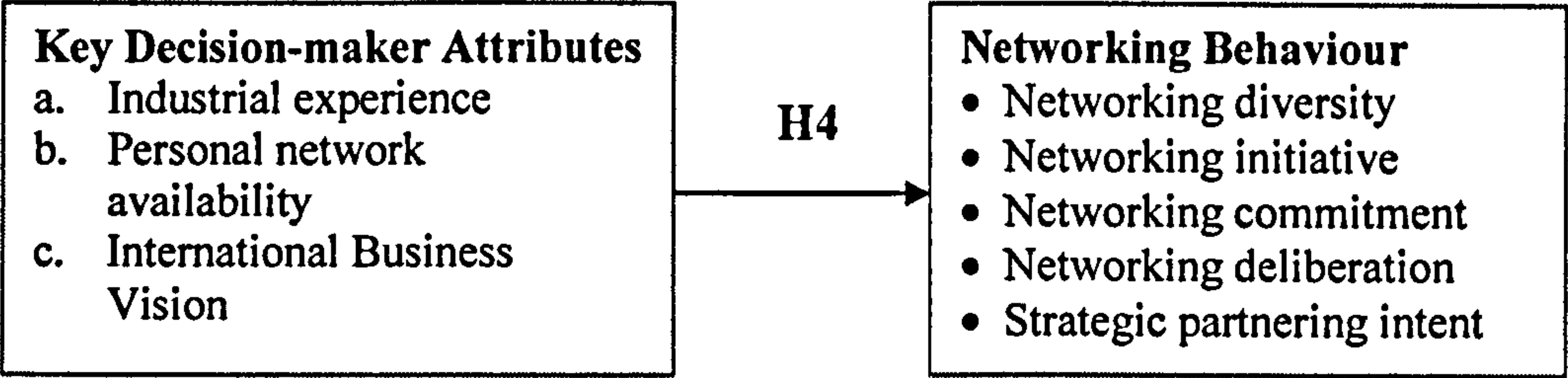
H3. The availability of network resources positively influences the internationalization of SMEs.

H3a: The *availability of organizational resources* positively influences the internationalization of SMEs.

H3b: The *availability of foreign business resources* positively influences the internationalization of SMEs.

Figure 6-2 Hypotheses for Research Question Two

‘What and how do key decision-maker attributes affect the networking behaviour of SMEs?’



H4. The key decision-maker influences the networking behaviour of SMEs.

- H4a: The *industrial experience* of the key decision-maker positively influences the networking behaviour of SMEs.
- H4b: The *availability of personal networks* of the key decision-maker positively influences the networking behaviour of SMEs.
- H4c: The *international business vision* of the key decision-maker positively influences the networking behaviour of SMEs.

Multiple regression analysis is considered the appropriate method for assessing Hypothesis 2 and Hypothesis 4, which aim to test the effect of multiple independent variables (predictor variables) upon a dependent variable. Force entry method was used to construct the regressions. Logistic regression was utilized to assess Hypothesis 1 and Hypothesis 3, because the dependent variable – internationalization – is defined as a categorical dichotomy, i.e., ‘International New Venture’ or ‘Traditional Internationalized Firm’.

6.4 Regression Analysis Findings and Discussions

This section presents the regression analysis results, and the findings are discussed and explained with reference to the existing literature and the case findings of this research.

Table 6-11: Correlation Matrix of the (Independent) Predictor Variables

| | Networking Diversity | Networking Initiative | Networking Commitment | Networking Deliberation | Strategic Partnering Intent | Industrial Experience | IB Vision | Personal Network | Network Resources |
|-----------------------------|----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|-----------------------|-----------|------------------|-------------------|
| Networking Diversity | 1 | | | | | | | | |
| Networking Initiative | .241(**) | | | | | | | | |
| Networking Commitment | -.142(*) | .320(**) | | | | | | | |
| Networking Deliberation | .002 | .386(**) | .643(**) | | | | | | |
| Strategic Partnering Intent | .107 | .389(**) | .261(**) | .197(**) | | | | | |
| Industrial Experience | .087 | .280(**) | .278(**) | .161(**) | .229(**) | | | | |
| IB Vision | -.005 | .279(**) | .414(**) | .345(**) | .242(**) | .306(**) | | | |
| Personal Network | .570(**) | .254(**) | -.120(*) | .003 | .121(*) | .094 | .045 | | |
| Network Resources | .487(**) | .424(**) | .160(*) | .267(**) | .405(**) | .269(**) | .210(**) | .407(**) | 1 |

** Correlation is significant at the 0.01 level (1-tailed). * Correlation is significant at the 0.05 level (1-tailed).

Referring to the Pearson correlation coefficient between every pair of the predictor variables to be used in the regression analyses, there are no substantially strong correlations ($R>0.9$). Thus, there is initially no multicollinearity in the data. Further testing for multicollinearity of individual regressions will be presented in their respective sections.

6.4.1 *Networking Behaviour, Network Resources and Internationalization*

Three sets of regressions (Hypothesis 2 to be tested by multiple regression, Hypothesis 1 and 3 to be tested by logistic regression) are run to investigate the direct effect of networking behaviour on internationalization (H1), the influence of networking behaviour on the availability of network resources (H2), and the influence of the availability of network resources on internationalization (H3).

It should be acknowledged that the 'network resources' construct was not analyzed as a mediator to networking behaviour on internationalization in this study, but as a direct predictor variable of internationalization. This is because this study differentiates a firm's networking behaviour for obtaining network resources, and networking behaviour for gaining foreign business revenue to be two independent goals, although it is noted that the two goals may be interrelated (explained in section 1.4).

Two control variables – 'size of firm' by number of employees and 'industry type' by the two categories of 'traditional' and 'high-technology' – were included in the two sets of logistic regression analysis that predict the influence of the networking behaviour (Hypothesis 1) and the availability of network resources (Hypothesis 3) on internationalization respectively. It is discussed in the theoretical foundation chapter (section 2.3.2.1) that size of firm is often regarded as a key differentiating factor influencing the internationalization of SMEs. Although the existing studies produce mixed results regarding the influence of firm size on business development, it is often included as a control variable in studies of SME internationalization (Reuber and Fischer, 1997; Tseng, Tansuhaj and Rose, 2004; Westhead, Wright and Ucbasaran, 2004; Zahra, Matherne and Carleton, 2003).

The studies on instant and accelerated internationalization of SMEs tend to focus on high-technology firms, for the reason that the high-technology industry is believed to be inherently globally-oriented and knowledge-intensive in nature, requiring that the firms achieve rapid internationalization (Bell, 1995; Bell, Crick and Young, 2004; Bloodgood, Sapienza and Almeida, 1996; Boter and Holmquist, 1996; Coviello and Munro, 1997; Dimitratos et al., 2003; Gemser, Brand and Sorge, 2004; Johnson, 2004; Jones, 1999; Keeble, et al., 1998; Madsen and Servais, 1997; Moen, Gavlen, Endresen, 2004; Oviatt and McDougall, 1997; Yli-Renko, Autio and Tontti, 2002). The potential effect of industry type upon internationalization, therefore, is taken into account.

Referring to Hypothesis 2 that predicts the influence of networking behaviour on the availability of network resources, it is proposed that network position is associated with the power that a firm can exercise on its network relationships to support its business goals (Gomes-Casseres, 1996; Hakansson and Snehota, 1989; Halinen and Tornroos, 1998; Johanson and Mattsson, 1985; Stuart, 1998). It is commonly presumed that the largest and more well-established firms have stronger network positions, which implies that size of firm will influence the share of network resources that a firm can obtain from its networks. Therefore, size of firm was also analysed as a control variable of Hypothesis 2.

In the regression analysis, the control variable(s) is first entered into a regression model to test their effect on the dependent variable (labelled as Model 1). The other predictor variables are then added to the regression model to investigate the influence (labelled as Model 2).

6.4.2 Networking Behaviour and Internationalization

Table 6-12 Logistic Regression Results of Association between Networking Behaviour and Internationalization Variables in the Equation

| | | B | S.E. | Wald | df | Sig. | Exp(B) | 95.0% C.I. for EXP(B) | |
|--------------------------|-------------------------|--------|------------|--------|---------------|------|--------|-----------------------|-------|
| | | | | | | | | Lower | Upper |
| Step 1(a) | Firm Size | -.002 | .004 | .228 | 1 | .633 | .998 | .991 | 1.006 |
| | Industry | .720 | .396 | 3.310 | 1 | .069 | 2.054 | .946 | 4.460 |
| | Networking Diversity | -1.091 | .335 | 10.617 | 1 | .001 | .336 | .174 | .648 |
| | Networking Initiative | .550 | .320 | 2.958 | 1 | .085 | 1.733 | .926 | 3.243 |
| | Networking Commitment | .657 | .344 | 3.653 | 1 | .056 | 1.929 | .983 | 3.784 |
| | Networking Deliberation | 1.315 | .317 | 17.200 | 1 | .000 | 3.725 | 2.001 | 6.936 |
| | Strategic Partnering | -.641 | .325 | 3.881 | 1 | .049 | .527 | .278 | .997 |
| | Constant | -4.150 | 1.738 | 5.700 | 1 | .017 | .016 | | |
| | | | | | | | | | |
| Model# | | 0 | 1 | | 2 | | | | |
| Omnibus Test | | | 6.017 (2)* | | 83.436 (7)*** | | | | |
| Hosmer and Lemeshow Test | | | 5.058 (8) | | 9.629 (8) | | | | |
| Predicted % correct | | 59% | 60.5% | | 80.5% | | | | |

#Model 0: Constant; Model 1: Enter Size and Industry; Model 2: Networking Behaviour

* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$

The objective of these sets of regressions is to predict and explain the direct influence of networking behaviour (e.g. networking for primary economic transactions with foreign clients/customers/suppliers) on the speed of internationalization of firms in terms of ‘International New Venture’ or ‘Traditional Internationalized Firm’. Logistic regression analysis was conducted.

Both the Omnibus tests ($p \leq .05$) and the Hosmer and Lemeshow Test ($p \geq .05$) confirm the significant goodness-of-fit of both model 1 and 2. With the inclusion of the predictor variables, i.e.,

the networking diversity, networking initiative, networking commitment, networking deliberation and strategic partnering intent, the chi-square statistic increases significantly from 6.017(2) to 83.436 (7), and the predicted correct classification of firms has improved from 60.5% to 80.5%. Improvement in chi-square statistic indicates that explanation of the dependent variable is strengthened by adding the predictor variables to the model in addition to the two control variables.

The control variables, i.e., size and industry type, are not significantly associated with the speed of internationalization of firms in the formation of INVs in model 1 by themselves, and also not significantly associated in model 2 with the entry of the networking behaviour variables.

The regression results only provide support to Hypothesis 1d, which statistic indicates a strong positive association of networking deliberation with firms' internationalization in the formation of INVs (1.315, $p \leq .001$). The finding provides support to the proposition of the need to strategize networking activities with deliberate efforts by firms to promote internationalization as a holistic strategic direction (Loane and Bell, 2006; Mort and Weerawardena, 2006; Spence, 2003; Welch and Welch, 1996).

Networking commitment (Hypothesis 1c) is also found to be positively associated with the formation of INVs (0.657, $p = 0.056$). However, the significance of the result is just above the minimal acceptable level of $p \leq 0.05$, and hence the statistical support is marginal. Hypothesis 1b, which predicts networking initiative to positively influence the formation of INVs, is not supported (0.550, $p = 0.085$). This may be explained by the mutuality and reciprocity of network relationships, in which one party's commitment and initiative are not sufficient conditions to trigger business interactions to develop foreign business relationships. As Hakansson and Snehota (1989:196) emphasize, "the action, or reaction, of the other party can only be triggered by the perceived exchange potential of the focal actor". Networking commitment and initiative that are measured at one side of a dyadic relationship may not be able to reflect the actual influence on the establishment and function of business relationships.

It is somewhat unexpected to find that networking diversity (Hypothesis 1a) is negatively associated with the formation of INVs (-1.091, $p \leq .001$). The result may indicate that greater diversity in the networking channels utilized by firms did not necessarily result in the establishment of network relationships that drive internationalization. The finding appears to corroborate that of BarNir and Smith's study (2002), which also finds that the scope of networking activity was negatively associated with support alliance. They explain that it is not so much the quantity but the

quality of networking that leads to firm-level exchange. It corresponds to the comment that excessive networking can be resource-intensive but ultimately a fruitless effort, and it may sometimes be neither necessary nor desirable (Dubini and Aldrich, 1990; O'Donnell, 2004). Witt (2004) also cites the empirical evidence of the lack of association of networking size and time spent with business development. In comparison with the strong positive association between networking deliberation and the formation of INVs, the finding of the negative association of networking diversity supports the proposition that it may be more productive and effective for resource-constrained SMEs to leverage the resources they have to network instrumentally with the prospective parties who can directly contribute to the business goals of the firms (Shaw, 2006).

It is also surprising to find that strategic partnering intent (Hypothesis 1e) has negative association with the formation of INVs. This negative association may be explained by lock-in effects, which may be the result from a firm's propensity to establish strongly embedded strategic relationships for specific objectives, or to concentrate too heavily on a couple of strategic partners on which the firm's revenues and resources are reliant. 'Lock-in' relationships with limited strategic partners may impose certain constraints on the incentive for firms to look for other diversification and growth opportunities, and/or on the availability of options in terms of foreign market scope and/or the pace of the firms in internationalization (Beekman and Robinson, 2004; Coviello and Munro, 1995; Grabher, 1993b; Gulati and Gargiulo, 1999; Mort and Weerawardena, 2006; Sharma and Blomstermo, 2003; Uzzi, 1997; Welch and Welch, 1996). Coviello and Munro (1997) point out network relationships can possibly inhibit as well as facilitate market diversification activities of SMEs. Schutjens and Stam's study (2003) finds that the spatial span of young firms becomes more concentrated rather than sparse when companies developed stronger relationships over the years with key customers, suppliers and distributors. Han, Wilson and Dant (1993) also illustrate a scenario in which partners are irrevocably enmeshed because of investments that have already been made in the relationship and the potential costs (including loss of current resources and benefits from the 'sticky' relationships) of disengaging. The result may be that firms are forced to pass on other exchange relationships or to slow down development to match that of their partners. Similar notion is proposed by Johanson and Vahlne (2006), who mention that stronger dependence on a partner incurs higher switching costs connected with exiting the relationship. The finding appears to be corroborated by that of Jenssen and Greve's study (2002:263), which also finds "too supportive [a] network to be counterproductive" to business development at the start-up.

6.4.2.1 Regression Result Validation

Studentized residual, standardized residual and deviance statistics were examined. The model meets the two criteria specified by Field (2005:245), i.e., 95% of the cases should have the statistics that lie between +/-1.96, and 99% of the cases should have the statistics lie within +/-2.58. No case has Cook’s distance greater than 1. Hence, it is believed that the model is free from undue influence of extreme case.

Multicollinearity test results of the networking behaviour construct (the predictor variables of the regression) are presented in section 6.4.3.1.3.

6.4.3 Networking Behaviour and Network Resources

Table 6-13a Multiple Regression Results of Association between Networking Behaviour and Network Resources – by Categories of Resources

| Dependent Variable | Network Resources | Network Resources – Organizational Resources | Network Resources – Foreign Resources |
|-----------------------------------|-------------------|--|---------------------------------------|
| <i>Independent Variables</i> | | | |
| Firm Size | .109* | .174** | -.056 |
| Networking Diversity | .405*** | .409*** | .193** |
| Networking Initiative | .145* | .045 | .238*** |
| Networking Commitment | .000 | -.108 | .180* |
| Networking Deliberation | .166* | .184* | .051 |
| Strategic Partnering Intent | .265*** | .191** | .254*** |
| <i>Control Variable (Model 1)</i> | | | |
| Firm Size | .205** | .255*** | .017 |
| <i>Model 1</i> | | | |
| <i>R</i> ² | .042 | .065 | .000 |
| Adjusted <i>R</i> ² | .037 | .060 | -.005 |
| <i>F</i> –ratio | 9.094** | 14.409*** | .062 |
| <i>Model 2</i> | | | |
| <i>R</i> ² | .432 | .335 | .336 |
| Adjusted <i>R</i> ² | .415 | .316 | .317 |
| <i>F</i> –ratio | 25.736*** | 17.074*** | 17.148*** |
| N=210 | | | |

p* ≤ .05, ** *p* ≤ .01, **p* ≤ .001

Referring to the regression output in Table 6-13a, the *F*-ratio (*p* ≤ .001) shows that the goodness-of-fit of both models is significant. The *F*-ratio increases substantially from model 1 (9.094, *p* ≤ .01) to model 2 (25.736, *p* ≤ .001), which indicates the improvement of the model for predicting the outcome with the inclusion of the predictor variables in addition to the control variable (size of firm). The *R*² value (0.432) and the adjusted *R*² value (0.415) of model 2 indicate that the model accounts for about 42% of the variance of the network resources outcome, which is

quite significant. The small difference (0.017) between the R^2 and the adjusted R^2 values shows that the cross-validity of the model is good.

With regard to the control variable, size of firm is positively associated with network resources obtained from networks (0.205, $p \leq .01$). Result is expected for the reason that larger firm size often implies a stronger market/network position to exercise influence on network relationships for the access and acquisition of resources.

However, further investigation finds that size of firm is significantly associated with organizational resources (0.255, $p \leq .001$) but not with foreign resources. The reason may be that the acquisition of foreign information and knowledge, which is a major item in foreign resources, involves certain capabilities of the firm such as learning and flexibility to adapt, in which area size may not be a sufficient condition to provide an advantage. Indeed, flexibility to learn and adapt is a key competitive advantage of SMEs in general (Hatch and Zweig, 2001; Karagozoglu and Lindell, 1998; Knight and Cavusgil, 2004; Oviatt and McDougall, 1997). The effect of size of firm on the network resources construct, however, reduces from 0.205 ($p \leq .01$) to 0.109 ($p \leq .05$) when the five networking behaviour predictor variables were added to the regression model.

Regarding the hypothesized positive association of the five networking behaviour variables to the availability of network resources for foreign business development (Hypothesis 2), the regression results provide apparent support to Hypothesis 2a, 2b, 2d and 2e. Hypothesis 1a about networking diversity (0.405, $p \leq .001$), and Hypothesis 1e about strategic partnering intent (0.265, $p \leq .001$): both have strong positive association with the availability of network resources. The results are consistent with propositions of existing studies about more diverse networks providing access to a larger variety of resources (Jessen and Greve, 2002; Lechner and Dowling, 2003), and about the establishment of strategic relationships enabling intensive exchanges of complementary and compatible resources between firms (Dyer and Singh, 1998; Parkhe, 1991; Sarkar et al., 2001). This corroborates to a certain extent Oviatt and McDougall's (2005:545) proposition that both network diversity of sparse networks and network density of valuable redundant ties are vital to support the acquisition and securing of resources to drive the speed of internationalization.

Hypothesis 1b about networking initiative (0.145, $p \leq .05$) and Hypothesis 2d about network deliberation (0.166, $p \leq .05$) to positively influence the availability of network resources are supported, although the support is relatively weak in both cases. Further analysis reveals more distinctive findings: networking initiative (0.238, $p \leq .001$) has a strong positive association with the

availability of foreign resources, but is not associated with the availability of organizational resources. It may be related to the nature of the resources involved and the mode of their acquisition (Ramachandran and Ramnarayan, 1993). Foreign resource items such as information, knowledge and contacts are relatively intangible, which can be just passed on and obtained through initiating informal and indirect interactions and business exchanges with various networking channels (e.g. trade fairs) or specific parties. On the other hand, the acquisition of more concrete organizational resources such as capital, physical resources and human resources requires other parties' explicit consensus to the exchanges, in which formal and contractual agreements are often involved. One-sided initiative, therefore, may not be sufficient to lead to the actual exchanges of organizational resources with network parties.

The finding regarding the association of networking initiative with the availability of network resources is akin to the finding about networking commitment (Hypothesis 2b), which is not significantly associated with the availability of network resources in general and with the availability of organizational resources in specific, but is weakly associated ($0.180, p \leq .05$) with the availability of foreign resources. This unexpected finding appears to corroborate Wu and Cavusgil's (2006:87) comment that "organizational commitment is not a sufficient condition to realize the rents from collaboration". A reason to explain the insignificant association may be that *mutual* commitment is required to promote reciprocity and exchanges of network relationships. A focal firm may self-report as being committed to develop and maintain relationships with its network partners. However, its commitment must be perceived to be beneficial and well-received by its network parties in order to motivate their engagement in the bilateral exchanges (Anderson, Hakansson and Johanson, 1994; Easton, 1992; Johnanson and Vahlne, 1990, 2003; Larson, 1992). The mutuality of commitment in networking is explicitly coined 'reciprocal commitment' in the study by Sarkar et al (2001:362), which stresses that mutuality of commitment is enabled only when "an exchange partner *believing* that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it...[and] to ensure that it endures indefinitely". Holm, Eriksson and Johanson (1999:478) also specify the importance of mutual commitment to value creation in relationships. The basis of mutual commitment is that "the *shared* domain of two parties' views of their relationship [represents a] mutual view".

With regard to the findings of the association of networking initiative and commitment with the availability of network resources, it raises the question that the one-sided measurement of these two

items, which involve mutuality and reciprocity in a dyadic relationship, may not be sufficient to capture the whole picture.

6.4.3.1 Regression Result Validation

6.4.3.1.1 Linear Regression Assumption Checking

The assumption of normally distributed random errors was checked against the histogram and normal p-p plot of the standardized residuals of the regression. The result of the Kolmogorov-Smirnov test of the standardized residuals is not significant ($p = 0.704$), thus, the null hypothesis of normality is not violated.

