

# Chapter 60

## Factors Driving Firms from Emerging Countries into the Global Market: The Case of Chinese SMEs Entering the North East of England

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### ABSTRACT

*The purpose of this chapter is to identify the key factors that explain the decision of Chinese small and medium sized enterprises' (CSMEs) investment into the North East of England. The authors conducted 23 semi-structured interviews with key decision makers of Chinese SMEs that have business operations in the North East of England. It has been found that there are four major categories of factors that drive Chinese SMEs' investment into the North East of England: 1) resource-based factors; 2) home and host institutional factors; 3) network factors; and 4) international entrepreneurial factors. The findings have policy implications for both the governments of the UK and China, as well as managerial implications for future Chinese investors. This chapter provides fresh explanation of Chinese SMEs' investment into a developed economy.*

### INTRODUCTION

The UK has a long history of attracting East Asian investment (Garrahan & Ritchie, 1999). Within the UK, the North East England is ranked the second largest region in terms of the volume of inward foreign direct investment after London (Burghart & Rossi, 2009). Research on the phenomenon of Chinese out-

DOI: 10.4018/978-1-7998-1760-4.ch060

ward foreign direct investment is still at infancy stage. While the motives of large Chinese state-owned enterprises entering developed markets are becoming clear (asset seeking and home government support), why Chinese small and medium-sized enterprises (SMEs) expand their business into developed markets is not yet known. The literature is primarily developed on the basis of two theoretical frameworks: resource-based view and institution-based view. There are two limitations of the existing Chinese outward direct investment literature. First, most studies have focused on Chinese state-owned enterprises, such as Lenovo, Huawei, TCL and Haier. Despite the rapid growth of Chinese Small and Medium-sized Enterprises (SMEs) and their business activities in the international markets (Anderson et al., 2003; Clegg & Voss, 2012; Liu, Xiao, & Huang, 2008), only a few empirical studies have examined Chinese SMEs' overseas business venturing (Boisot & Meyer, 2008; Liu et al., 2008). Very little research has been conducted on Chinese SMEs' investment in the developed economies (Liu et al., 2008). Second, much of the literature is dominated by the theoretical approaches based on resource-based view and institution-based view with limited attention given to other key international management theories such as network and international entrepreneurship theories. This is surprising because network ties play a significant role in facilitating Chinese firms to venture overseas markets, particularly for Chinese SMEs (Lin, 2010; Zhou, 2007) and international entrepreneurship has also been identified as an important factor influencing Chinese SMEs' entry to international markets (Liu et al., 2008).

The aim of this chapter is to explore the factors that drive Chinese SMEs to invest in the Northeast of England. Specifically, the chapter uses a qualitative research method by interviewing business leaders from Chinese SMEs operating in the Northeast of England to explore potential driving factors such as resources, social network, institution, and international entrepreneurship. In the following sections, a review of the literature was conducted on the extant theories of firm internationalisation and international entrepreneurship. The next section outlines the methodology. Thereafter, research findings were presented. Finally, the chapter provides the managerial implications and suggestions for future research.

## **BACKGROUND**

The extant international management literature is dominated with studies of mature multinational corporations, whereas research on the internationalisation of SMEs is only a recent endeavour (Ruzzier, Hisrich, & Antoncic, 2006). To build a holistic theoretical framework, a review of the major theories explaining firm's motivation for internationalisation was conducted: resource-based view, institution-based view, network theory, followed by a review of the international entrepreneurship theory, which is particularly relevant for the internationalisation of SMEs.

### **Resource-Based View and Social Network Theory**

Resource-based view suggests that firms that possess resources that are valuable and rare would attain a competitive advantage (Barney, 2001). To sustain its advantages over time these resources must be inimitable and non-substitutable. It is the firm's distinctive competence in making better use of its resources that create competitive advantage (Mahoney & Pandian, 1992).

From resource-based view, Dunning (2001) advocates that ownership advantages (O-advantages) determine firms' internationalisation. These O-advantages, such as unique resources, can be exploited when entering foreign markets to support the firms' international activities. Based on the mainstream

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