The assumptions of linearity and homoscedasticity were checked against the partial regression plots of individual predictor variables, which patterns show no significant violation of the assumption. One predictor variable – networking initiative – shows a relatively less linear relationship to the dependent variable (i.e., network resources) than the other predictors. However, there is no obvious outlier on the plot. It is acknowledged that more data for this variable may need to be collected in the future in order to verify the current model.

The assumption of independence was checked against the Durbin-Watson statistic, which is very close to 2 (1.825). Thus, there is no violation to the assumption.

6.4.3.1.2 Residual Analysis

Residual statistics in the output of casewise diagnostics were examined. The diagnostics meet the two criteria specified by Field (2005:199), i.e., 95% of cases (11 cases of this study) should have standardized residuals within about +/-2, and 99% of cases (2 cases of this study) should have standardized residuals lie within +/-2.5. There is no concern with the model being influenced by extreme case.

6.4.3.1.3 Multicollinearity Testing

Table 6-13b Collinearity Statistics of the Networking Behaviour Construct

| Coefficients | | Collinearity Statistics | |
|--------------|-----------------------------|-------------------------|-------|
| Model | | Tolerance | VIF |
| 1 | Size | 1.000 | 1.000 |
| 2 | Size | .948 | 1.055 |
| | Networking Diversity | .869 | 1.150 |
| | Networking Initiative | .689 | 1.452 |
| | Networking Commitment | .537 | 1.861 |
| | Networking Deliberation | .542 | 1.844 |
| | Strategic Partnering Intent | .823 | 1.215 |

Referring to the above statistics, multicollinearity is not a concern when tolerance is >0.2 (Menard, 1995); VIF is less than 10 and is not unusually larger than 1.0 (Mansfield and Helms, 1982).

Table 6-13c Collinearity Diagnostics of the Networking Behaviour Construct

| Collinearity Diagnostics | | | | | | | | | | |
|--------------------------|---|------------|-----------------|----------------------|------|----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|
| Model | | Eigenvalue | Condition Index | Variance Proportions | | | | | | |
| | | | | (Constant) | Size | Networking Diversity | Networking Initiative | Networking Commitment | Networking Deliberation | Strategic Partnering Intent |
| 1 | 1 | 1.661 | 1.000 | .17 | .17 | | | | | |
| | 2 | .339 | 2.213 | .83 | .83 | | | | | |
| 2 | 1 | 6.356 | 1.000 | .00 | .01 | .00 | .00 | .00 | .00 | .00 |
| | 2 | .518 | 3.502 | .00 | .94 | .00 | .00 | .00 | .00 | .00 |
| | 3 | .055 | 10.752 | .00 | .04 | .47 | .00 | .04 | .12 | .00 |
| | 4 | .029 | 14.852 | .01 | .00 | .26 | .02 | .00 | .29 | .38 |
| | 5 | .019 | 18.158 | .07 | .01 | .02 | .87 | .08 | .00 | .03 |
| | 6 | .014 | 21.381 | .17 | .00 | .03 | .11 | .20 | .39 | .57 |
| | 7 | .008 | 27.701 | .74 | .00 | .23 | .00 | .68 | .19 | .03 |

The collinearity diagnostics statistics show that the eigenvalues are fairly similar, with none substantially larger, which indicates a relatively stable model against small changes in the measured variables. The variance proportion of each predictor variable is distributed across different eigenvalues (dimensions). Although the highest variance proportion of networking deliberation (39%) and that of strategic partnering intent (57%) are associated with the same eigenvalue (0.014), the two variance proportions are not particularly large to indicate the dependence of the variances of their regression coefficients. Referring to the correlation matrix presented in section 6.4, the correlation of the two variables (i.e., networking deliberation and strategic partnering intent) is 0.643 ($p \leq .01$), which is not high (< 0.9). Thus, it can be concluded that collinearity of the data does not cause concern.

6.4.3.2 Supplementary Analysis

The existing literature and the case findings indicate that there may be differences between traditional and high-technology sectors in external resource demands for pursuing internationalization, and thus, firms in the two industries may exhibit different networking behaviour to obtain external resources. Two sets of regression differentiating by industry type were therefore conducted to check for the potentially different effect of networking behaviour on the network resources obtained.

Table 6-13d Multiple Regression Results of Association between Networking Behaviour and Network Resources – By Industry

| Dependent Variable | Network Resources | Firms in Traditional Industry | Firms in High-technology Industry |
|--|-------------------|-------------------------------|-----------------------------------|
| <i>Independent Variables (Model 2)</i> | | | |
| Firm Size | .109* | .087 | .158 |
| Networking Diversity | .405*** | .402*** | .417*** |
| Networking Initiative | .145* | .132 | .220 |
| Networking Commitment | .000 | .017 | -.084 |
| Networking Deliberation | .166* | .110 | .311* |
| Strategic Partnering Intent | .265*** | .283*** | .245* |
| <i>Control Variable (Model 1)</i> | | | |
| Firm Size | .205** | .121 | .356** |
| <i>Model 1</i> | | | |
| R^2 | .042 | .015 | .127 |
| Adjusted R^2 | .037 | .008 | .111 |
| F-ratio | 9.094** | 2.262 | 7.992** |
| <i>Model 2</i> | | | |
| R^2 | .432 | .414 | .522 |
| Adjusted R^2 | .415 | .390 | .456 |
| F-ratio | 25.736*** | 17.205*** | 9.112*** |
| N=210 | | | |

* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$

Referring to the statistics in Table 6-13d, there is no substantial difference between the two industries. However, it should be noted that size of firm alone has a strong positive association with the availability of network resources for firms in high-technology industries (0.356, $p \leq .01$). This may be explained by the global orientation of technology-intensive industries in general, in which even smaller firms may have to enter into direct competition with larger well-established multinational companies. The technology-based industries are conventionally dominated by large multinational firms (Karagozoglu and Lindell, 1998; Stuart, 1999). Firms that are larger in size may be perceived to have more favourable technological reputation and prestige, and hence enjoy more market acceptance and power to attract external resources.

Network deliberation also has positive association with the availability of network resources in high-technology industry (0.311, $p \leq .05$), although the association is not highly significant. A reason may be that the resources for high-technology industry are more unique and specialized, thus, for firms operating in the industry, deliberate networking to identify and build relationships with the right parties owning specific resources is critical to make those resources available.

6.4.4 Networking Resources and Internationalization

Table 6-14a: Logistic Regression Results of Association between Network Resources and Internationalization Variables in the Equation

| | | B | S.E. | Wald | df | Sig. | Exp(B) | 95.0% C.I. for EXP(B) | |
|--------------------------|------------------|--------|------------|--------|---------------|------|--------|-----------------------|-------|
| | | | | | | | | Lower | Upper |
| Step 1(a) | Firm Size | -.003 | .003 | .814 | 1 | .367 | .997 | .991 | 1.003 |
| | Industry | .500 | .336 | 2.209 | 1 | .137 | 1.648 | .853 | 3.186 |
| | Org. Resource | -.456 | .224 | 4.146 | 1 | .042 | .634 | .409 | .983 |
| | Foreign Resource | .903 | .225 | 16.083 | 1 | .000 | 2.468 | 1.587 | 3.838 |
| | Constant | -2.038 | .941 | 4.693 | 1 | .030 | .130 | | |
| | | | | | | | | | |
| Model# | | 0 | 1 | | 2 | | | | |
| Omnibus Test | | | 6.017 (2)* | | 24.848 (4)*** | | | | |
| Hosmer and Lemeshow Test | | | 5.058 (8) | | 11.656 (8) | | | | |
| Predicted % correct | | 59% | 60.5% | | 63.3% | | | | |

#Model 0: Constant; Model 1: Enter Size and Industry; Model 2: Enter Org Resource and Foreign Resource
* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$
No outliers were found

Both the Omnibus test ($p \leq .05$) and the Hosmer and Lemeshow test ($p \geq .05$) confirm the significant goodness-of-fit of both model 1 and 2. With the inclusion of the predictor variables, i.e., the organizational resources and foreign resources made available by networks for foreign business development, the chi-square statistic increases from 6.017(2) to 24.848 (4), and the predicted correct classification of firms has improved from 60.5% to 63.3%.

Both control variables, i.e., size and industry type, are not significantly associated with the speed of internationalization of firms in terms of INVs. Organizational resources and foreign resources, on the other hand, are associated with the formation of INVs.

The variable ‘foreign resources’ is significant and positive (0.903, $p \leq .001$). The finding is in alignment with existing studies claiming the availability of foreign resources (including foreign market knowledge and information, foreign business contacts, and localized sales and distribution channels) to be the key factor enabling the internationalization of SMEs (Fillis, 2002; Holmlund and Kock, 1998; Johnson and Vahlne, 1990; Lamb and Liesch, 2002; Leonidou, 2004; Yli-Renko, Autio and Tontti, 2002).

Unexpectedly, the variable ‘organizational resources’ is negatively associated with the formation of INVs (-0.456, $p \leq .05$). Oviatt and McDougall (1994) point out the minimization of internalization of resources as a key element of INV. Growing the business through the deployment of external resources is also emphasized as a major entrepreneurial attribute, and it underlies the

significance of networking as a critical entrepreneurial activity (Brown, Davidsson and Wiklund, 2001; Dubini and Aldrich, 1991; Erikson, 2002; Johannisson, 1998; Jarillo, 1989; Lorenzoni and Ornati, 1988; Starr and MacMillan, 1990). The negative association between the availability of organizational resources and INV formation found in this study appears to contrast with the existing understanding.

Possible reasons to explain this apparently contrasting finding can be found in the application of the measure of INVs aggregating three criteria, i.e., the time of the initial foreign business development, the significance of the sales of outputs, and involvement in multiple countries, adopted in the study. Firstly, unlike foreign resources whose deployment is naturally linked to the supporting of foreign business, organizational resources can be generally and broadly allocated and utilized for different business activities in response to firms' emergent decisions. Even though the resources are meant to be used for developing foreign business when they are initially obtained, new ventures may have to change the use of their available organizational resources for different purposes to cope with highly volatile and turbulent business conditions at the start-up stage. The availability of organizational resources may not necessarily associated with instant and rapid internationalization.

Secondly, it is argued that network relationship development is a time and resource-intensive investment; time is needed before trust and commitment can be built up to enable resource exchanges. Significant resource outlays are required to develop network relationships before network resources can be derived. Resource-constrained SMEs, therefore, may only be able to gain access to concrete organizational resources from limited network parties (Chetty and Campbell-Hunt, 2003). In this circumstance, it is more likely for the firm to depend on a few network parties whose resources directly shape its development. The stronger the dependence of the firm on a specific network party for organizational resources, the stronger the power of this network party over the firm to follow the party's own development direction. It corresponds to the core concept of the resource dependence perspective (Pfeffer and Salancik, 1978; Proven, Beyer and Kruytbosch, 1980). Chow and Fung (2000), for example, mention that it is very difficult for small firms to obtain external financing. Institutions (e.g. banks) that finance a small firm often exercise strong influence on the firm's development; this may result in the firm's business behaviour being controlled by external parties and the loss of the firm's management flexibility to work on its planned direction.

Unless certain resource outlays are available right at the start-up, or existing network relationships (e.g. the personal networks of the key decision-maker) are available to provide reliable

loci of resources, it is difficult for SMEs which do not have initial organizational resources such as capital, business reputation and human resources to internationalize rapidly. The rationale corresponds to Zahra’s (2005) emphasis that the liabilities of smallness, newness and foreignness still pose great risks to the survival and development of INVs.

Hypothesis 3, i.e., the availability of network resources positively influences the formation of INVs, only finds partial support with reference to the regression results discussed above.

6.4.4.1 Regression Result Validation

6.4.4.1.1 Residual Analysis

Studentized residual, standardized residual and deviance statistics of the cases show no violation to the two criteria specified by Field (2005), i.e., 95% of the cases should have the statistics lie between +/-1.96, and 99% of the cases should have the statistics lie within +/-2.58. No case has Cook’s distance greater than 1. Hence, there is no undue influence of extreme case on the model.

6.4.4.1.2 Multicollinearity Testing

Table 6-14b Collinearity Statistics of the Network Resources Construct

| Model | | Collinearity Statistics | |
|-------|------------------|-------------------------|-------|
| | | Tolerance | VIF |
| 1 | Org Resource | .929 | 1.076 |
| | Foreign Resource | .929 | 1.076 |

Table 6-14c Collinearity Diagnostics of the Network Resources Construct

| Collinearity Diagnostics | | | | | | |
|--------------------------|-----------|------------|-----------------|----------------------|--------------|------------------|
| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | |
| | | | | (Constant) | Org Resource | Foreign Resource |
| 1 | 1 | 2.944 | 1.000 | .00 | .01 | .00 |
| | 2 | .039 | 8.700 | .07 | .96 | .19 |
| | 3 | .017 | 13.208 | .92 | .03 | .80 |

Referring to the above statistics, which indicate both predicator variables have tolerance >0.2 (Menard, 1995), VIF < 10, and are close to 1.0 (Mansfield and Helms, 1982; Mayers, 1990), and have variance proportions distributed to different eigenvalues, it is found that multicollinearity is not a concern in the regressions.

6.4.5 The Key Decision-Maker and Networking Behaviour

Table 6-15a Multiple Regression Results of Association between Key Decision-Maker and Networking Behaviour

| Networking Behaviour Key Decision-Maker | Networking Diversity | Networking Initiative | Networking Commitment | Networking Deliberation | Strategic Partnering Intent |
|--|----------------------|-----------------------|-----------------------|-------------------------|-----------------------------|
| Industrial Experience | .047 | .195** | .181** | .063 | .162* |
| Personal Network | .567*** | .227*** | -.154* | -.018 | .098 |
| IB Vision | -.044 | .209** | .366*** | .327*** | .188** |
| R ² | .328 | .171 | .220 | .123 | .094 |
| Adjusted R ² | .318 | .159 | .209 | .110 | .081 |
| F change | 33.449*** | 14.147*** | 19.415*** | 9.605*** | 7.145*** |
| N=210 | | | | | |

* $p \leq .05$, ** $p \leq .01$, *** $p \leq .001$

Since there are limited studies associating the attributes of the key decision-maker to firm-level networking behaviour for internationalization (Chell and Baines, 2000), it is difficult to locate similar studies to conduct a direct comparison of the results of this study. General studies on the influence of key decision-makers on business activities relating to the foreign business development of firms, therefore, are referenced to discuss and explain the regression results.

Hypothesis H4a is, to a large extent, supported. Regression results show positive association between industrial experience and networking behaviour including networking initiative (0.195, $p \leq .01$), networking commitment (0.181, $p \leq .01$) and strategic partnering intent (0.162, $p \leq .05$). Although there is a lack of significant association between industrial experience and networking diversity, the result is expected. It may be because previous industrial experience sets the framework for mindset and behaviour, within which the key decision-makers are to a large extent constrained (Birley, 1985; McDougall, Oviatt and Shrader, 2003). Considering the path-dependent nature of networking activities (Chetty and Campbell-Hunt, 2003; Sharma and Blomstermo, 2003), and the higher efficacy and self-reliance of those key decision-makers with richer industrial experience (Erikson, 2002; Johannisson, 2000), they may be more insistent upon keeping networking focus on their already well-defined network horizons (Anderson, Hakansson and Johanson, 1994), which they perceive as having the greatest and most relevant benefits, rather than to diversifying the networking efforts and utilizing new channels. This orientation may also explain the significant associations between industrial experience and networking initiative, networking commitment, and strategic partnering intent, when those key decision-makers with rich industrial experience may have already identified the prospective network parties, and may already have prior business

relationships with these parties, with whom they can continue to network strategically (Lipparini and Sobrero, 1997; Mort and Weerawardena, 2006; McDougall, Oviatt and Shrader, 2003).

Unexpectedly, industrial experience is found to have no association with networking deliberation. This may be because key decision-makers with richer industrial experience are more self-attributing to their own abilities and confident in the practical knowledge they possess, and hence tend to take contingency-based actions based on personal knowledge and intuition, rather than to relying on more comprehensive networking planning routines at the firm-level (Prefontaine and Bourgault, 2002). The finding corresponds to Gibbons and O'Connor's study (2005) on general strategic planning processes of SMEs, in which they also find a negative association between CEOs of more experience and routinized strategic planning at the level of the firm. They explain that these CEOs prefer to maintain a path and an approach (the status quo) backed up by their personal 'rich' experience.

The availability of personal networks has a strong positive association with the networking diversity of the firm ($0.567, p \leq .001$). The results appear to uphold the understanding regarding intertwining personal and business contexts of SMEs, in which key decision-makers use diverse personal networks instrumentally for business purposes (Andersen, 2006; Johannisson, 1998). As Lipparini and Sobrero (1997:204) explain, "personal networks [of entrepreneurs] are transformed into stable configurations of inter-organizational exchanges". The individual associations between the availability of personal networks and the utilization of the three categories of networking channels – personal contacts ($0.509, p \leq .001$), direct business channels ($0.138, p \leq .05$), and indirect institutional channels ($0.481, p \leq .001$) – are all positive. This may imply that the positive experience of obtaining resources through personal networks provide incentives and encouragement to key decision-makers to further exploit these kinds of networking channels, and even more diverse channels. Accordingly, the availability of personal networks is also positively associated with the networking initiative ($0.227, p \leq .001$) of the firms. Existing knowledge and understanding between key decision-makers and their personal contacts reduces the risk and uncertainty perceived in the relationship-building process, and hence increases the confidence to initiate networking (Johannisson, 2000; Larson, 1992; Lorenzoni and Lipparini, 1999). The lack of association between the availability of personal networks and networking deliberation, and also strategic partnering intent, may be explained by the more personal-oriented networking practices involved. However, it is surprising to find the negative association between the availability of personal networks and

networking commitment ($-0.154, p \leq .05$). Although the association is not strong, the finding poses a prospective interesting dimension for exploration and explanation in further research. A possible reason may be that the bonds of personal networks are often strong and sometimes prescriptive (e.g. blood ties); these personal relationship ties/bonds are really a natural given that may require less intentional maintenance efforts. Since personal networks provide relatively reliable and stable loci of resources, the larger the availability of personal networks, the weaker the sense of urgency the firm experiences to commit time and resources to networking and maintaining of other relationships.

International business vision of the key-decision-makers, as hypothesized in Hypothesis 4c, proves to be the most important attribute positively associated with the networking behaviour of SMEs for foreign business development. The results are consistent with the extensive theoretical and empirical studies which generally emphasize the critical influence of international business vision on proactive internationalization activities (Belso-Martinez, 2006; Dimitratos et al., 2003; Fletcher, 2000; Harveston, Kedia and Davis, 2000; Johnson, 2004; Knight and Cavusgil, 1997; Moen and Servais, 2002; Nummela, Saarenketo and Puumalainen, 2004; Reuber and Fischer, 1997). The lack of association between international business vision and networking diversity may also be explained by the inclination towards more deliberate, and strategically-oriented (goal-oriented) networking behaviour, rather than towards more excessive (quantity-based) networking.

6.4.5.1 Regression Result Validation

6.4.5.1.1 Linear Regression Assumption Checking

The histogram and normal p-p plot of standardized residuals of each set of regressions affirm *no violation to the assumption of normality*. The Kolmogorov-Smirnov tests of the standardized residuals are not significant ($p = 0.852$), thus, the null hypothesis of normality is not rejected.

The assumptions of linearity and homoscedasticity were checked against the partial regression plots of individual predictor variables, which patterns show no significant violation of the assumption. Although the pattern of predictor variable of industrial experience shows a relatively less linear relationship to the dependent variables than the other predictors, there is no obvious outlier on the plot. It is acknowledged that the findings of this variable may be less representative than the other predictors, and further data collection for verification in future research may be needed.

The assumption of independence was checked against the Dublin-Watson’s statistics, all of which fall within the acceptable range of > 1 to < 3 suggested by Field (2005) to indicate lack of significant autocorrelation.

6.4.5.1.2 Residual Analysis

Residual statistics in the casewise diagnostics were analyzed. All five models (with dependent variable of ‘networking diversity’, ‘networking initiative’, ‘networking commitment’, ‘networking deliberation’ and ‘strategic partnering intent’ respectively) meet the criterion that 95% of the cases have standardized residuals within about +/- 2. Three models – ‘networking initiative’ (5 cases), ‘networking commitment’ (3 cases) and ‘strategic partnering intent’ (3 cases) – have more than 1% of cases (2 cases) lying outside +/- 2.5. Cook’s distance statistics of the cases of the three models were further checked; none of the case in the models has value greater than 1. Referring to the baseline proposed by Field (2005), it is believed that there is no extreme case having an undue influence on the models affecting their accuracy.

6.4.5.1.3 Multicollinearity Testing

Table 6-15b Collinearity Statistics of the Key Decision-Maker Attributes Construct

| Coefficients | | | |
|--------------|-----------------------|-------------------------|-------|
| Model | | Collinearity Statistics | |
| | | Tolerance | VIF |
| 1 | Industrial Experience | .900 | 1.111 |
| | IB Vision | .906 | 1.104 |
| | Personal Network | .991 | 1.009 |

Referring to the above statistics, multicollinearity is not a concern when tolerance is >0.2 (Menard, 1995); VIF is less than 10 and is very close to 1.0 (Mansfield and Helms, 1982).

Table 6-15c Collinearity Diagnostics of the Key Decision-Maker Attributes Construct

| Collinearity Diagnostics | | | | | | | |
|--------------------------|-----------|------------|-----------------|----------------------|-----------------------|-----------|------------------|
| Model | Dimension | Eigenvalue | Condition Index | Variance Proportions | | | |
| | | | | (Constant) | Industrial Experience | IB Vision | Personal Network |
| 1 | 1 | 3.924 | 1.000 | .00 | .00 | .00 | .00 |
| | 2 | .049 | 8.978 | .01 | .04 | .07 | .89 |
| | 3 | .017 | 15.122 | .01 | .57 | .72 | .01 |
| | 4 | .010 | 19.851 | .98 | .39 | .20 | .09 |

There is no eigenvalue that is substantially larger than the others. The variance proportion of each predictor variable is distributed across different eigenvalues (dimensions). The highest variance proportion of industrial experience (57%) and that of international business vision (72%) are associated with the same eigenvalue (0.017). However, the variance proportion of industrial experience is closely distributed between the two eigenvalues of 0.10 (39%) and 0.17 (57%). Thus, there is no significant indication of the dependence of the variances of their regression coefficients. Referring to the correlation matrix presented in section 6.4, the correlation of the two variables is 0.306 ($p \leq .01$), which is not high (< 0.9). Thus, it can be concluded that collinearity of the data does not cause concern for the validity of the regression results.

6.4.5.2 Supplementary Analysis

Referring to the existing literature and the case findings, ‘international/foreign experience’ appears to be an attribute of key decision-makers that has influence on the internationalization of SMEs (Belso-Martinez, 2006; Bloodgood, Sapienza and Almeida, 1996; Calof and Beamish, 1995; Ibeh, 2003; Magnusson and Boggs, 2006; Reuber and Fischer, 1997; Tung and Miller, 1990). Harveston, Kedia and Davis (2000) mention that the factor ‘international [foreign] experience’ in most studies uses the amount of time spent abroad in the form of foreign assignments, educations, or vacations as a proxy. Adopting this measurement approach, the respondents of this study were also asked to indicate whether (Yes/No) they had worked abroad, studied abroad, and had citizenship and/or residence status in a foreign country in the questionnaire. The reason that this variable is not included in the final analysis is the lack of association with any variable of networking behaviour observed in the initial testing, which used t-test to compare the group means and the chi-square tests to assess the goodness-of-fit of the groupings.

The t-test statistics show that there is no significant difference between the group means of the five variables – ‘networking diversity’, ‘networking initiative’, ‘networking commitment’, ‘networking deliberation’ and ‘strategic partnering intent’ - of the networking behaviour construct between those key decision-makers who have foreign experience and those who do not.

The chi-square test statistics, which made an attempt to associate the foreign experience (grouping by Yes/No) and the networking behaviour variables (grouping by the five-point Likert scales from 1 = Strongly Disagree to 5 = Strongly Agree), also find no significant association between the groups (all have $p > 0.05$).

Referring to these initial testing results, it was decided to exclude ‘international/foreign experience’ as a key variable of the key decision-maker construct in this study for the primary analysis. However, this study does take into account the ‘international business experience’ (e.g., Fisher and Reuber, 2003; Oviatt and McDougall, 1997) and the ‘international business vision’ (e.g., Moen and Servais, 2002) of the key decision-maker as key variables for the regression analysis. The former is included as a measure of the ‘industrial experience’ variable, whereas the latter is analyzed as a latent variable itself (elaborated in section 5.1.1).

In summary, the different results regarding the influence of individual attributes of the key decision-maker on networking behaviour at the level of the firm correspond to Manolova et al.’s (2002) comment that some personal factors matter more than others in small firms’ internationalization activities. In alignment with the existing literature and the case findings of this research, international business vision of the key decision-maker stands out as a highly significant factor that impacts on the networking behaviour, including networking commitment and deliberation, which is found to be positively associated with the formation of INVs. Comparatively, industrial experience and the availability of personal networks have weaker influence, although the two attributes are still relevant. This study investigates pairs of regressions by associating each attribute (predictor variable) with each networking behaviour variable separately; however, the attributes can be interrelated and can act on one another to explain networking behaviour. For example, industrial experience may be associated with the availability of personal networks. Examining the correlations of these attributes and analyzing their associated influence on networking behaviour of SMEs at the level of the firm in future research may be conducive to developing a fuller view of the existing findings.

6.5 Summary of the Quantitative Analysis

Table 6-16: Summary of Test Results of the Hypotheses

| Hypotheses | Regression Results |
|---|--|
| H1: Networking behaviour → INV | Partially supported |
| H1a: Networking diversity → (+) INV | Negatively associated |
| H1b: Networking initiative → (+) INV | Insignificant association |
| H1c: Networking commitment → (+) INV | Insignificant association |
| H1d: Networking deliberation → (+) INV | Strongly and positively associated |
| H1e: Strategic partnering intent → (+) INV | Negatively associated |
| H2: Networking behaviour → (+) Network resources | Supported |
| H2a: Networking diversity → Network resources | Positively associated |
| H2b: Networking initiative → Network resources | Positively associated |
| H2c: Networking commitment → Network resources | Insignificant association |
| H2d: Networking deliberation → Network resources | Positively associated |
| H2e: Strategic partnering intent → Network resources | Positively associated |
| H3: Network resources → (+) INV | Partially supported |
| H3a: Organizational resources → INV | Negatively associated |
| H3b: Foreign business resources → INV | Significantly and positively associated |
| H4: The key decision-maker → Networking behaviour | Mostly supported |
| H4a: Industrial experience → (+) Networking behaviour | Mostly supported - Insignificant association with networking diversity and deliberation |
| H4b: Personal networks → (+) Networking behaviour | Partially supported - Insignificant association with networking deliberation and strategic partnering intent - Negative association with networking commitment |
| H4c: International business vision → (+) Networking behaviour | Mostly supported - Insignificant association with networking diversity |

In summary, the statistical analysis of the survey data results in findings that complement, and in certain cases diverge from, existing understanding.

The significance of deliberate networking behaviour in enabling rapid internationalization of SMEs gains strong statistical support. The unexpected negative association of the two behavioural aspects of networking – i.e., the utilization of diverse networking channels (networking diversity) and the selection of strategic partners based on specific criteria (strategic partnering intent) – with rapid internationalization (the formation of INVs) appears to imply possibly constraints of ‘over-investment’ and ‘over-embeddedness’ of a firm’s networking. The awareness of these constraints can be interpreted as a further indication of the importance of effective networking through deliberate efforts by resource-constrained SMEs, in order to achieve an optimal balance of costs and benefits of their networking efforts. ‘Networking initiative’ and ‘networking commitment’ of a firm

are found to have no association with the formation of INVs. The results highlight the need for mutuality and reciprocity to a firm's initiatives and commitment to network-building by its target recipients. Self-perceived initiative and commitment by a firm may not be acknowledged and can be fruitless. It is suggested that a two-sided measurement of these two aspects, i.e., by the focal firm and by the recipients, can be employed in future research to provide more comprehensive explanation for these two aspects and corresponding findings.

The positive association between networking and making network resources available is evidenced. However, organizational resources and foreign business resources are found to associate differently with rapid internationalization: the former has negative association while the latter has positive association. It appears to lend support to the idea that networks (as do network resources) are not universally beneficial to all business activities alike, and the acquisition of network resources comes with costs. Hence, it justifies the call for investigation of the role and effects of networks in the specific context of internationalization. The negative association between organizational resources and rapid internationalization draw the attention to potential restrictions imposed on SMEs in obtaining organizational resources such as funding, human resources and other tangible resources from external resource providers. Such restrictions may constrain the internationalization of SMEs in terms of pace and spatial span in accordance with their self-defined goals.

The influence of the key decision-maker on the networking behaviour of SMEs finds support in the statistical results. International business vision stands out to be the most significant attribute which positively associated with deliberate networking in support of rapid internationalization.

A synthesis of the empirical evidence drawn from both qualitative case studies and quantitative analysis of this study is presented in Chapter 7.

7 CONCLUSIONS AND IMPLICATIONS

This conclusions chapter synthesizes the qualitative and quantitative findings of the study, and presents the theoretical and empirical contributions of the research. The chapter begins with a recapitulation of the focus and theoretical underpinnings of the research. The research findings of the two main research questions are then summarized and discussed. The contributions of the study towards theoretical knowledge of the subject are presented. The chapter ends with implications for business practitioners and policy makers.

7.1 A Recapitulation of the Research Focus

The Research Focus

Extensive studies have discussed networks as an important factor driving/enabling the internationalization of SMEs. The focus of this research is different from but complements most network research which is placed on network *per se*. This research emphasizes the networking behaviour of the firm, regarding this as a pivotal factor explaining network outcomes in association with the internationalization of SMEs. The focus on the networking behaviour of the firm is defined to address two literature gaps in network research in the business context, which mostly discusses networks as universally beneficial to all business activities of all firms alike and regards networks as a natural given to a firm. This research argues that networks are neither universally beneficial nor a natural given to a firm. With regard to the first literature gap, it is suggested that internationalization involves a unique context of specific development conditions and resource demands. Hence, it necessitates focal and specialized efforts to investigate and explain the role and effects of networks specific to the context. With regard to the second gap, it is proposed that conscious networking behaviour at the level of the firm manifests its networking orientation and efforts in developing, managing and deploying its network relationships. Therefore, a firm's networking behaviour has a conditioning impact on the network outcomes (the behavioural consequences). Taking into consideration the deterministic influence of the key decision-maker on behaviour of firms in the SME business context, the key decision-maker is encompassed in the research as the key variable of the networking behaviour of firms.

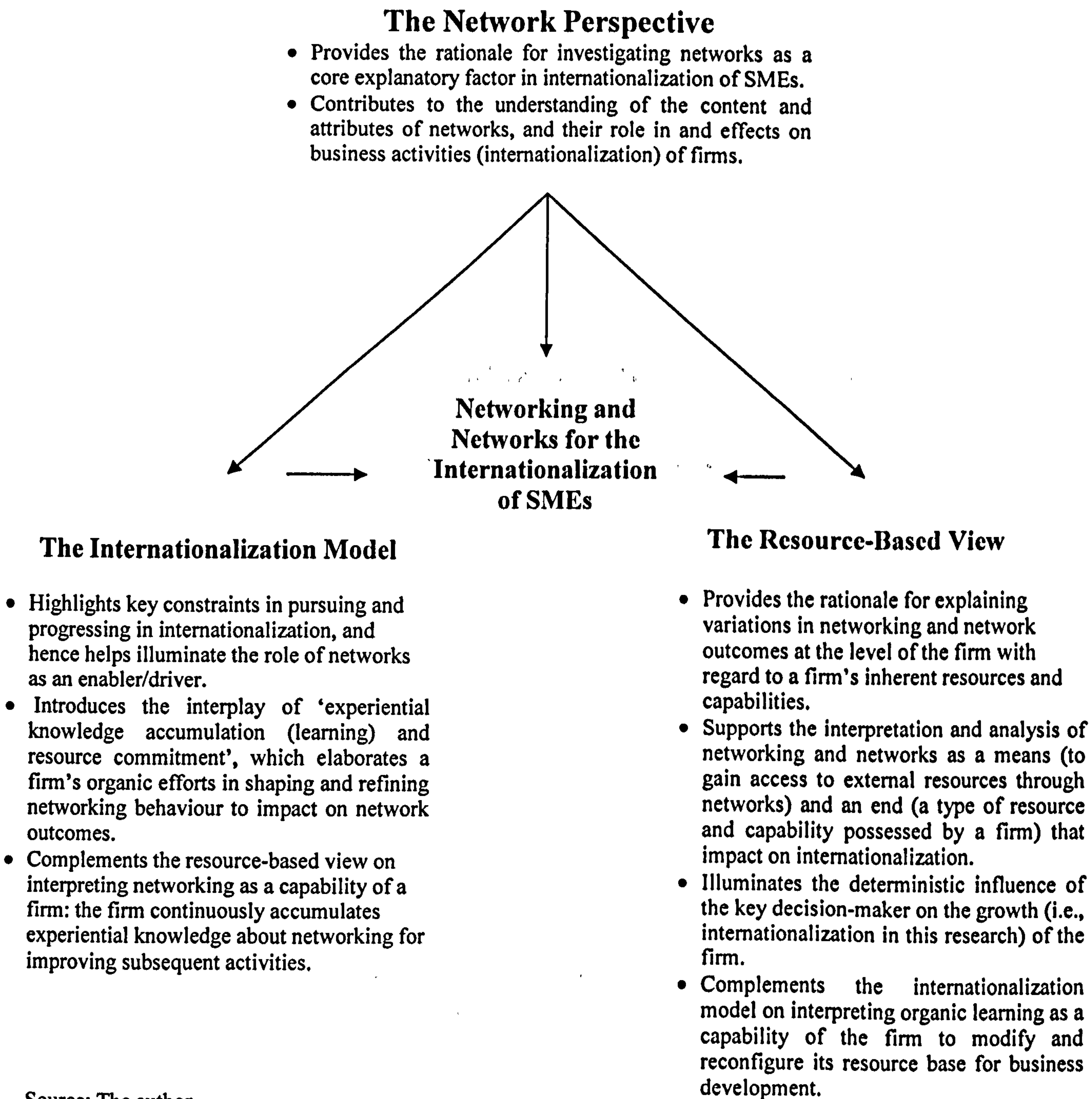
By understanding a focal firm's networking behaviour as the independent variable of network outcomes, as well as the dependent variable of the key decision-maker in the investigation (Hoang and Antoncic, 2003), a comprehensive causal model that illustrates the antecedent and outcomes of networks in association with the internationalization of SMEs is

constructed. The causal model supports the prediction of variations in network outcomes via behavioural differences at the firm level. This approach directly addresses the limitation of the lack of predictive power in most network research, which regards networks as pre-existing constructs, and ignores a firm's active influence upon its networks (Bjorkman and Forsgren, 2000; Hite, 2005; Loane and Bell, 2006; Lorenzoni and Lipparini, 1999; Neergaard, 2005; O'Donnell, 2004; Zaheer and Bell, 2005). It is also believed that the findings regarding the influence of specific behavioural aspects upon internationalization patterns can generate explicit practical implications for business practitioners and policy makers.

The Theoretical Foundation

The network perspective, which underlines the embeddedness of the firm in networks and the vital role of networks in a firm's activities, acts as the initial building block for the theoretical foundation of this study. In order to address the shift of focus from the network *per se* to a firm's networking behaviour in explaining the network outcomes, and the adoption of a focal firm instead of the network as the unit of analysis, the resource-based view and the internationalization model are integrated with the network perspective to provide the theoretical underpinnings.

Figure 7-1 Incorporation of Theoretical Underpinnings in the Integrative Theoretical Foundation of the Study

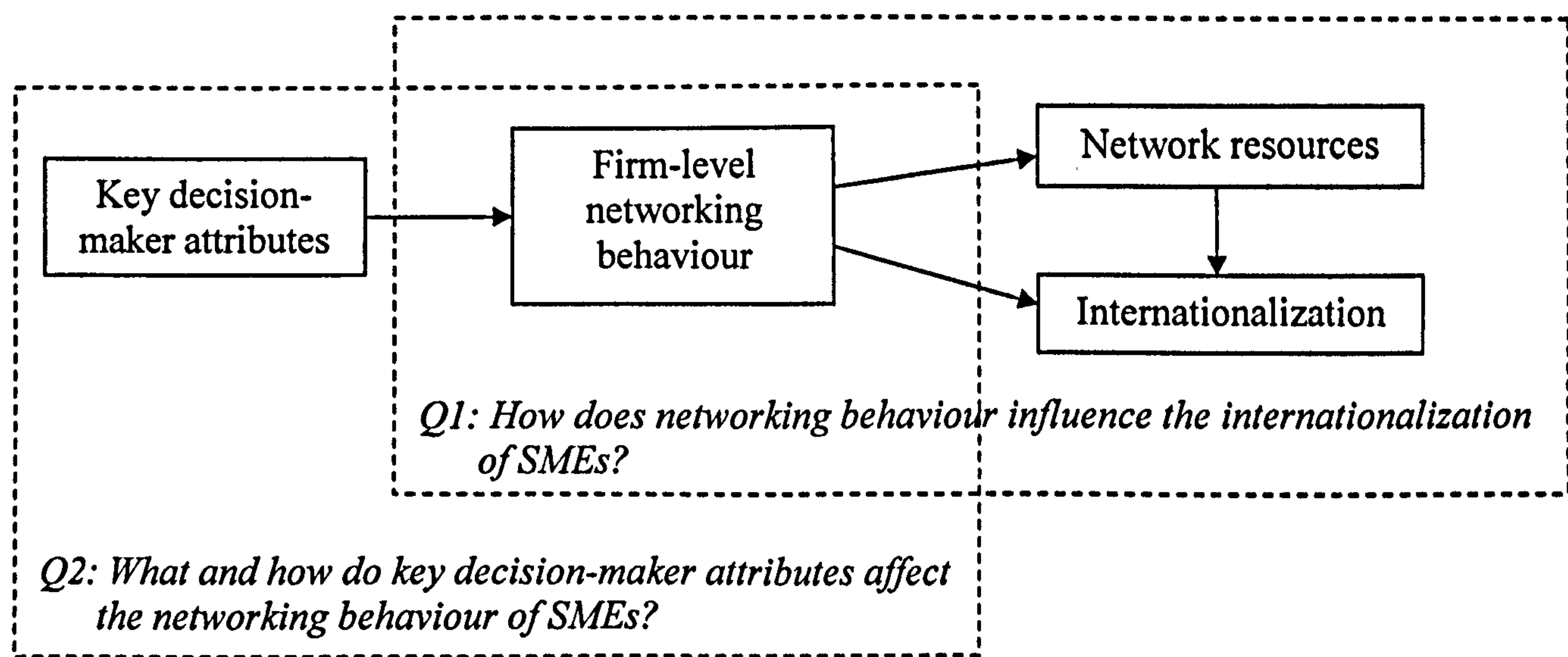


Source: The author

The Conceptual Framework

Based on the theoretical foundation and extant literature, the fundamental ideas of the research are conceptualized in a framework outlining causal linkages between the key decision-maker, networking behaviour, and network outcomes. Network outcomes are further specified into two separate constructs, i.e., the availability of network resources as one separate construct, and internationalization in terms of the formation of international new ventures as another. The former is defined to have an impact on the latter. The separation of network outcomes into two constructs enables the applicability of the framework to a wider scope of business activities than simply internationalization. The conceptual framework provides the direction for guiding the analyses and interpretations of the associations between the aforementioned four key constructs. The research poses two main questions accordingly, and both questions highlight networking behaviour of the firm as the focus of a holistic view. The conceptual framework of the research is illustrated as follows.

Figure 7-2 The Conceptual Framework of the Research and Research Questions



7.2 Contributions of the Empirical Inquiry

The empirical study, which applied a mixed research method involving both qualitative case studies and a quantitative survey, fulfills the purpose of generating important findings for the research topic. The qualitative case studies provide in-depth contextual insights for identifying latent factors and their associations to facilitate formulation of hypotheses for the quantitative research, and also to help interpret the quantitative findings. The quantitative results enhance the rigorousness of the findings of the study based on the evidence obtained from a larger sample and from relatively objective statistical analysis. The qualitative and quantitative results,

therefore, complement one another to provide comprehensive answers to address the research questions.

Q1: “How does networking behaviour influence the internationalization of SMEs?”

Influence of Networking Behaviour on Internationalization

Existing research has produced mixed results regarding the networking behaviour of SMEs. On the one hand, findings show that networking behaviour of SMEs is reactive, unplanned, subject to inertia and unstructured activities (Harris and Wheeler, 2005; Johnsen and Johnsen, 1999; McAuley, 1999; O’Donnell, 2004; Meyer and Skak, 2002); on the other hand, evidence of proactive, planned and deliberate networking is found (Chetty and Campbell-Hunt, 2003; Hite, 2005; Karagozogla and Lindell, 1998; Loane and Bell, 2006; Shaw, 2006; Spence, 2003; Starr and MacMillan, 1990). Empirical study of this research lends strong support to the latter; more importantly, explicit and fine-grained findings are obtained in association with the specific context of the internationalization of SMEs.

Proactive and responsive networking orientation to achieve foreign business development is explicitly demonstrated in the experiences of the eight rapidly internationalized case companies of different background and business nature (Johanson and Vahlne, 2003; Shaw, 2006). Response to unsolicited orders as a means of starting internationalization is observed in companies (Ellis, 2000; Ellis, 2000; Johnsen and Johnsen, 1999; Karagozolglu and Lindell, 1998; McNaughton, 2003; Myer and Skak, 2002), in particular those with no access to existing foreign business contacts at start-up. The quantitative results also show that unsolicited orders are an important trigger to the commencement of internationalization. It does not, however, necessarily imply the firm has a reactive networking orientation. Indeed, the case findings reveal that unsolicited orders are often the results of a firm’s prior proactive networking efforts. Such efforts allow the spread of the contact information and market presence of the focal firm to reach foreign actors’ search channels in a wider spatial span, and hence foster the prospects of foreign business opportunities (Coviello, 2006; Liang, 1995; Wiedersheim-Paul, Olson and Welch, 1978). The quantitative findings also demonstrate that SMEs are proactive in taking initiatives in networking to achieve internationalization.

Another indicator of proactive networking orientation in the empirical results is the willingness of the key decision-makers of the firms to look beyond their personal strong-tie networks. They are dedicated to seeking the development of weak-tie business networks (Chell and Baine, 2000; Sharma and Blomstermo, 2003). The shift of networking orientation is observed in the course of business development, for example, from identity-based networks to

calculative networks as proposed by Hite and Hesterly (2003), or as in the network development process proposed by Larson and Starr (1993). Networking activities appear to start off with the key decision-maker's existing personal networks, and then focus on developing new business networks specifically in favour of foreign business development (Hite and Hesterly, 2003; Larson and Starr, 1993). This change in orientation is not necessarily marked by a time lag: indeed, calculative networking with prospective parties with whom the key decision-maker has had no prior contact can occur simultaneously with his/her existing contacts right at (or prior to) start-up (Coviello, 2006; Schutjens and Stam, 2003). This reflects the business-oriented mindset of the key decision-maker of entrepreneurial firms to pursue rapid internationalization, despite the lack of existing networks (Loane and Bell, 2006; Madsen and Servais, 1997). From a regional perspective specific to the Chinese context, this finding highlights the need to transform the networking orientation of internationalizing firms from personal and informally-oriented strong-tie networking (identify-based networks) to more deliberate and instrumental networking (calculative networks) in order to adapt to and align with business practices in the international arena (Chan, 2000; Chung and Hamilton 1996; Guthrie 1998; Hitt, Lee and Yucel 2002; Hwang 1987; Luo, 1997; Zapalska and Edwards 2001).

Consistent with most SME studies that point out the flexible and informal management approach of SMEs in general (Barringer, Jones and Neubaum, 2005; Smeltzer, Fann and Nikolaisen, 1988), it is evidenced in the case companies that networking activities are seldom highly formalized and structured as specialized routines in the organizations. Networking is more often regarded as inherently embedded in overall business development activities, particularly in smaller firms. This lack of formalization, however, should not be interpreted as equivalent to lack of strategic intent (Ibeh, 2003; Siu and Liu, 2005). On the other hand, a certain degree of informality allows resource-deficient SMEs to align networking behaviour to the turbulent business environment in a responsive manner. This notion appears to find support in the proposition of strategic flexibility by Welch and Welch (1996:17), who comment that an "overly rigid approach to planning may limit a company's ability to identify and respond quickly to opportunities...highly developed plans may inhibit flexibility". Flexibility and responsiveness to handle emergent conditions can confer competitive advantage upon SMEs; they can be a significant contributor to enabling instant and rapid internationalization (Knight and Cavusgil, 2004; Oviatt and McDougall, 1997; Sharma and Blomstermo, 2003).

The significant and positive association between the rapid internationalization of SMEs and deliberate networking, which reflects the extent of planning, evaluation, prioritization and adaptation of network relationships by a focal firm, is the most distinctive finding of the study.

The finding affirms the premise of this study, that is, intentional firm-level networking behaviour is influential to the creation and realization of the value of networks to drive/enable internationalization. Networking is recognized as strategically important to business development, and the networking behaviour indicated in the rapidly internationalized case companies is deliberate and instrumental in nature. The qualitative findings are consistent with the quantitative results, in which deliberate networking is found to be positively and significantly associated with the formation of international new ventures. The evidence of deliberate networking orientation of SMEs in existing internationalization studies is obtained mostly from qualitative case studies (Chetty and Campbell-Hunt, 2003; Loane and Bell, 2006; Spence, 2003), or it is found in studies on general business context (Hite, 2005; Shaw, 2006). This study provides more rigorous evidence of deliberate networking behaviour by SMEs, which is illustrated in both case findings and quantitative analysis results specific to the internationalization of firms.

Networking and Network Resources

The effects of networks on internationalization are most widely studied and discussed in terms of the resources made available through networking to compensate for SMEs' inherent resource constraints. The quantitative results do show that conscious networking behaviour by firms is significantly associated with the availability of network resources. Indeed, this positive association is somewhat expected. However, the study provides more insightful findings to show that availability of network resources may not necessarily associate positively with rapid internationalization. These findings affirm the idea that the pursuit of internationalization requires specific resources from networks, and hence necessitates intentional networking behaviour to make those specific resources available.

The findings confirm the significant and positive role of foreign resources, but not organizational resources, in the formation of international new ventures. Foreign resources, in particular knowledge-based resources, are stressed to be essential for the pursuit of and progress in internationalization of firms (Johanson and Valne, 1977; Prashantham, 2005b; Yli-Renko, Autio and Totti, 2002). *Intensive networking for foreign resources* is revealed in both the case findings and the quantitative results, and intentional networking efforts linked to foreign resources are essential for driving/enabling rapid internationalization.

Networking for the acquisition of organizational resources, in particular tangible resources, appears to be less active. The underlying reasons revealed in this study are that the acquisition of organizational resources from networks is perceived by SMEs to be extremely difficult,

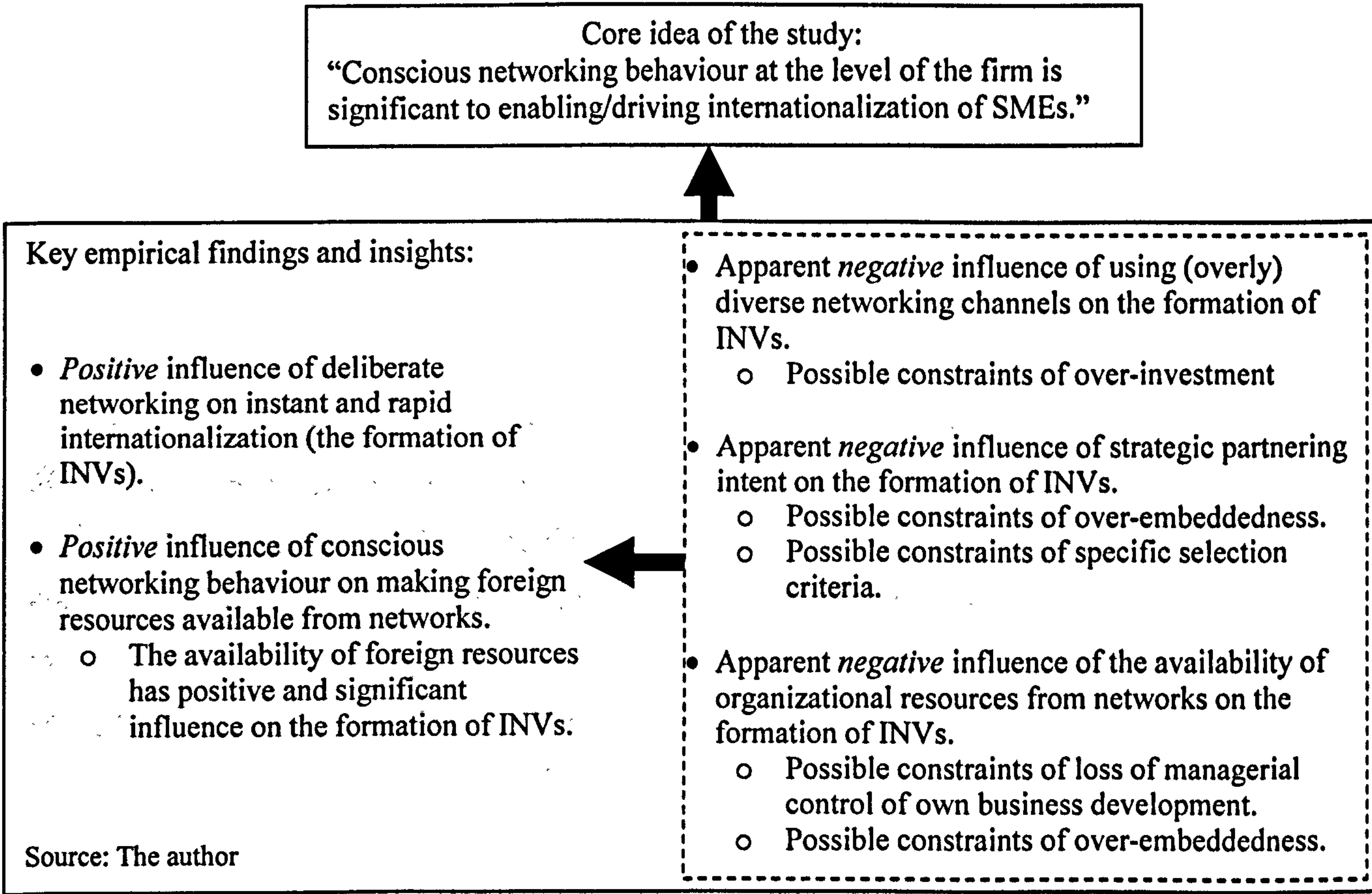
especially after the failures of some initial attempts. Reliance on external organizational resources is perceived to cost the key decision-maker full managerial control of the firm's business development direction. Consequently, this perception resulted in a cautious and somewhat reluctant attitude of the key decision-maker of the SME towards approaching network parties to obtain organizational resources (Chell and Baine, 2000; Curran et al., 1993). The quantitative results actually imply the negative influence of reliance on obtaining organizational resources from networks on the formation of international new ventures. It appears to illustrate the possible constraints which may result from entering into highly embedded network relationships to obtain organizational resources from external parties, when the business development of the firm may be restrained by the 'rules' set by the resource providers. The finding indicates the paradox facing most entrepreneurs, who value independence and self-control in their firms, but who often need to forgo a certain amount of control to acquire external resources from networks to sustain their development (Coviello and Munro, 1997). The dilemma is particularly restrictive for SMEs because of their inherent liabilities, since they have less bargaining power and market position compared with that of their prospective resource providers.

The findings signal the possible negative effects of over-diversity, over-investment of resources, and over-embeddedness in rigid and limited network relationships resulting from ineffective networking behaviour (Dubini and Aldrich, 1991; Gulati and Gargiulo, 1999; Johanson and Vahlne, 2006; Uzzi, 1997; Welch and Welch, 1996; Witt, 2004). In correspondence with the aforementioned finding regarding a negative association between organizational network resources and the formation of INVs, the use of diverse networking channels and strategic partnering intent are found to be positively and significantly associated with the availability of organizational resources; however, they have a negative influence on rapid internationalization. Furthermore, the lack of association between a focal firm's own networking initiative and commitment (measured in this research from a one-sided perspective) and rapid internationalization indicates that networking can be fruitless irrespective of the resources invested by a firm (Dubini and Aldrich, 1990; Johanson and Vahlne, 2006; Witt, 2004). This highlights the situation pointed out by Johanson and Vahlne (2003:97), that "there are differences between firms with respect to their willingness to respond to initiatives taken by other firms". These surprising findings may need to be interpreted cautiously and may require further investigation to construct fuller and more comprehensive explanations. Nevertheless, the findings point to two-edged effects of networking behaviour. Awareness of the potential negative effects of networking behaviour and possibly fruitless investment in networking by

resource-constrained SMEs is particularly crucial, in order to ensure that their investments in networking activities will not turn into a resource burden of no avail. It further elaborates the significance of networking intentionally and deliberately with prospective partners who share the motivation and ability to conduct network exchanges, so as to actually realize valuable network outcomes.

In essence, findings of the associations between the different behavioural aspects of networking, network resources and the internationalization of firms correspond with one another to provide solid evidence for the core idea that intentional networking behaviour is significant in enabling/driving the internationalization of SMEs, as measured in the study in terms of the likelihood of the formation of the international new venture. The findings lend support to the argument that since networks are not a natural given to a firm, a firm’s networking orientation and associated efforts have influence on network outcomes. Networks are not universally beneficial, but they may generate positive as well as negative effects on different business activities.

Figure 7-3 Key Empirical Findings and Insights of Research Question One



Q2: "What and how do key decision-maker attributes affect the networking behaviour of SMEs?"

The importance of the key decision-maker in determining the business direction of SMEs is commonly recognized. Placing the networking behaviour of the firm at the core of the research, this study utilizes a relatively different approach to assess the influence of the key decision-maker on internationalization. This study investigates the key decision-maker as a principal variable of a core behavioural aspect - the networking behaviour - of a firm in the pursuit of internationalization (Leonidou, Katsikeas and Piercy, 1998; Liesch et al., 2002). The entrepreneurship literature, which emphasizes that networking is a core entrepreneurial behaviour (Dubini and Aldrich, 1990; Jarillo, 1988), provides conceptual insights into this approach of investigation. This research makes the attempt to associate personal attributes of the key decision-maker with networking behaviour at the level of the firm, instead of with networking behaviour at the personal level of the key decision-maker, as mainly adopted in entrepreneurship network studies. The specification of the influential attributes of the key decision-maker enriches the explanation and enables the prediction of variations in networking behaviour of SMEs in effecting internationalization.

The case findings show that the key decision-maker, who ideally has international business vision, past industrial experience and existing personal networks, is a main driving force of rapid internationalization (Andersson and Wictor, 2003; Madsen and Servais, 1997; Oviatt and McDougall, 1994, 1997, 2005). The quantitative study reveals different associations of these three major personal attributes with the networking orientation and activities of the firm.

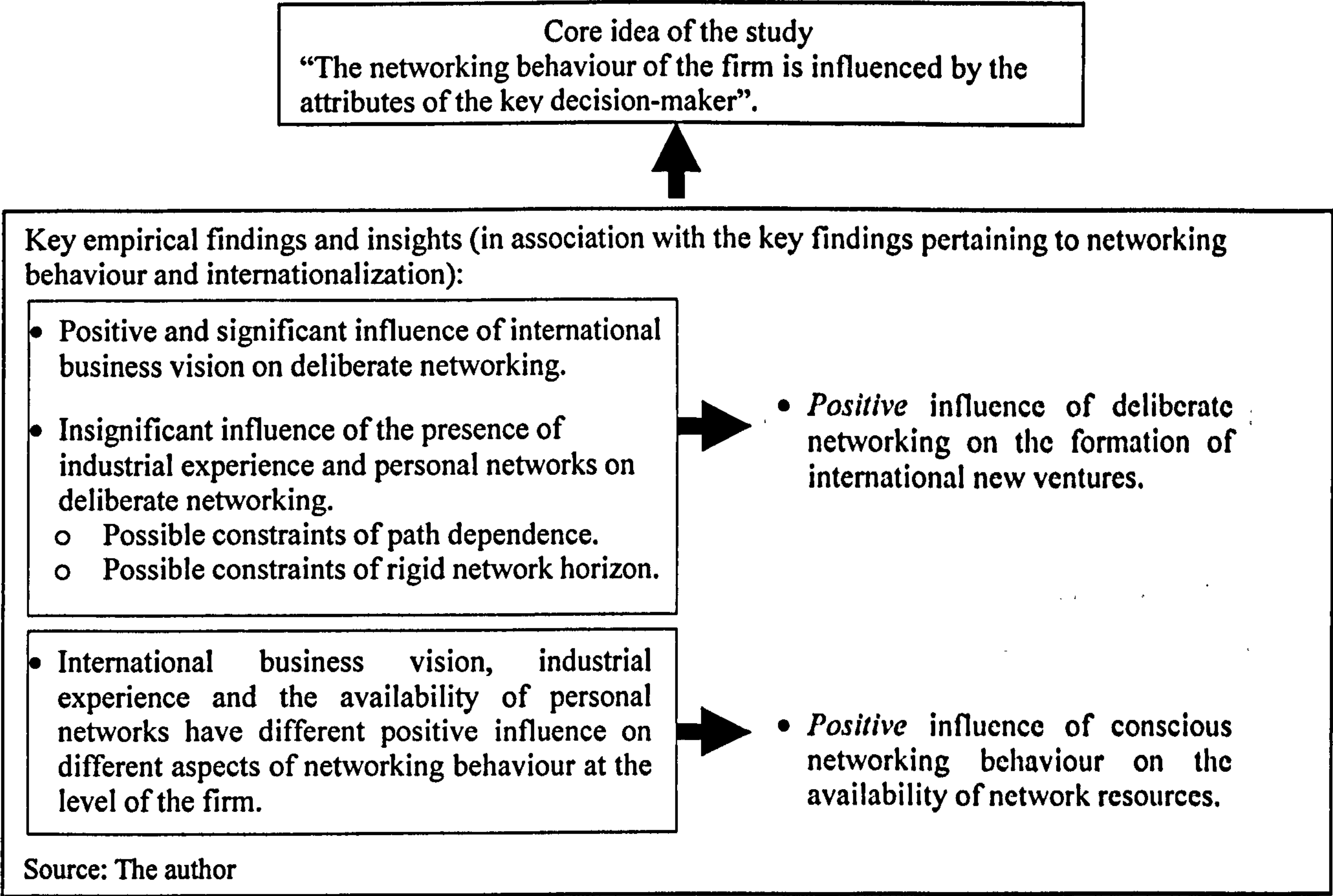
International business vision is the most significant attribute in association with deliberate networking behaviour of SMEs in pursuit of internationalization. Most existing studies associate international business vision with international experience in terms of foreign stay (work/study/residency), proficiency of foreign language, and/or foreign business experience of the focal individual (Harveston, Kedia and Davis, 2000). By contrast, this empirical study finds that the key decision-maker's international business vision is not necessarily related to his/her foreign experience, past industrial and business experience, and/or the presence of existing networks for business start-up or internationalization. It requires more focal efforts to examine the influence of international business vision of the key decision-maker as a differentiating attribute upon different behavioural aspects associating with SMEs' distinctive internationalization patterns.

The notion that past industrial experience and existing personal networks are highly significant in providing the initial resource loci for the commencement of rapid

internationalization of SMEs finds support in this study (Shane, McDougall and Oviatt, 1994). However, the more important insight derived from this study is that strongly embedded personal experience and existing networks of the key decision-maker in the firm may lead to inertia of firm behaviour because of the key decision-maker's path-dependent inclination, and hence impose constraints on adapting and adjusting the firm's (networking) behaviour in the course of internationalization. In a study associating pre-ownership experience with venture performance, Chandler (1996) finds that founders with rich pre-ownership experience may eschew flexibility and innovation, and behave in the same rigid ways as they have in previous settings, which affects firms' performance negatively. The tendency of the entrepreneur with past experience to replicate his/her historic behavioural approach to the new venture is observed in other studies (Birley, 1985; McDougall, Oviatt and Shrader, 2003). The two attributes of the key decision-maker, i.e., industrial experience and personal networks, are important to compensate for the liabilities of newness and smallness of SMEs in start-up and development. However, it is necessary to acknowledge that they may potentially impede the flexibility and responsiveness of the key decision-maker in adapting networking behaviour effectively to cope with dynamic conditions in the subsequent business development process. For example, Tseng, Tansuhaj and Rose's study (2004) finds that the availability of over-embedded domestic personal networks impedes the recognition of entrepreneurial opportunities in international markets, and hence decreases the multinationality of SMEs.

In summary, the findings show not only positive but also potential negative influence of the three personal attributes of the key decision-maker on conditioning the networking behaviour of the firm in internationalization.

Figure 7-4 Key Empirical Findings and Insights of Research Question Two



7.3 Contributions to the Theories

7.3.1 Current Status of the Theoretical Development of Network Research in the Internationalization Literature

Hoang and Antoncic (2003:172) comment that “a characteristic (and to some critics, a weakness) of research on networks is the lack of a core theory that in turn yields a set of well-defined propositions from which network constructs are defined”. The theoretical development of research on networks in business and management studies is divided into two main streams generally, i.e., the content-based and the process-based perspective (Coviello, 2005; Hite, 2005; O’Donnell, 2004; Shaw, 2006). The former focuses on theorizing the difference in structural attributes of networks such as type of bonds, strength of ties and cohesiveness in relation to business activities and functions (e.g. Granovetter, 1973; Burt, 1992, Coleman, 1988); the latter focuses on theorizing the network development process with relation to different stages of business development (e.g. Butler and Hansen, 1991; Larson, 1992; Larson and Starr, 1993). Nevertheless, both of the streams are concerned with network *per se*, and do not take into consideration any external (environmental) or internal (firm or individual) factors/variables impacting on the network content and process construct. Ignorance/disregard of the

conditioning factors/variables limits a comprehensive explanation and predictions of variations in network content and process, and hence the difference of effects associated with business activities. Bjorkman and Forsgren (2000:14) comment that “business network research often produces good descriptions of business reality but less satisfactory models for predictions”. This inherent orientation of network research to a certain extent impedes progress in its theoretical development.

Although networks are widely acknowledged to be a key factor in the internationalization of SMEs, and to be in particular a core feature of the international new venture (Andersson and Wictor, 2003; Coviello, 2006; Sharma and Blomerstermo, 2003), network research in the internationalization context is generally limited to identifying and assessing the role and effects of networks as an existing and fixed construct. Discussions are often based on the general understanding of networks imported from other fields of study (e.g. entrepreneurship, social networks, industrial marketing, and strategic management). It appears that there are scant efforts to theorize networks as a focal construct pertaining to international business activities specifically (Coviello, 2006). A preliminary effort is made by Vatne (1995), who conceptualizes the network construct in terms of “use of external resources” as a key factor alongside a firm’s internal resources and entrepreneurial qualifications in a conceptual model of the internationalization of SMEs. In a recent paper, Oviatt and McDougall (2005) also develop a more comprehensive conceptual model of the forces influencing internationalization speed, in which the network construct in terms of “network relationship” is specified as a moderating force. Nevertheless, the attributes and role of the network construct are broadly discussed alongside other constructs in the models, and is limited as to specifics for explaining and predicting variations in effect of individual firms’ network outcomes.

7.3.2 Contributions of the Study

Jones and Coviello (2005:285) propose that the conceptualization of any complex phenomenon requires the complementary development of both broader universal models that provide holistic explanations and precise causal models that are narrow in focus but offer fine details and specifically defined constructs. Building on the common understanding of the significance of networks as a core element in the broad picture of the internationalization of SMEs (as in Vatne’s (1995), and Oviatt and McDougall’s (2005) models aforementioned), this study puts specialized efforts in profiling networks as the key construct in a precise causal model pertaining to the internationalization of SMEs. The study seeks to enable more precise explanations and predictions of the role and effects of networks in this distinctive phenomenon.

The research applies a behavioural perspective to conceptualize a causal model pertaining to networks and internationalization, which positions the networking behaviour of a firm as the pivotal explanatory factor of network outcomes. This approach prompts the incorporation of the underpinnings of the internationalization model and the resource-based view with the network perspective, by which an integrative theoretical foundation is developed to enable explanation and prediction of network effects in the SME internationalization at the level of the firm. It answers the call for a more integrative perspective to comprehend the distinctive phenomenon of the internationalization of SMEs (Bell et al., 2003; Coviello and McAuley, 1999; Etemad, 2004; Jones and Coviello, 2005; Madsen and Servais, 1997; Rialp, Rialp and Knight, 2005). The premise of this behavioural perspective, which emphasizes the active influence of a firm on network outcomes through its networking behaviour, enables a stronger link with the conceptual ideas in the entrepreneurship and strategic management literature regarding the role of networking in firm (venture) growth and performance. The incorporation of the conceptual ideas of these two disciplines into theorizing networking as a key construct in the internationalization of SMEs corresponds to the emergence of international entrepreneurship (IE) research, in which the three areas (i.e., international business, entrepreneurship and strategic management) intersect to explain a firm's international entrepreneurial behaviour (Jones and Coviello, 2005; Oviatt and McDougall, 2000; Young, Dimitratos and Dana, 2003).

Contribution for Advancing the Integration of Entrepreneurship Network Research

The network perspective is one of the most influential theoretical perspectives in IE research (Young, Dimitratos and Dana, 2003). Coviello (2006:3) suggests that network studies in the entrepreneurship literature and the international new venture literature take the similar perspective of positioning networks as a dependent variable on the entrepreneur, therefore, the entrepreneurship literature is a logical source of references for the INV literature. With a core conceptual foundation built on the entrepreneurship literature, networks are explained by Oviatt and McDougall (1994, 1995) in their earlier INV theoretical papers as an attribute of the entrepreneur (labelled as the entrepreneur's proprietary networks), instead of as an individual element in INV theory. Only recently have Oviatt and McDougall (2005) distinguished networks as an individual but interrelated influence alongside others upon the speed of internationalization. Although they mention networking to be "the most powerful tool of the entrepreneur" (Oviatt and McDougall, 2005:544), their discussion of the effects of networks mostly focuses on the structural attributes of networks (e.g. strength of ties, diversity and density) rather than the behavioural aspect of networking. The focus on network structure in explaining

network effects is common in other network research in the INV context (e.g. Coviello, 2006; Sharma and Blomerstermo, 2003). The conceptualization of networks in the INV phenomenon, therefore, is currently limited to one of the two main constructs in entrepreneurship network research.

In entrepreneurship network research, the network is explicitly differentiated from networking in two different constructs (Chell and Baine, 2000; Cromie and Birley, 1992; Dubini and Aldrich, 1990; Jarillo, 1988). Networking is “an entrepreneurial behaviour” whose output is networks (Dubini and Aldrich, 1990:307). This research illuminates this explicit causal linkage between the networking and network construct to explain network outcomes in association with SME internationalization. It enables a fuller integration of the conceptual idea expressed in the entrepreneurship network literature into INV theory.

However, while most entrepreneurship network research places emphasis on the entrepreneur’s personal networking behaviour, this research studies networking behaviour at the level of the firm. The idea is triggered by the processual perspective of networking, in which personal networking of the entrepreneur is presumed to largely converge with firm-level networking at the start-up stage, but is more clearly differentiated from networking as a collective behaviour of a firm alongside the firm’s development (Dubini and Aldrich, 1990; Hite and Hesterly, 2003; Larson and Starr, 1993). Specifying networking behaviour at the firm level explicitly in the framework enables its applicability to investigate business development beyond the start-up stage, and facilitates the incorporation of the temporal aspect into future research.

Contribution for Advancing the Integration of the Strategic Management Perspective

Young, Dimitratos and Dana (2003) propose the refinement of the resource-based view in international entrepreneurship as a key future research direction, based on which international entrepreneurial behaviour can be approached as an organizational dynamic capability. As a fundamental entrepreneurial behaviour, it is proposed that network studies should move beyond assessing the network as a static construct, to understanding networking as a skill and (dynamic) capability of a firm which it can strategically develop and leverage to facilitate its development (Dubini and Aldrich, 1990; Bell et al., 2003; Jarillo, 1988; Loane and Bell, 2006). As Zaheer and Bell (2005:811) comment: “while somewhat obvious to strategy scholars, one important but understudied aspect of network research is consideration of firm capabilities in explaining network outcomes at the firm level”. The fundamental idea of this research, which highlights the significant role of intentional networking behaviour by the firm in shaping its network

outcomes to enable/drive internationalization, supports the development of this research direction.

Building on the resource-based view, McDougall, Shane and Oviatt (1994) regard the entrepreneur's proprietary networks as a competence facilitating the INV phenomenon. However, their definition of this competence is static in nature, consistent with the conventional resource-based view which is concerned with the 'existing' internal resources of the firm. Expanding on this idea, the shift of focus to the networking behaviour of the firm as the focal construct contributes to illuminating networking as a possible capability of the firm in developing this competence (networks) and realizing network value for the internationalization of the firm. Furthermore, by integrating the interplay of 'experiential knowledge accumulation and resource commitment' central to the internationalization model with the resource-based view (Johanson and Vahlne, 2003), the dynamism of networking capability is highlighted. This concept corresponds to Welch and Welch's proposition (1996) of networking as an integrative mechanism in the strategic internationalization process, which is adjusted and adapted by the firm based on continuous feedback to match the requirements of individual stages in the process. The theorization of networking behaviour as a dynamic capability, which a firm can actively and strategically develop and leverage to impact on the internationalization process continuously, contributes to the extension of existing conceptualization of the network construct in INV theory as an initial competence (attached to the entrepreneur) with relation to the start-off stage of internationalization only.

7.4 Implications for Business Practitioners and Policy Makers

7.4.1 Implications for Business Practitioners

The study conveys two important messages to the business practitioners of SMEs who seek to pursue internationalization: Firstly, networking is a crucial behavioural aspect of firms in internationalization. It directly determines whether the firm can foster and exploit networking opportunities, and whether it can realize the value of network relationships effectively for enabling/driving internationalization. Secondly, the key decision-maker's personal attributes have direct influence upon the business (networking) behaviour of SMEs.

With regard to the first point, it should be acknowledged that networking is paradoxical in nature. On the one hand it creates business opportunities and/or enables access to and acquisition of additional resources external to the firm. On the other hand, it requires the investment of the firm's time and resources in the activities. Investments into networking can be enormous but do not necessarily guarantee returns (Clarke, 2006; Dubini and Aldrich, 1991; Hallen, Johanson and

Seyed-Mohamed, 1991; Johanson and Vahlne, 2006); however, the costs of networking are often neglected in the extant network research (Witt, 2004). Considering their inherent resource constraints, it is particularly essential for SMEs to ensure the effectiveness of their networking efforts in order to justify their resource investments. It is acknowledged that highly formalized and structured business and management activities may not suit SMEs, whose advantages often lie in their flexibility and responsiveness to change. Nevertheless, the real-life experiences of the case companies have the implication for business practitioners that networking should be articulated from a position of being a supporting activity regarded as naturally embedded in other business development activities, to one of specialized strategic activities that is deliberately planned, evaluated and refined in alignment with the overall business direction of the firm.

At the same time, it is important for business practitioners to take into consideration the dynamic nature of networking and network relationships, and to be responsive by reconfiguring networking behaviour in accordance with changes in internal (resource) conditions or external requirements. Business practitioners should have the long-term vision to nurture stable relationships with (key) network partners in order to create mutual benefits. At the same time, they should keep an open mind towards redefining their network horizons, and towards adapting networking behaviour to capture alternative opportunities, in order to maintain the competitiveness of the firm and its focal networks in the turbulent global marketplace. Business practitioners of SMEs, therefore, should develop networking as a dynamic capability of the firm, and incorporate into it a learning orientation to enable continuous accumulation and internalization of experiential knowledge from networking. Consequently, even a smaller firm is capable of leveraging networking behaviour proactively, and can derive value from its networks to actually benefit the firm's specific development.

The successful development of networking into a capability of a firm is, to a large extent, determined by the attitudes and abilities of its key decision-maker. The human capital of key decision-makers, including their business experience and personal networks, greatly compensates for the lack of firm-level assets and legitimacy of smaller firms, in particular at their early stage of development. Moreover, business experience and personal networks are often important sources of confidence and self-esteem for a key decision-maker in developing the firm proactively. However, human capital that is accumulated along a personal development path frames the focal individual's mindset and attitudes, and subsequently forms his/her behaviour into defined patterns (i.e., path dependence). It is often difficult for the focal individual to recognize and admit the boundaries of these patterns, especially when they are associated with past success. As the conductor of the business direction of his/her firm, the key decision-maker

must be alert to the need for necessary adaptation and adjustment at a personal level as well as that of the firm to cope with internal and external contextual changes. In this case, positive perceptions and attitudes of the key decision-maker are as important as his/her demographic and objective attributes in leading a firm's foreign business development (Manolova et al., 2002; Nummela, Saarenketo, and Puumalainen, 2004). An international business vision (global mindset) and entrepreneurship orientation (e.g. proactiveness, innovativeness and risk-taking) are significant. It is also important that the key decision-maker can convert his/her personal human capital to organizational human capital, and incorporate it into developing the capabilities of the firm. The firm's identity and legitimacy can then be established to support its further development and growth as a collective entity in the international business arena.

The effective transformation of these implications into practice requires both cognitive and behavioural adaptation by business practitioners. Since most SMEs face limitations in terms of management skills and experience difficulties in recruiting professional managerial staff, it is only to be expected that they lack the experiential skills and knowledge to pursue effective networking. It is therefore suggested that business practitioners should exploit training and development opportunities such as workshops and seminars convened by trade and industrial associations, specialized professional bodies, and the public sector. Indeed, these events are highly useful for obtaining up-to-date information, meeting prospective network partners, and creating opportunities for chance encounters (Ellis, 2000; Meyer and Skak, 2002).

It is also necessary to provide motivation and incentives to promote the significance of effective networking in order to embed a consistent 'effective networking' culture at the level of the firm in the long run (Dubini and Aldrich, 1991). It should be pointed out that while it may not be necessary for small firms to develop highly formalized and structured processes and systems of networking, it is still necessary to introduce mechanisms to assess and improve networking performance. Business practitioners can introduce mechanisms for planning and managing networking activities that match the firm's specific conditions, and should not discard these mechanisms as impractical for a small firm in the first place. Clarke's study (2006) confirms that defining a clear role of control mechanisms such as goal definition and performance feedback has a positive influence on network performance. Other important aspects are the allocation and prioritization of specific resources, and a clear definition of networking responsibilities (Welch and Welch, 1996). These practices demonstrate the importance of networking as a strategically-oriented activity. The objective of networking is to trigger and maintain interactive exchanges with valuable partners. Business practitioners should make attempts to increase the formal and informal involvement of long-term and trustworthy network

partners in providing feedback as to their own networking approach and practice, and to refer to role models for improvement in their networks. Indeed, this kind of regular exchange with key partners, in addition to primary business transactions, is beneficial to enhance mutual understanding and commitment.

7.4.2 Implications for Policy Makers

Despite the increasing efforts and resources invested by policy makers in supporting the business development of SMEs, it is reflected in this study, as in other studies, that SMEs in general still preserve a conservative and cautious attitude to the usefulness of public sector support (Birley, 1985; Burpitt and Rondinelli, 1998; Chell and Baines, 2000; Curran et al., 1993; Dichtl, Koeglmayr and Mueller, 1990; Kingsley and Malecki, 2004; Robson and Bennett, 2000). The research provides implications regarding the dual roles that the policy maker plays in supporting the business development of the SME sector: firstly, as a prospective network actor from which SMEs directly gain access to resources and support, and secondly, as a facilitator to promote and enable networking behaviour of SMEs.

It appears that lack of the necessary trust and motivation to utilize official support programmes is not due to the SME sector's low awareness of what is available, but to the perception that the general nature of such support programmes and associated bureaucratic procedures either ignore or are a poor match for the actual needs and conditions of SMEs. For example, Burpitt and Rondinelli's study (1998) finds that the firms they sampled simply do not trust the government to provide them with the information they find useful - and so they do not care to try. Robson and Bennett (2000) also comment that services provided by formal institutions are chiefly low-cost, low-frequency and short-term, targeted at solving one-off problems only. The perception may be a result of actual experience of a firm or simply of (negative) 'word of mouth' among firms in its networks, which discourages access to public sector support. As a key actor in networks, the aforementioned implications for the business practitioner regarding effective networking behaviour have equally practical value for the policy maker in guiding the public sector's networking behaviour, and in understanding the expectations and behaviour of other actors in its networks.

In most studies, implications are provided for the policy maker in view of its primary role as resource provider. Indeed, it is also important for the policy maker to act on networking opportunities, and take an active approach to establish cooperative and collaborative relationships between itself and others to make collective resources available, in order to complement and enrich its resources for supporting the business (SME) sector. It is impractical

and almost impossible for the policy maker to supply sufficient resources to customize support to match the diverse needs of individual SMEs (Chell and Baines, 2000; Crick and Jones, 2000). That means the policy maker may also need to access external resources to support its programmes. By involving industrial associations, professional bodies, and academic institutes more intensively in public sector support, sharing of responsibilities and division of labour can be achieved to make specialized resources and expertise available for support programmes to increase the programmes' practical value. As Dichtl, Koeglmayr and Mueller (1990:37) point out, the call for support and assistance should not only be directed at governmental agents, but should also encompass parties such as business associations and educational institutions. Crick and Jones (2000) also suggest that rather than employ export advisers in government departments, the use of external specialists (e.g. retired executives with international experience) should be encouraged to provide advice for SMEs. The policy maker can act as a primary information provider to provide SMEs with potential specialists from whom they can get tailored advice. The policy maker can further provide subsidies and physical facilities for consultation. A similar programme has been implemented in Hong Kong recently, in which the programme supports the development of a SME mentorship programme that involves accomplished business practitioners as mentors to less experienced business owners to provide them with advice and guidance on all kinds of business issues.

Furthermore, it is suggested that the policy maker can prioritize and target public sector support more efficiently at specific groups of firms in the SME sector. Sophisticated segmentation of the SME sector and specification of the distinctive characteristics of individual segments (Crick, 1995; Gray, 1997; Fischer and Reuber, 2003; OECD-APEC, 2006a) is required to identify the target segments to which specialized support can be delivered more effectively.

With regard to the role of the public sector as a facilitator of SMEs' networking activities, studies have found a significant effect of public programmes in the provision and promotion of incentives for the establishment of inter-firm networks among SMEs and other agencies in order to derive collective (network) benefits (Cooke and Wills, 1999; Loane and Bell, 2006). Policy makers in many countries, including the two empirical locations of this study, have put efforts into promoting and motivating cooperation and collaboration among SMEs and other actors in the domestic context, including the development of industrial districts/clusters and the implementation of brokerage programmes (Huggins, 2000; McNaughton and Bell, 1999; McDonald, Tsagdis and Huang, 2006; Rabellotti, 1996). It is proposed that such local/regional cooperative and collaborative networks can to a large extent enable collective learning, innovation, creation of business opportunities, and resource exchanges among SMEs to increase

their international competitiveness (Brown and Bell, 2001; OECD, 2000; Sopas, 2001). Successful promotion of cooperative and collaborative initiatives among SMEs, however, cannot be achieved simply by approval of a project and providing infrastructures and general services. McDonald, Tsagdis and Huang (2006) emphasize that public sector policies must be carefully tailored and be responsive to match the specific conditions and needs of individual industrial clusters/districts. Huggins (2000) also suggests that brokers/agents must comprehend the interests of the participants and be able to take flexible approach to adapt to the latter's needs, so they are motivated to participate in cooperation and collaboration. Both Saxenian (1990) and Sopas (2001) suggest that it is a conducive practice to including specialized institutions, in liaison with national institutions and policy makers, in clusters to provide specialized internationalization support.

In order to promote cross-border business networking of SMEs for foreign business development, public sector support may need to be extended from the domestic level to the regional and even international level. Foreign market information and knowledge is stressed as particularly critical to internationalization. An important facilitating role of the policy maker in promoting cross-border business networking of SMEs is to provide access to up-to-date foreign contacts information. Information provided should cover not only direct business contacts such as customers and suppliers that are readily available elsewhere and easier to obtain, but also specialized network parties such as public sector channels, national institutions and prospective investors involved in international business in different countries. Another distinctive role of the policy maker is in facilitating the development of cooperative and collaborative agreements at institutional level between clusters, regions and/or nations. An example is cited by Pezzetti and Primavera (2003) regarding the agreements made between the authorities of an Italian industrial region and a Mexican region, which help promote partnerships of firms embedded in the two regions. Similar agreements (the Closer Economic Partnership Arrangement, CEPA) have also been made between Hong Kong and mainland China, which to a large extent benefit the cross-border business activities of SMEs and foster their development.

Furthermore, the policy maker should provide resources and facilitate specialized training and development programmes for SMEs on experiential knowledge and skills in networking in the international business context (Brown and Bell, 2001; Burpitt and Rondinelli, 1998; Chell and Baine, 2000). In mainland China, for example, the government has launched an integrated training and technical support scheme in 2003, namely the National SME Galaxy Training Project, to address SMEs' skill constraints to cope with domestic and international competition (World Bank Learning). In order to ensure that the programmes correspond to changes in the

business environment and match the needs of the target audiences, it is necessary to include mechanisms to identify training needs, review demand, and assess outcomes regularly.

In summary, the practicability of these suggestions relies heavily on the devotion and abilities of the policy maker to set clear and realistic goals for public sector support, to plan policy implementation, and to regularly assess performance. It is suggested that the policy maker should be more cognizant of the heterogeneous nature of the activities of SMEs and the dynamic international business arena in which they compete. Moreover, it is necessary for the policy maker to demonstrate its strong commitment to provide SMEs with public sector support and to illustrate its benefits, in order to remove the distrust of the SME sector towards public sector programmes and encourage their use (Chell and Baines, 2000; OECD-APEC, 2006a).

8. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

8.1 Limitations of the Research

While the author has made various attempts and used different measures to ensure the robustness of the research and the validity of its findings, the study has a number of limitations which may provide the basis for refining future research.

Firstly, it is acknowledged that the label 'network' is loosely applied with different scopes and interpretations in different studies (Barringer and Harrison, 2000; Dubini and Aldrich, 1991; Hite and Hesterly, 2001; Johanson and Vahlne, 2003; Shaw, 2006). For example, there are diverse definitions of 'personal network', and the scope of 'personal network' often overlaps with other types of networks classified according to various dimensions (O'Donnell et al., 2001). The demarcation between social network and business network is even vaguer, especially in the context of SMEs. It is also pointed out that the concept of 'social capital' involves diverse meanings (Kadushin, 2004; Portes, 1998). Researchers, therefore, often need to define 'network' or related concepts in accordance with the research focus of their studies specifically. The ambiguous and fuzzy contents of 'network' and its associated concepts adopted in different studies have made it difficult to compare findings across studies to achieve generalization (Shaw, 2006). This study also has the same limitation because the findings are discussed in accordance with pre-defined definitions and scopes of some key concepts such as 'network', 'personal network' and 'network resource'. In order to enable comparisons and achieve generalization, it is essential for researchers in the area to work on the more rigorous definitions, and to reach consensus on the synthesized scope and contents of the key concepts commonly applied in network research.

Secondly, both the qualitative case studies and the quantitative survey adopted a single respondent approach: information was collected from a key informant in each company. Using a single key informant for data collection is common in small business research, not only because the decision-making in smaller firms is actually often controlled by very few persons (usually the founder/owner), but also because in practice it is difficult to make requests of and gain access to all key people in smaller firms which constantly suffer from insufficient slack resources. It is the reason that only one in-depth interview was conducted in each case company (except in Mars and Saturn), even though the author was referred by personal friends of the key informants in most of the cases. In order to minimize the limitations of the key informant approach and the single interview, secondary data were used in the case studies to achieve data triangulation. In the quantitative survey, the questionnaire was delivered to the registered

founder/owner/representative of the company as on the database record, and a control question asking the position of the respondent was included to ensure his/her legitimacy to provide valid answers. Nevertheless, it is acknowledged that findings based on the information from single respondents may reflect strong personal bias and may not reveal different facets of the issues (Kumar, Stern and Anderson, 1993; Leonidou, Katsikeas and Piercy, 1998; Phillips, 1981). Johannisson (2000) also points out that the entrepreneur often withholds the information about the use of networks and their importance in business development in order to attribute success to his/her own capabilities.

The samples in the study are comprised of companies with different ownership structures. Firms with different ownership structures such as sole trader, partnership or public listed may adopt different decision-making approaches. The influence of individual key decision-maker(s) on the collective organizational entity may vary because of their different personal attributes and responsibilities in the organization (George, Wiklund and Zahra, 2005). In this case, research may need to take into consideration the specific ownership context and the division of labour at the management level, and to consider involving multiple informants. For example, research can use the top management team as the unit of data collection and/or analysis as proposed in the upper echelon perspective (Carpenter, Geletkanycz and Sanders, 2004; Hambrick and Mason, 1984). The multiple informant approach may enhance the validity of the analysis of personal influence on firm behaviour as a collective entity, as defined in this study (Birley and Stockley, 2002; Bloodgood, Sapienza and Almeida, 1996; McDougall, Oviatt and Shrader, 2003; Neergaard, 2005).

Thirdly, the study investigates the influence of firm-level networking behaviour on internationalization of the firm. The unit of analysis is a firm in a network relationship, and the study collects information from only one side of the network relationship. However, network exchanges involve bilateral interactions. In the quantitative analysis of this study, findings of network outcomes of some dimensions of the networking behaviour construct, such as networking initiative and commitment, should be interpreted with caution because their associations with internationalization may not be fully revealed based on a one-sided perspective - which only measures the self-perceived efforts of the focal firm, while not capturing the other side's perception of the efforts. As Johanson and Vahlne (2003:97) point out, "there are differences between firms with respect to their willingness to respond to initiatives taken by other firms".

A dyadic approach may be more appropriate to evaluating the perceptual aspects of networking, such as networking commitment in this study, or other aspects like trustworthiness

and reputation, which are judged according to the perceptions of the other party in the relationship (Sarkar et al., 2001; Wu and Cavusgil, 2006).

Fourthly, the study undertook a cross-sectional approach to data collection, and hence is limited in its ability to reflect the dynamism of networking in internationalization. It is observed in the case studies that the networking behaviour of the companies evolved alongside their business development (Hite and Hesterly, 2001; Larson and Starr, 1993). The cross-sectional analysis, however, may not truly capture the temporal changes and processual aspect involved in networking behaviour. The need for more longitudinal studies to understand the networking process and to illuminate the dynamic nature of networking is generally emphasized in network studies (Coviello, 2006; Hoang and Antoncic, 2003; O'Donnell, et al., 2001; Schutjens and Stam, 2003; Shaw, 2006).

The strength of longitudinal study as a method for investigating networking change over time is self-evident; however, the practicality of longitudinal study is seldom under the full control of the researcher, but relies heavily on the willingness of the respondents to devote their time and resources on a continuous basis. Longitudinal study requires high commitment from the respondents, whose continuous cooperation and participation is crucial. It is highly problematic to put into practice when responses for a one-off interview or short questionnaire are already increasingly difficult to obtain, and have already put much pressure on researchers to achieve satisfactory response rates. It may be more practical to call for stronger support from and cooperation among official, industrial and academic institutions to create a more favourable research environment, which raises awareness and demonstrates practical benefits of more rigorous and sophisticated research in aiding development and growth of companies. Recognition and realization of the practical value of academic research are required to motivate the participation of business practitioners. Fundamental change in the business sector's perception of the practical usefulness of academic research will provide core solutions to the aforementioned limitations including single respondent bias, low response rate, and lack of longitudinal study, which to a large extent result from the indifferent and reluctant attitude of the business sector towards participation in academic research regardless of the efforts devoted by the researchers.

Fifthly, the conceptual framework guiding this study outlines four constructs - the key decision-maker, networking behaviour, network resources and internationalization (as network outcomes) - in almost linear relationships. The study places focus on analyzing two sets of unidirectional associations, i.e., the influence of networking behaviour on network outcomes including network resources and internationalization, and the influence of the key decision-

maker on networking behaviour. The research disregards the possible non-linear correlations, and the more complex causal relationships in multilateral directions among the constructs.

Finally, the quantitative survey was conducted in only two locations. Although the survey achieved a satisfactory response rate of 38.4% in total in comparison with similar studies (Chan and Foster, 1999; Shi, Ho and Siu, 2001; Siu, 2000), it may require data from wider spatial locations and a larger sample size to enhance the representativeness and generalizability of the findings.

8.2 Directions for Future Research

8.2.1 *Extension of the Research Scope*

It is suggested that application of the fundamental conceptual framework developed in this research can be extended in temporal and spatial dimensions, in order to enrich both specialized and generalized knowledge pertaining to networking and the (foreign) business development of firms.

8.2.1.1 Processual Perspective

The behavioural approach to the investigation of networking and internationalization inherently involves a processual perspective. Process-based network research is emphasized as one of the two main streams alongside content-based network research in the entrepreneurial network literature (Hoang and Antoncic, 2003; O'Donnell et al., 2001). It is also suggested that different stages of business development require different combinations of network relationships to provide specific functions and support. The entrepreneurship literature, for example, has produced important insights regarding the network development process, and the role of different network ties in the entrepreneurial start-up stage (Bruderl and Preisendorfer, 1998; Elfring and Hulsink, 2003; Greve and Salaff, 2003; Larson and Starr, 1993; Steier and Greenwood, 1999). Further extension of process-based network research to cover different stages in the (international) entrepreneurial process beyond start-up represents a critical research direction, whereby the dynamic role and effects of networks in different business contexts can be fully assessed and understood (Hoang and Antoncic, 2003; Lechner and Dowling, 2003). Adopting the processual perspective, the proposed networking behavioural aspects in this research can be applied to enable reflection on each stage of the process. Longitudinal studies (mentioned in section 7.1), therefore, are required to capture the full picture. Adhering to this direction, two potential questions enlightening the processual perspective of networking in association with the internationalization of firms can be specified as follows:

1. How does networking behaviour evolve after the initial start of internationalization, and in what ways does evolution drive and enable continuous progression in the internationalization of the firm?
2. How does the change of state in the internationalization of the firm influence the change in networking behaviour?

The above two questions have different focuses, reflecting the bilateral influence of the two processes of networking and internationalization. The first question provides insights into behavioural changes in networking behaviour and the corresponding effects on (foreign) business development. The latter puts emphasis on the progression in the internationalization process of firms and the impact upon networking behaviour required to support individual states.

8.2.1.2 Learning Perspective

Sharma and Blomstermo (2003:750) propose that the “internationalization process of born global is a matter of learning through networks”. The promotion of the aforementioned process-based network research in association with internationalization involves a common feature that also represents a significant future research direction, namely the incorporation of the learning (experiential knowledge accumulation) perspective into processual behaviour. Learning can be regarded as an organic driving force for behavioural change within a firm’s internationalization and networking processes.

Johanson and Vahlne’s paper (2003) provides important insights in interpreting both internationalization and networking as learning processes in accordance with the interplay of experiential knowledge accumulation and resource commitment that underlies the internationalization model. Internationalization as a learning process has already received specialized research attention (Eriksson, Majkgard, and Sharma, 2000; Fletcher, 2000; Forsgren, 2002; Blomstermo, Eriksson and Sharma, 2004). The learning perspective of networking has yet to be explored, even though the accumulation of knowledge about networking to improve subsequent networking behaviour has been highlighted in various studies (Blomstermo et al., 2004; Gulati, 1999; Kogut, Shan, and Walker, 1993; Johanson and Vahlne, 2003).

The investigation of the learning aspect of networking in association with internationalization patterns and performance is insightful to broader business contexts. It is fundamental to identify the specific knowledge required to develop networking as a capability of the firm, and to highlight the role of long-term vision in business growth and performance. The research results relating to the learning perspective of networking have important strategic implications regarding the accumulation, transfer and management of networking knowledge by

the firm. It is fundamental to the development of networking into a firm's dynamic capability, in which networking is articulated to become a stable pattern of collective activity that is routinely reviewed, modified and improved to support overall business development activities (Zollo and Winter, 2002).

Adhering to the proposed direction of research on the learning aspect of networking, the influence of the key decision-maker can again be included into the investigation as a key variable to differentiate and predict learning behaviour and performance in networking. For example, it is evidenced in the research that international business vision is the most significant attribute to exert a positive influence on distinctive internationalization behaviour. The finding is consistent with most studies (e.g. Johnson, 2004; Madsen and Servais, 1997; Nummela, Saarenketo and Puumalainen, 2004; Oviatt and McDougall, 1994). Fletcher (2000:218), for example, stresses that a "global mind set" of the entrepreneur is the "fundamental prerequisite to international learning". The common understanding indicates that international business vision is an essential (personal) condition to enable distinctive internationalization behaviour of SMEs, which deserves more research efforts to explicate its role and effects on key behavioural aspects in association with SME internationalization. On the other hand, certain distinctive findings regarding the other two key decision-maker attributes, i.e., the industrial experience and the availability of personal networks, imply a stronger influence of path dependence on the key decision-maker's behaviour, when his/her mindset is likely to be framed (bounded) by rich experience. It may potentially become a restricting force to the adaptation and adjustment of behaviour required for learning. Hence the impact of such attributes is worth further exploration, especially when they are chiefly discussed as positively associated with the international new venture phenomenon in the extant literature (Shane, McDougall and Oviatt, 1994; Andersson and Wictor, 2003).

Indeed, the path-dependent nature of internationalization and networking behaviour is acknowledged by studies (e.g., Eriksson, Majkgard, and Sharma, 2000; Johanson and Vahlne, 1977; 2003; Sharma and Blomstermo, 2003). However, its impact on the (international) business development of firms is not explicitly investigated and explained. Nevertheless, it directly corresponds to the processual and learning perspective of internationalization and networking, which proposes that flexible adjustment and adaptation are required to cope with the changes of conditions alongside the process. Path dependence implies pre-determination of a subsequent behavioural domain (a path) by prior development, and hence may be an underlying reason behind a firm's inertia to change vis-à-vis its business development. Such a supposition appears to contrast with Cohen and Levinthal's concept (1990) of 'adsorptive capacity', which

emphasizes the significance of prior knowledge to the ability to learn. The apparent paradoxical impact of path dependence on the networking and internationalization processes from a learning perspective is an interesting area that deserves more research attention. Cohen and Levinthal (1990) conclude that absorptive capacity is part of a firm's investment decision. Hence, perceptual attributes (other than objective attributes such as industrial experience and personal networks) of the key decision-maker, including the aforementioned international business vision, may potentially be a key to untangling the paradox because of their deterministic influence on decisions by the firm. This further supports the proposal to encompass the influence of the key decision-maker into this research direction.

8.2.1.3 Spatial Extension

This research intentionally adopts a cross-sectoral approach and focuses on analysis at the level of the firm. While it acknowledges the influence of environmental factors on firms' behaviour, they are excluded from the research. However, preliminary analysis and comparison of empirical data by empirical locations and industrial sectors (traditional industry and high-technology industry) was conducted, and results do not indicate distinctive differences between the sectors. Nevertheless, in order to strengthen the generalization of the research findings and the conceptual framework, the extent of influence of different environmental and industrial contexts on the networking behaviour of the firm, and the role and effects of networking on internationalization, can be more precisely assessed by replicating the research in more regions and more specialized industrial sectors specifically. By replicating the research in specific sectoral (regional or industrial) settings, empirical data from larger samples can be collected to enable comprehensive comparisons and in-depth exploration, based on which influential environmental and/or industrial factors may be identified and the conceptual framework pertaining to networking and internationalization may be refined.

8.2.2 Correlations of the Constructs

The research presents a conceptual framework that explores and specifies four key constructs initially in a linear unidirectional causal model pertaining to networking and internationalization. It is acknowledged that the framework can be expanded to illustrate more complex and multi-directional correlations among the constructs, and among the latent factors of individual constructs, in non-linear patterns. More specialized and sophisticated analytical tools are required to achieve the purpose of precise modelling and analysis of such complex paths and causal links. Structural equation modelling (SEM) is a potential technique that can be applied for this purpose. The existing conceptual framework and the findings of the associations

between the constructs have provided a solid exploratory basis for further theoretical extension and replication of the research. SEM is a compact and hybrid technique that enables confirmatory and multivariate analyses to extend and test the fitness of more complex causal paths. Identification and confirmation of the interactive correlations of networking and internationalization, for instance, can to a large extent support the aforementioned direction for theoretical development regarding learning perspectives of the two processes.

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Appendix 1: Diverse Interpretations and Definitions of the Social Capital Concept

| | |
|--|---|
| Adler and Kwon (2002:23) | “Social capital is the <i>goodwill available to individuals or groups</i> . Its source lies in the structure and content of the actor’s social relations. Its effects flow from the information, influence, and solidarity it makes available to the actor”. |
| Anderson and Jack (2002:207) | “Social capital is not a ‘thing’ but a process. It is the <i>process of creating a condition for the effective exchange of information and resources</i> . It can only exist between people...” |
| Arenius (2005:116) | “We define social capital as the <i>amount and quality of the external relationships</i> possessed by the firm and the individuals involved in the firm”. |
| Arenius (2002:3) | “Simply Put, social capital is the <i>value of relationships</i> .” |
| Baker (2000:1) | ““Social capita’ refers to the <i>resources</i> available in and through personal and business networks” |
| BarNir and Smith (2002:221) | “...the <i>network constitutes a resource</i> – a form of (social) capital – that may compensate for the lack of other resources” |
| Bourdieu (1983) | “Social capital is the <i>aggregate of the actual or potential resources</i> which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition...which provides each of its members with the backing of the collectively-owned capital...” |
| Burt (1997:340) | “...social capital is a <i>function of brokerage opportunities in network</i> ...Assets get locked into suboptimal exchanges. An individual’s position in the structure of these exchanges can be an asset n its own right. That asset is social capital...” |
| Carlisle and Flynn (2005:86) | “...social capital is <i>the resource available to actors</i> as a function of their location in the structure of their social relations.” |
| Coleman (1988:S98) | “Social capital is defined by its <i>function</i> . It is not a single entity but a variety of different entities, with two elements in common: they all consist of some aspect of social structures, and they facilitate certain actions of actors – whether persons or corporate – within the structure”. |
| Fukuyama (1995:89) | “...what the sociologist James Coleman has labeled social capital – that is, the <i>component of human capital</i> that allows members of a given society to trust one another and cooperate in the formation of new groups and associations. |
| Hitt, Lee and Yucel (2002:354) | “For our purposes, we define social capital as the <i>relationships between individuals and organizations</i> that facilitate action and thereby create value”. |
| Nahapiet and Ghoshal (1998:243) | “[we] define social capital as the <i>sum of the actual and potential resources embedded within, available through, and derived from the network of relationships</i> possessed by an individual or social unit. Social capital thus comprises both the network and the assets that may be mobilized through that network”. |
| Portes (1998:6) | “...social capital stands for the <i>ability of actors to secure benefits by virtue of membership in social networks or other social structure</i> ” |
| Putnam (2004:14) | “I would insist on a lean and mean definition: social capital refers to <i>social networks</i> and the associated <i>norms of reciprocity</i> ”. |
| Woodcock (2001:13) | “Social capital refers to the <i>norms and networks that facilitate collective action</i> ”. |
| Yli-Renko, Autio and Sapienza (2001:590) | Three aspects of social capital in the relationship: the <i>level of social interaction</i> between the firms, the <i>quality of the relationship</i> in terms of goodwill trust and reciprocity, and the <i>level of network ties</i> created through the relationship. |

Source: The author

Table 1: Four Definitions of High-Tech Industries

| Sectors | AEA | RFA | One Source | BLS | Sectors | AEA | RFA | One Source | BLS |
|---|-----|-----|------------|-----|---|-----|-----|------------|-----|
| Industrial Inorganic Chemicals | | | x | x | Misc. Electrical Equipment and Supplies | | | x | |
| Plastics Materials and Synthetics | | | | x | Motor Vehicles and Equipment | | | x | x |
| Drugs | | x | x | x | Aircraft and Parts | | | x | x |
| Soap, Cleaners and Toilet Goods | | | x | x | Ship and Boat Building and Repairing | | | x | |
| Paints and Allied Products | | | x | x | Railroad Equipment | | | x | |
| Industrial Organic Chemicals | | | | x | Guided Missiles, Space Vehicles and Parts | | | x | x |
| Agricultural Chemicals | | | x | x | Search and Navigation Equipment | x | x | x | x |
| Misc. Chemical Products | | | x | x | Measuring and Controlling Devices | x | x | x | x |
| Petroleum Refining | | | | x | Medical Instruments and Supplies | x | x | x | x |
| Fabricated Structural Metal Products | | | x | | Ophthalmic Goods | | | x | |
| Metal Forgings and Stampings | | | x | | Photographic Equipment and Supplies | x | x | x | x |
| Ordinance and Accessories, NEC | | | x | x | Watches, Clocks, Watchcases and Parts | | | x | |
| Misc. Fabricated Metal Products | | | x | | Telephone Communications | x | | x | |
| Engines and Turbines | | | x | x | Telegraph and Other Communications | | | x | |
| Farm and Garden Machinery | | | x | | Cable and Other Pay Television Services | | | x | |
| Construction and Related Machinery | | | x | x | Communications Services, NEC | x | x | x | |
| Metalworking Machinery | | | x | | Electric Services | | | x | |
| Special Industry Machinery | | | x | x | Gas Production and Distribution | | | x | |
| General Industrial Machinery | | | x | x | Combination Utility Services | | | x | |
| Computer and Office Equipment | x | x | x | x | Water Supply | | | x | |
| Refrigeration and Service Machinery | | | x | | Sanitary Services | | | x | |
| Misc. Industrial and Commercial Machinery | | | x | | Misc. Wholesale Trade Durable Goods | | | x | |
| Electric Distribution Equipment | | | | x | Computer and Data Processing Services | x | x | x | x |
| Electrical Industrial Apparatus | | | | x | Medical and Dental Laboratories | | | x | |
| Household Audio and Video Equipment | x | | x | x | Engineering and Architectural Services | | | x | x |
| Communications Equipment | x | x | x | x | Research and Testing Services | | x | x | x |
| Electronic Components and Accessories | x | x | x | x | Management and Public Relations | | | x | x |

Source: Compiled by the National Association of State Development Agencies and the Indiana Department of Commerce

Table 2: Four Perspectives on High-Tech Employment, 1989 and 1999

| United States | AEA | RFA | One Source | BLS |
|--|-----------|-----------|------------|------------|
| 1989 High-Tech Employment | 4,049,398 | 3,830,998 | 13,033,440 | 9,029,400 |
| 1999 High-Tech Employment | 5,008,666 | 4,817,666 | 14,834,912 | 10,416,100 |
| Growth in High-Tech Employment 1989-99 | 24% | 26% | 14% | 15% |
| Net Job Change 1989-99 | 959,268 | 986,668 | 1,801,472 | 1,386,700 |
| Indiana | AEA | RFA | One Source | BLS |
| 1989 High-Tech Employment | 81,705 | 69,356 | 364,142 | 234,548 |
| 1999 High-Tech Employment | 74,787 | 75,674 | 412,056 | 274,899 |
| Growth in High-Tech Employment 1989-99 | -8% | 9% | 13% | 17% |
| Net Job Change 1989-99 | -6,918 | 6,318 | 47,914 | 40,351 |

Source: U.S. Bureau of Labor Statistics

Introduction

- Objective of the case study
- Structure of the interview
The **THREE** main sections of the interview:
 1. (Foreign) Business Development
 2. Top Management and the Business Development
 3. Business Relationships and the Business Development
- Use of the information obtained – confidentiality issues
- Tape recording request
- Any other concerns of the interviewee

1. (Foreign) Business Development of the Firm

General Business Development

- How did the initial business idea of the company come up? Any critical issues/events influencing the incorporation of the company?
Key Note:
 - Background information of the company
 - International business orientation
 - Influence of the key decision-maker
 - Influence of any personal/business contacts
- What were the major problems in kick-starting and surviving the start-up stage? How were they addressed?
Key Note:
 - Availability of resources (capital, human resources, business information and knowledge, etc.) or potential sources of resources.
 - Business attitudes (e.g. proactiveness) of the key decision-maker
 - Availability of clients/customers/suppliers.
- Had there been any critical change(s) in the business direction in the course of development? In what ways and how has the change(s) impacted on the subsequent development?
Key Note:
 - Change in business orientation, particularly domestic vs. international business focus.
 - Internal and external triggers, particularly involvement of personal/ business relationships
- How will you describe the current status of the company in its business development? How will you see the company's development in the next five years?
- What do you see are the key factors for success of a firm in your business sector? To what extent is your company equipped with these factors?
Key Note:
 - Business vision of the key decision-maker
 - Self-reported performance and capabilities – any business relationship related issues?
 - Potential problems and limitations of development
 - Perceived role and effects of business relationships [external support] in the development

Foreign Business Development

- What were the initial foreign business activities and foreign markets of the company? What was the rationale behind these initial decisions for foreign development?
Key Note:
 - Market and modes of internationalization
 - Triggers - influence of the key decision-maker and business relationships
- How did the company build up its foreign business? Any major problems or critical events in the course?
Key Note:
 - Channels for relationship-building
 - Role and effects of networks
- To what extent has the company achieved its foreign business objective up-to-date? What is the strategic direction for further expansion?
Key Note:
 - Self-reported performance
 - Business vision
 - Potential change(s) in spatial span and scope of activities – rationale behind
- What are the key factors for success in pursuit of this direction?
Key Note:
 - Resource issues and potential sources
 - (Strategic) direction and action plans for networking activities

2. Top Management and Business Development

- In what way does the founder/top management influence the business direction and development of the company?
Key Note:
 - Role and influence of the key decision-maker
 - Management/decision-making style and approach
 - The key decision-maker's attributes (objective vs. perceptual)
 - Personal networking orientation
- What do you see are the critical attributes of a leader/top management of a well-performed company in this business sector? How are these attributes influential?
Key Note:
 - The key decision-maker's attributes
 - Management style and approach
 - Perceived significance of networking orientation and abilities

3. Networking and (Foreign) Business Development

- How important are cooperative and collaborative relationship in the development of a company in the business sector?

Key Note:

- Networking orientation and efforts
- Scope of networks of the company

- How does the company develop and manage its (foreign) business relationships?

Key Note:

- Networking orientation and efforts (direct business associates, prospective resource providers)
- Problems and limitations

- How do you define the important attributes of a 'valuable' partner in a business relationship in your business sector? How does the company develop these attributes?

Key Note:

- The perspective of a customer, a supplier, a collaborator, etc.
- Networking orientation and efforts
- Selection criteria of business partners
- Self-reported networking performance

- Are there any distinctive aspects/challenges in developing and managing business relationships with foreign parties from with domestic parties? In what ways does the company cope with these differences?

Key Note:

- Networking orientation and efforts

- Taking into consideration the planned direction for expansion of the company's [foreign] business, how will that affect the company's current relationship-building and -managing approaches?

Exiting Interview

- Questions and supplementary information from Interviewee
- Request for contacts for potential follow-up

**Appendix 4: Academics and Business Practitioners for Advice and Comments
on the Research Instrument**

| <u>Name</u> | <u>Location</u> |
|---------------------------------|----------------------------|
| <i>Academics and Colleagues</i> | |
| Dr Francisco J. Acedo | Seville, Spain |
| Mr Dong-Chul Choi* | Glasgow, UK |
| Dr Pavlos Dimitratos** | Glasgow, UK/Athens, Greece |
| Ms Margaret Fletcher | Glasgow, UK |
| Professor Kevin Ibeh | Glasgow, UK |
| Dr Marian V. Jones | Glasgow, UK |
| Ms Chung-Hee Kim | Glasgow, UK |
| Dr Jia Li | Hong Kong |
| Ms Ioanna Liouka | Glasgow, UK |
| Professor S. Liouka* | Athens, Greece |
| Dr Hong Liu | Manchester, UK |
| Dr Emmanuella Plakoyiannaki | Thessaloniki, Greece |
| Dr Shameen Prashantham | Glasgow, UK |
| Dr Alison Smart | Manchester, UK |
| Professor Stephen Young** | Glasgow, UK |
| <i>Business Practitioners</i> | |
| Mr Zhan-Jun Du | Beijing, China PRC |
| Mr Edgar Lu | Yantai, China PRC |
| Ms Chloe Tang | Hong Kong |
| Ms Diana Lim | Suzhou, China PRC |
| Mr CM Lun | Hong Kong |
| Mr Jung-Hwan Lee* | Glasgow, UK |
| Mr Richard Fletcher* | Glasgow, UK |
| Ms Delphine Lee | Hong Kong |
| Mr Jason Sheng | Hong Kong |
| Mr Bing-Hua Zhang | London, UK |

* Contact through a colleague
** Supervisors

Appendix 5a: Questionnaire for the Survey of the Research (English Version)



THE SCHOOL of Business & Management

Dear Sir/ Madam

The Foreign Business Development of Hong Kong Small and Medium Enterprises

It only takes about 10-15 minutes, but the sharing of your business experience via this short questionnaire is **highly significant to this study!** I am pleased to provide your company a summary of the findings when ready.

About the Survey

I am a doctoral researcher at the University of Glasgow in the UK. I wish to investigate and to publicize the competitive strength of Hong Kong SMEs in the global marketplace through my research.

The survey focus is therefore placed on understanding Hong Kong SMEs' *initiative and capabilities to develop and manage business networks for pursuing foreign business development*. It also aims to *identify what characteristics of management personnel best influence* a firm's networking and business development performance.

It is important that *the questionnaire is filled out by you or other key decision-maker of your company, or someone who has comprehensive knowledge of the company's* networking and foreign business development activities.

Benefits to Participating Companies

1. Findings *provide benchmark for your company's business network development and management practices*; and clear recommendations for *formulating business networking strategies for foreign business development*.
2. You can *find out what specific characteristics of management personnel to look for to improve* business networking and foreign business development performance.
3. The questionnaire, which is built on extensive empirical experiences, is a *concise but practical assessment exercise of your company's business networking and foreign business development*.
4. Publication of the findings will be an *effective means of drawing the attention of international scholars, business practitioners, and policy makers* to the competitiveness of Hong Kong SMEs, and hence helping enhance their international business image in general.

Confidentiality

All the data are strictly confidential. No firms will be named in the survey or in subsequent publications based on the data analysis. Also, there are no questions asked on the exact sales, profitability, or any other performance figures. If you require further information, please feel free to contact Yee Kwan Tang at email y.tang.1@research.gla.ac.uk or at phone no. +44(0) 7766236328

Please return the completed questionnaire in the enclosed pre-paid envelope, or fax to (852) 26734080 at your earliest convenience.

THANK YOU VERY MUCH FOR YOUR TIME AND SIGNIFICANT PARTICIPATION!

Yours sincerely

Yee Kwan Tang
Doctoral Researcher
University of Glasgow, UK

Survey on the Foreign Business Development of Hong Kong SMEs

SECTION 1: PROFILE OF THE COMPANY

- 1Year of company establishment:
- 2Current no. of full time and equivalent staff:

Hong Kong:

Total (incl. overseas):
- 3Main business activities:

Manufacturing

Service (including trading)
- 4Main product/ service line:
- 5Ownership type:

Sole proprietor

Partnership

Limited Liability Company

Joint Stock Company

Public Listed

SECTION 2: DEGREE OF FOREIGN BUSINESS DEVELOPMENT OF THE COMPANY

- Foreign business activities **INCLUDE** exporting, licensing/ franchising, outsourcing/ subcontracting, collaborations, joint venture, and wholly-owned operations abroad.
- Cross-border business activities between Hong Kong and Mainland China **ARE REGARDED** as foreign business development.

- 1The **YEAR** the company **STARTED** foreign business activity:

Please specify, what was the foreign business activity?

Please specify, which foreign country?
- 2Please rate in the ☒ the extent of influence of the following **FACTORS** on the **commencement** of foreign business.

NOT at all
Important

1

2

3

4

VERY
Important

5

1Business idea at the start-up

2Interest of the key decision-maker in *expanding* the business

3Demands of key business partners (e.g. customer, supplier, collaborator)

4Response to government sponsorship and promotion

5Response to key competitors' actions

6Response to unsolicited inquiries and orders

7Response to general market and industrial trends

8The key decision-maker has personal networks in foreign countries

9Other *important* factor, *please specify*:
- 3Please indicate the extent of **Foreign Business Activities** of the company to date (☒ ALL that apply)

1Direct export of products and/or services

2Licensing and/or Franchising abroad

3Outsourcing and/or Subcontracting business activities abroad

4Collaborations and/or Partnerships (e.g. joint venture, alliance) abroad

Please specify activity: Sales and Marketing Research and Development Manufacturing

5Wholly-owned operations (e.g. office, factory, research centre) abroad

6Other, please specify:
- 4Please indicate the **Foreign Countries/ Regions** in which the company has business activities (☒ALL that apply)

Mainland China Macau Taiwan Japan Korea South East Asia

Africa Europe Middle East Australia and New Zealand

North America South America Other, please specify:
- 5Please indicate the approximate % of **Foreign Sales to Total Sales**: % N/A
- 6Please rate your company in comparison with direct key competitors regarding the following aspects of foreign business development.

WEAK

1

2

3

4

STRONG

5

1Overall Performance in foreign business development

2Reputation as 'partner of choice' in the industry

3Stability of the relationship with your company's key business partners

4Competitive advantages of your company's key business partnerships in foreign business

SECTION 3: BUSINESS NETWORKING ACTIVITIES OF THE COMPANY
For Foreign Business Development

1 Please indicate in the ☒ the extent to which the following statements describe your company's **BUSINESS NETWORK DEVELOPMENT PRACTICES** for foreign business development.

| | | Strongly DISAGREE | | | | Strongly AGREE | |
|-----------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
| | | 1 | 2 | 3 | 4 | 5 | |
| THE COMPANY... | | | | | | | |
| 1 | Promotes networking as a key activity to achieving foreign business development goals | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | Proactively participates in networking events for developing foreign business | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | Proactively approaches potential foreign business partners for developing business networks | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | Budgets and allocates resources specifically for networking activities for foreign business development | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

2 Please indicate in the ☒ the extent to which the following **BUSINESS NETWORK DEVELOPMENT CHANNELS** are used for foreign business development.

| | | NOT AT ALL | | | | VERY MUCH | |
|----|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
| | | 1 | 2 | 3 | 4 | 5 | |
| 1 | Family, relatives, and personal friends of the key decision-maker | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | Past work and business contacts of the key decision-maker | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | Current business partners of the company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | Agents and intermediaries | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5 | Domestic Trade Fairs | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6 | Foreign Trade Fairs | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7 | Local Trade and Industrial Associations | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8 | Company websites | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9 | Chinese ethnic networks (e.g. tong xiang hui, chong qin hui) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 10 | Companies in the same industry (including competitors) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 11 | Local Government Departments | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 12 | Local Academic, Research, and other Professional Institutes | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 13 | Online marketplace | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 14 | Public advertising media (e.g. magazine, TV, radio) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 15 | Cold-calling | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 16 | Foreign Trade and Industrial Associates | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 17 | Foreign Academic, Research, and other Professional Institutes | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 18 | Family, relatives, and personal friends of general staff | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 19 | Past work and business contacts of general staff | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 20 | Foreign Government Departments | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

- 3 Please rate in the ☒ the influence of the following PARTNER SELECTION CRITERIA when deciding upon key business relationships for foreign business development.

| | | NOT at all Important | | | | VERY Important | |
|--------------------------------|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
| | | 1 | 2 | 3 | 4 | 5 | |
| THE BUSINESS PARTNER... | | | | | | | |
| 1 | Provides immediate business revenue and/or cost benefits | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | Provides complementary resources and/or competences | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | Shares vision and goals to develop foreign business | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | Has established market position in foreign countries | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5 | Opens access to external resources and/or helps get investment | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6 | Has a personal relationship with the company's key decision-maker | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7 | Has recommendation from contacts of the company's key decision-maker | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8 | Is committed to the business relationship with the company | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9 | Possesses new skills and competences for further expansion | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

- 4 Please indicate in the ☒ the extent to which the following RESOURCES ARE OBTAINED FROM BUSINESS RELATIONSHIPS for your company's foreign business development.

| | | NONE | | | | A GREAT DEAL | |
|----|--|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
| | | 1 | 2 | 3 | 4 | 5 | |
| 1 | Capital and financial resource | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | Physical resources (e.g. offices, plants, machines, equipment) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | Business reputation and status | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | Foreign market information and knowledge | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5 | General international business and management knowledge and skills | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6 | Technology and technical know-how | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7 | Foreign client/ customer/ other business contact networks | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8 | Foreign sales and distribution channels | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9 | New business ideas and opportunities | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 10 | Human resources | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

- 5 Please indicate in the ☒ the extent to which the following statements describe your company's BUSINESS RELATIONSHIP MANAGEMENT PRACTICES.

| | | Strongly DISAGREE | | | | Strongly AGREE | |
|-----------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--|
| | | 1 | 2 | 3 | 4 | 5 | |
| THE COMPANY... | | | | | | | |
| 1 | Has trained personnel and/or formal system to manage business relationships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | Promotes trust and long-term commitment in business relationships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | Seeks to be flexible and to accommodate partners when problems/ needs arise | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | Stresses the importance of mutual support between partners during adversity/ challenges in business relationships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5 | Plans networking activities based on business goals | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6 | Regularly evaluates and prioritizes business relationships according to their contributions to business goals | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7 | Regularly compares its functions, role, and power with those of the partners in business relationships | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8 | Regularly reviews and improves networking approaches in alignment with business goals | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

SECTION 4: PROFILE OF THE KEY DECISION-MAKER*

* Key decision-maker refers to the **KEY EXECUTIVE** who makes strategic decisions on the company's business development.

Please indicate in the ☒ the extent to which the following statements describe the key decision-maker of the company.

| | Strongly DISAGREE | 1 | 2 | 3 | 4 | Strongly AGREE |
|--|--------------------------|---|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 INDUSTRIAL EXPERIENCE – The Key Decision-maker... | | | | | | |
| 1 Has significant industrial experience | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Has significant product knowledge and experience of the industry | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Has significant foreign business experience in the industry | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Has significant management experience in the industry | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 Has significant sales and marketing experience in the industry | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 Has established good personal reputation and recognition in the industry | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 INTERNATIONAL BUSINESS VISION – The Key Decision-maker... | | | | | | |
| 1 Is very interested in developing foreign business | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Believes developing foreign business is essential to achieving business goals | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Believes the most attractive business opportunities lie in foreign markets | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Believes the company has to develop foreign business in order to succeed in the future | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 Finds it costs too many resources to develop foreign business | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 Finds the risks involved in developing foreign business are too great | <input type="checkbox"/> | | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

3 PERSONAL NETWORKS for business resources

Please indicate the extent to which the following **PERSONAL NETWORKS** of the key decision-maker **PROVIDE RESOURCES** (e.g. finance, human, information and knowledge, business contacts) for foreign business development.

| | None | | | | A Great Deal |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 Family, relatives, and personal friends | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 Past work colleagues (e.g. employers, co-workers) | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 Fellow members in participating clubs, associations, unions | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 Past industrial and business contacts in domestic market | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 Past industrial and business contacts in foreign market | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

4 EDUCATION AND INTERNATIONAL BACKGROUND – The Key Decision-maker has...

| | | | | |
|---|-----|--------------------------|----|--------------------------|
| 1 University degree or above | YES | <input type="checkbox"/> | NO | <input type="checkbox"/> |
| If YES, is it a business or management related degree? (e.g. business administration, finance, marketing, human resources) | YES | <input type="checkbox"/> | NO | <input type="checkbox"/> |
| If YES, does it relate to the industrial knowledge and technology of the company? | YES | <input type="checkbox"/> | NO | <input type="checkbox"/> |

2 (☒ ALL that apply)

Worked abroad ☐ Studied abroad ☐ Citizenship and/or Residence status in foreign country ☐

YEAR(S)

If any apply, please indicate the no. of year of the above stay(s) abroad: _____

If any apply, please specify the countries of the above stay(s) abroad: _____

5 What is the current position of the key decision-maker in the company? _____

6 Is the key decision-maker the founder/ owner of the company? YES ☐ NO ☐

**THANK YOU VERY MUCH FOR THE PRECIOUS TIME YOU DEVOTED TO
ANSWERING THIS QUESTIONNAIRE; AND FOR THE VALUABLE INFORMATION
YOU PROVIDED TO THE STUDY!**

**Please return the completed questionnaire in the enclosed pre-paid envelope, or
fax to (852) 26734080 at your earliest convenience.**

**If you wish to receive a summary of the study's findings, please write in the following space
Your Name, Company, Email and/or Postal Address**

Alternatively, you can send us your business card in a separate envelop to

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THE SCHOOL of
Business & Management

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尊敬的

香港中小企業海外業務拓展研究

貴公司寶貴的營商經驗，對這個研究十分重要。希望您願意花大概 10 至 15 分鐘完成這份問卷。總結調查結果後，我將十分樂意為貴公司提供其概要。

有關本次調查

我是英國格拉斯哥大學的博士研究員。作為土生土長的香港人，我希望通過這次研究，調查和展示香港中小企業在全球市場的競爭力。

因此，本次調查的重點在於了解香港中小企業拓展海外業務時，發展和管理業務網絡的主動性和能力。此外，本次調查還旨在找出管理人員哪些特質，最能影響企業在發展業務網絡和拓展業務上的表現。

所有獲邀請參與調查的公司，都已在海外業務上有一定的發展和表現。請注意，本問卷必須由您或貴公司其他主要決策者，或全面了解貴公司的業務網絡和海外業務拓展活動的人士填寫。

企業參與調查的得益

1. 調查結果將為貴公司在開發、管理和實踐業務網絡提供基準。此外，調查結果能夠為拓展海外業務建立業務網絡時，提供明確的建議和策略。
2. 您可以通過瞭解具備哪些特質的管理人員，以改善在建立業務網絡和拓展海外業務時的表現。
3. 本問卷依據廣泛、客觀和真實的經驗編製，能夠為貴公司在建立業務網絡和拓展海外業務，提供精簡又實際的評價。
4. 通過發表這次調查的結果，將有效吸引國際學者、行業從業員、以及政策制定人員對香港中小企業的注意力，從而幫助提升香港中小企業的總體國際商務形象。

資料的保密程度

所有資料均嚴格保密。在調查中或以後根據資料分析所撰寫的文章，將不會提及任何企業的名稱。此外，我們也不會問到具體的銷售額、盈利情況或其他任何業績數字。若您需要更多資料，請隨時聯絡鄧綺君 (Yee Kwan Tang) 電郵: y.tang.1@research.gla.ac.uk 或電話: +44(0)7766236328

請將填寫好的調查問卷放在所附的回郵信封中寄回。或傳真到 (852) 26734080

謝謝您的寶貴時間和參與！

祝 商祺

鄧綺君

英國格拉斯哥大學博士研究員

香港中小企業海外業務拓展之問卷調查

第一部分：貴公司概况

- 1 公司成立年份： _____
- 2 目前全職員工的數目： 香港： _____ 總數（包括香港，國內，海外）： _____
- 3 主要業務活動： 製造業 ☐ 服務業(包括貿易公司) ☐
- 4 主要產品/業務： _____
- 5 企業性質： 獨資經營 ☐ 合夥經營 ☐ 有限責任公司 ☐ 股份公司 ☐ 公開上市公司 ☐

第二部分：貴公司海外業務拓展程度

- 海外業務拓展活動包括出口、許可/特許經營、外包/分包、合作、合資以及海外獨資營運建設。
- 將香港和內地之間的跨境業務活動亦視同海外業務拓展。

- 1 貴公司開始海外業務活動的年份： _____
請具體說明是何種海外業務活動？ _____
請具體說明哪個海外國家？ _____
- 2 請以☐指出以下因素對貴公司開展海外業務活動時的影響度。
- | | 根本
不重要 | 1 | 2 | 3 | 4 | 5
非常
重要 |
|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 企業初創時的商業創意..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 主要決策者擴展業務的意願..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 回應主要商業夥伴（如：客戶、供應商、合作夥伴）的需求..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 響應政府的資助及推廣..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 回應主要競爭對手的商務活動..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 回應外來客戶主動的詢問和訂單..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 回應總體市場和行業的趨勢..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 主要決策者在海外國家有人際關係網絡..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 其他重要因素，請具體說明 _____ | | | | | | |
- 3 請說明貴公司迄今的海外業務活動（請☐選擇所有適用的選項）
- 1 產品及/或服務的直接出口..... ☐
- 2 海外許可及/或特許經營..... ☐
- 3 海外外包和分包業務活動..... ☐
- 4 海外協作，及/或合作（如：合資、聯盟）..... ☐
- 請具體說明協作及/或合作業務活動： 銷售和業務推廣 ☐ 研究和開發 ☐ 製造 ☐
- 5 海外獨資營運建設（如：辦事處、工廠、研究中心）..... ☐
- 6 其他，請具體說明 _____
- 4 請選擇貴公司在以下哪些海外國家/地區有業務活動（請☐選擇所有適用的選項）
- 中國內地 ☐ 澳門 ☐ 臺灣 ☐ 日本 ☐ 韓國 ☐ 東南亞 ☐ 非洲 ☐ 歐洲 ☐
- 中東 ☐ 澳洲及新西蘭 ☐ 北美洲 ☐ 南美洲 ☐ 其他，請具體說明： _____
- 5 請表示海外銷售額佔總銷售額的大致比例 _____ % 不適用 ☐

| | | | | | | | |
|---|-----------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------|
| 6 | 與同行業主要競爭對手相比, 請評價貴公司以下有關海外業務拓展的情況 | 非常 不理想 | | | | | 非常 理想 |
| | 貴公司... | 1 | 2 | 3 | 4 | 5 | |
| 1 | 在海外業務拓展的總體表現..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | 行業中作為「首選合作夥伴」的聲望..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | 與主要業務合作夥伴關係的穩定性..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | 主要業務合作夥伴在海外市場的競爭優勢..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

第三部分：貴公司為拓展海外業務而建立業務網絡的活動

| | | | | | | | |
|----|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|----------|
| 1 | 請以☐標明貴公司為拓展海外業務, 下列每項有關 <u>業務網絡</u> 的程度 | 非常 不同意 | | | | | 非常 同意 |
| | 貴公司... | 1 | 2 | 3 | 4 | 5 | |
| 1 | 將開發業務網絡視為實現拓展海外業務的目標時的關鍵活動..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | 積極參加關於拓展海外業務的建立業務網絡活動..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | 主動與現有或具潛力的海外業務合作夥伴建立業務網絡..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | 為拓展海外業務的業務網絡建立活動編訂具體預算和分配資源..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | 請以☐標明貴公司為拓展海外業務, <u>使用以下建立業務網絡的渠道</u> 的程度 | 根本 不用 | | | | | 非常 頻繁 |
| | | 1 | 2 | 3 | 4 | 5 | |
| 1 | 主要決策者的家人、親戚和私人朋友..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 2 | 主要決策者往職的工作和業務聯繫人..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 3 | 貴公司現任業務夥伴..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 4 | 代理商及中間人..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 5 | 本地交易會..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 6 | 海外交易會..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 7 | 本地貿易和行業協會..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 8 | 公司網站..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 9 | 華人宗親網絡（如：同鄉會、宗親會）..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 10 | 同行業企業（包括競爭對手）..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 11 | 本地政府部門 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 12 | 本地學術、研究及其它專業機構..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 13 | 網上市場..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 14 | 大眾廣播傳媒（如：雜誌、電視、電臺）..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 15 | 電話傳銷..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 16 | 海外貿易和行業協會..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 17 | 海外學術、研究及其它專業機構 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 18 | 普通員工的家人、親戚和私人朋友..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 19 | 普通員工往職的工作和業務聯繫人..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |
| 20 | 外國政府部門 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | |

3 請就下列合作夥伴的選擇標準，以☐標明其在貴公司決定海外業務拓展的關鍵業務關係時的重要性

| | 根本 不重要 | | | | 非常 重要 |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 該業務合作夥伴..... | | | | | |
| 1 能帶來即時業務收入及/或成本收益..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 能與貴公司的資源及/或技能互相補足 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 有拓展海外業務的共同遠見和目標 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 在國外有牢固的市場地位..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 能協助貴公司開發外在的資源及/或引進投資..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 與貴公司主要決策者有私人關係 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 經貴公司主要決策者的聯繫人推薦 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 一直與貴公司有可靠互信的業務來往..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 擁有貴公司未來拓展所需的新技術和新能力..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

4 請以☐標明貴公司在拓展海外業務時從業務關係中獲得以下資源的程度

| | 沒有 | | | | 很多 |
|-----------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 1 資金和財務資源..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 物質資源（如：辦公室、廠房、機器、設備）..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 商業聲譽和地位..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 海外市場訊息和知識..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 一般國際業務和管理的知識和技巧..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 科技和技術訣竅..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 海外客戶/其他業務關係網..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 海外銷售和分銷網絡..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 9 新業務創意和機會..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 10 人力資源..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

5 請以☐標明貴公司在下面每項有關業務關係管理的同意程度

| | 非常 不同意 | | | | 非常 同意 |
|------------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 貴公司... | | | | | |
| 1 擁有訓練有素的人員及/或正式系統對業務關係進行管理..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 倡導業務關係的互信和長期承諾..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 在發生問題/需求時,尋求靈活處理,並儘量配合合作夥伴..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 在業務關係處於逆境/面臨挑戰時,強調合作夥伴間相互支援的重要性 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 根據業務目標規劃業務網絡構建活動..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 根據對業務目標的貢獻,定期評價業務關係並進行優先排序 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 7 定期比較貴公司與合作夥伴在業務關係中的功能、角色和實力..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 8 定期對照業務目標、實現復查和改善貴公司建立業務關係網的方針.. | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

第四部分：貴公司的主要決策者概況*

*主要決策者指就企業業務發展制定策略的主要行政人員

請選擇以下每項說法在何種程度上能描述貴公司的主要決策者

| | 非常 不同意 | | | | 非常 同意 |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | 1 | 2 | 3 | 4 | 5 |
| 1 行業經驗－貴公司的主要決策者..... | | | | | |
| 1 擁有本行業豐富的工作經驗..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 擁有本行業產品豐富的專業知識和經驗..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 擁有本行業豐富的海外業務經驗..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 擁有本行業豐富的管理經驗..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 擁有本行業豐富的銷售和業務推廣的經驗 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 在本行業已樹立良好的個人聲望和知名度..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 國際業務遠見－貴公司的主要決策者..... | | | | | |
| 1 對發展海外業務非常感興趣 | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 相信發展海外業務為實現業務目標的必須條件..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 相信最吸引的商業機會就在海外市場..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 相信公司要在未來取得成功，必須拓展海外業務..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 認為拓展海外業務需要太多公司內部資源..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 6 認為拓展海外業務的風險太大..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

3 主要決策者的人事關係網絡

請就以下主要決策者的人事關係網絡,選擇其對貴公司拓展海外業務時，能夠提供資源的程度（如：財務、人力、資訊、業務聯繫）

| | 沒有 | | | | 很多 |
|------------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| 1 家人、親戚和私人朋友..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 2 舊同事（如：僱主、同事）..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 3 曾經/現在參加的俱樂部、協會、聯合會的會員..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 4 在國內市場的行業和商務聯繫人..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |
| 5 在國外市場的行業和商務聯繫人..... | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> | <input type="checkbox"/> |

4 學歷及國際背景－貴公司的主要決策者.....

| | | |
|--|----------------------------|----------------------------|
| 1 具有大學或以上學歷..... | 是 <input type="checkbox"/> | 否 <input type="checkbox"/> |
| 若有，是商務或管理學學位嗎？(如：工商管理、金融管理、人力資源管理等) .. | 是 <input type="checkbox"/> | 否 <input type="checkbox"/> |
| 若有，是不是跟本行業的專業技術有關的呢？..... | 是 <input type="checkbox"/> | 否 <input type="checkbox"/> |

2 （請選擇所有適用選項）

| | | |
|----------------------------------|-----------------------------------|---|
| 曾經在海外工作 <input type="checkbox"/> | 曾經在海外學習過 <input type="checkbox"/> | 持有外國公民身份及/或居住證 <input type="checkbox"/> |
| 若適用, 請說明在海外居住的總年期 | 年 | |
| 若適用, 請具體說明在海外居住的國家 | | |

5 主要決策者在公司內目前擔任什麼職務？

| | | |
|-------------------------|----------------------------|----------------------------|
| 6 主要決策者是不是公司的創始人及/或持有人？ | 是 <input type="checkbox"/> | 否 <input type="checkbox"/> |
|-------------------------|----------------------------|----------------------------|

**非常感謝您花費寶貴時間回答問卷，
並為本項研究提供寶貴資料！**

請將填寫完畢的問卷放在所附的回郵信封中寄回

或傳真到 (852) 26734080

若您希望獲得本項研究結果的概要，

請在下面寫上您的姓名、公司名稱、電子郵件及/或郵政地址

您也可以向我們另函郵寄您的名片：

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U.K.**

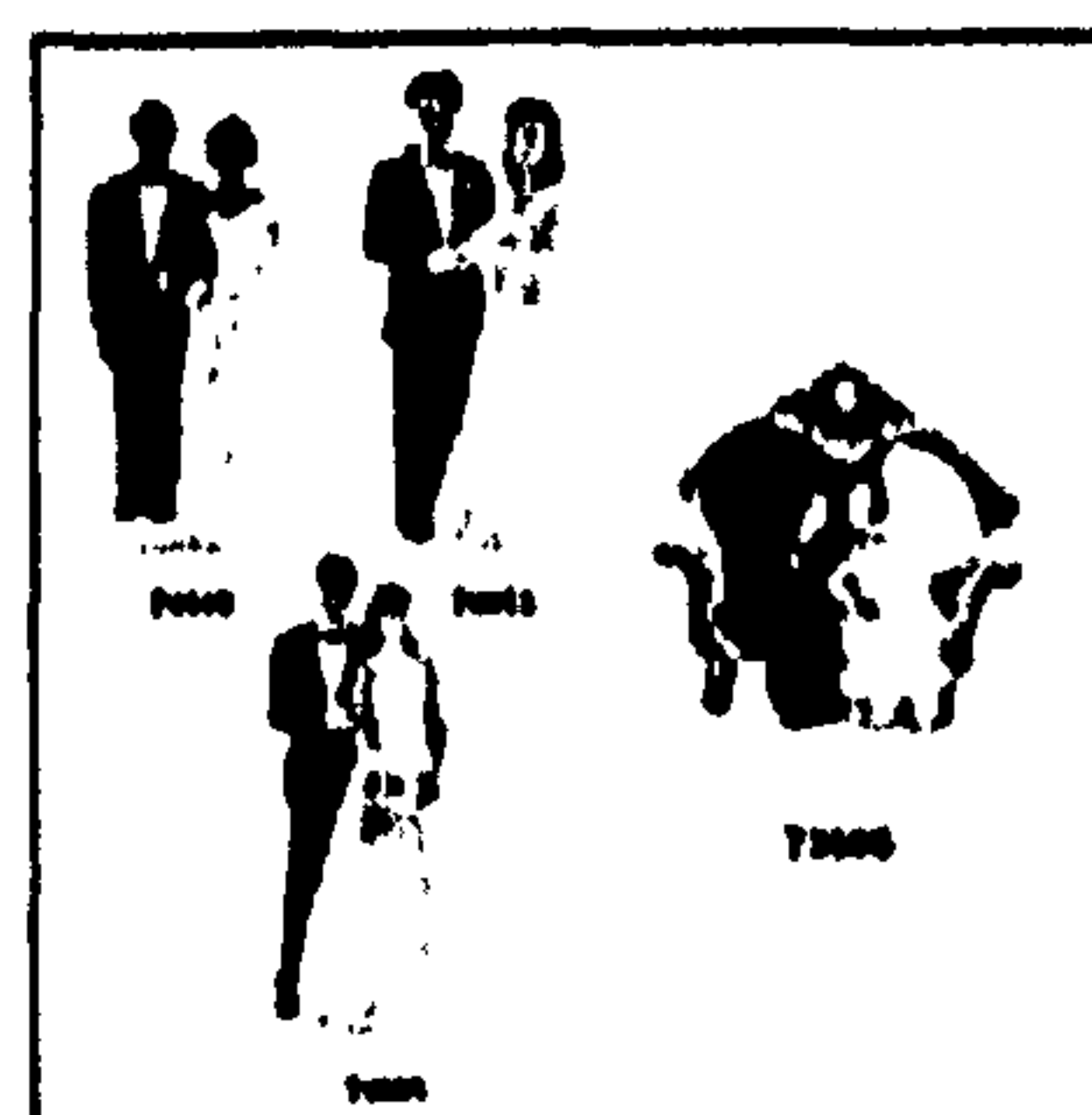
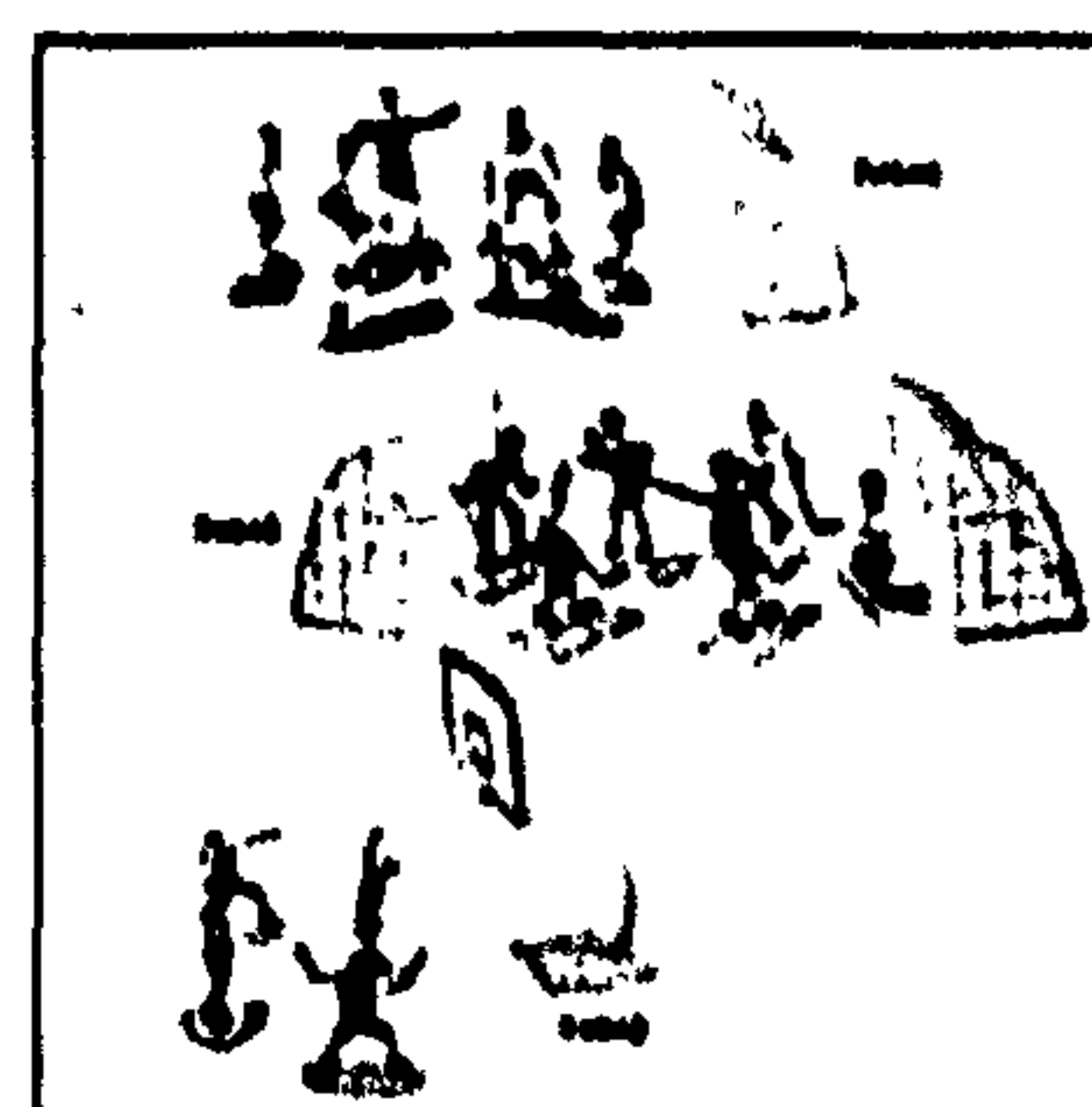
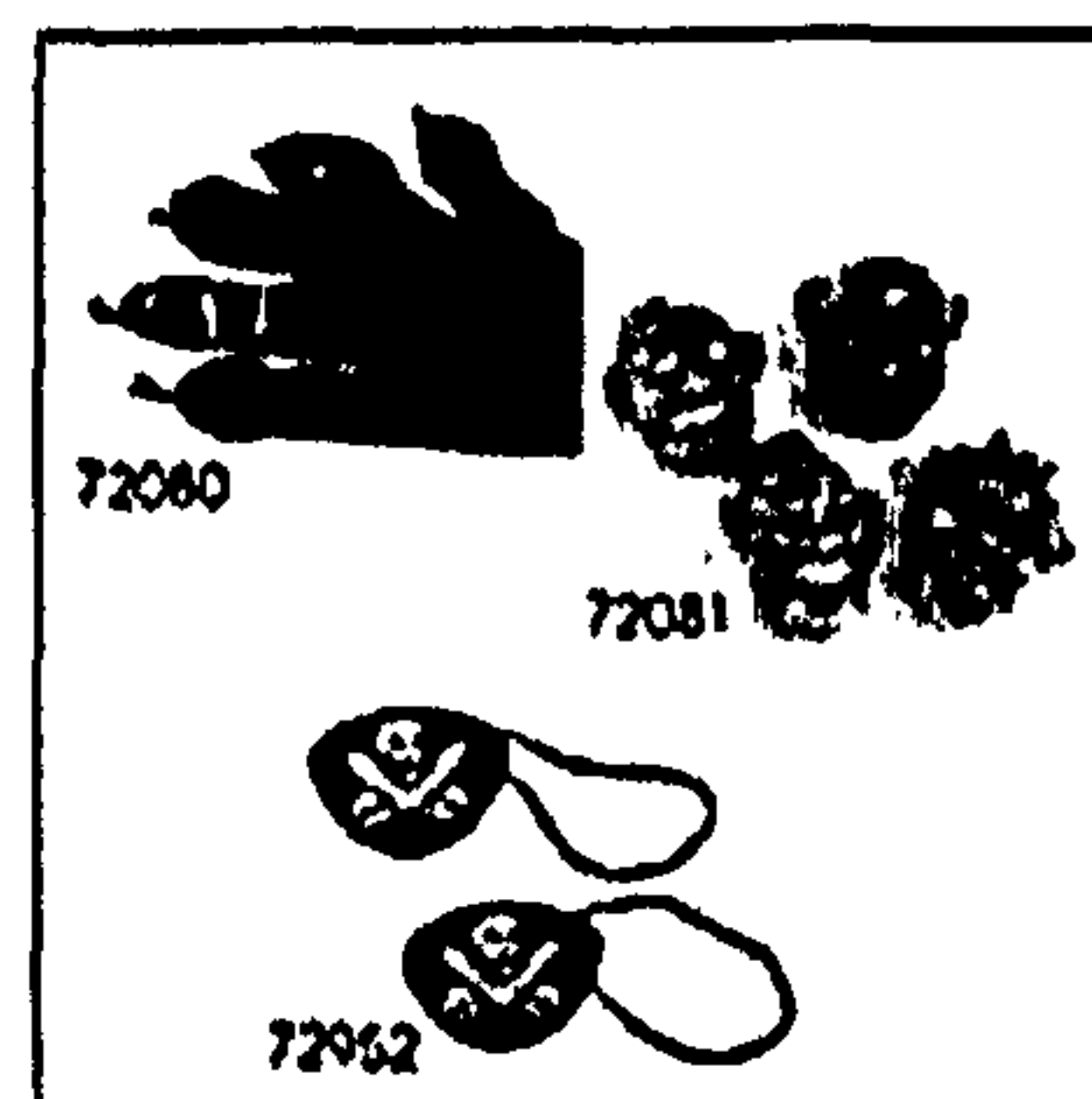
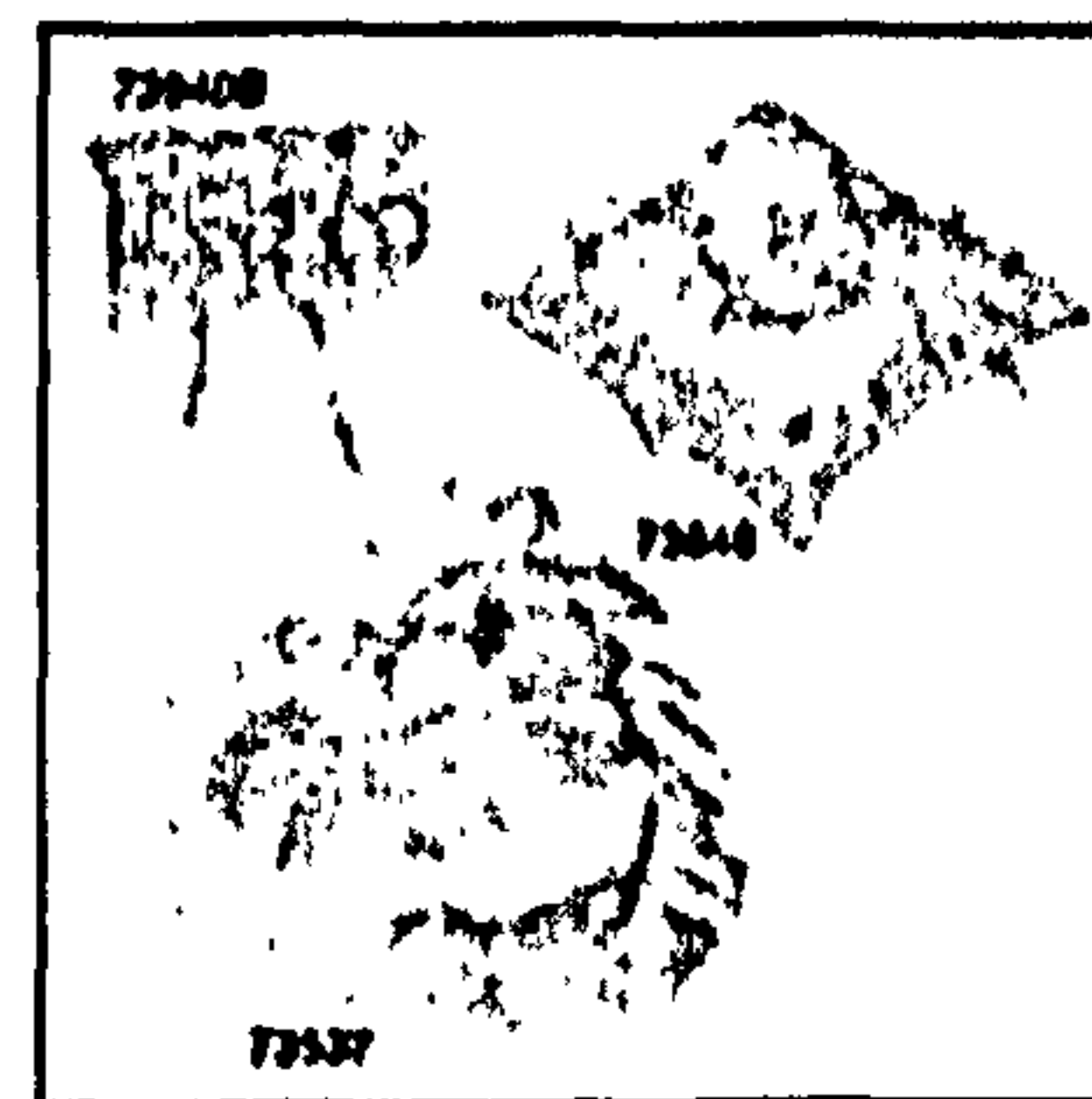
Appendix 6: A Sample Company Record of the HKTDC Sourcing Directory

MTC (HK) Ltd - Hong Kong



Premier Supplier

Print This Page



Background : MTC (HK) LTD is a name for party products at the best value. Based in HK, MTC manufactures and exports a comprehensive and exciting range of party favours, animal, toys as well as other novelties. We endeavor to offer professional one-stop shop service from design to production and quality control. By applying our rich market experience and introducing new production techniques, products of MTC are renowned for our defect-free quality. We add new designs to our range regularly to keep ourselves abreast of the market development. Your original design ideas are also welcome.

Year Established : 1993

No. of Staff : 11-15

Nature of Business : Exporter

Office Address : Units 1010-15,
Peninsular Tower,
538 Castle Peak Rd.,
Cheung Sha Wan, Kln., HK.

E-Mail : mtc@mtc-hk.com.hk ☒ Enquire Now

Website : www.mtc-hk.com.hk
www.tdctrade.com/mtc

Telephone : 852-24133303

Fax : 852-24133306

Contact Person : Ms. Iris Ng

Position : Executive Manager

Industry : Gifts, Premiums & Hobbies

Product/Service Range : Party favours, novelty toys, animal figurine, gift package, carnival & seasonal decorations

Annual Turnover : US\$ 10,000,000 - 49,999,999

Major Export Market : Australasia
North America
Western Europe

Brand Name : MTC

