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The impact of network relationships on internationalization process: An empirical study of Chinese private enterprises

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Abstract Chinese private enterprises have been internationalizing rapidly during the last two decades. This study adopts a network approach to examine what factors affect the internationalization process of Chinese private enterprises. Our survey of 108 private Chinese enterprises in the manufacturing sector in Zhejiang province in southeastern China revealed that business networks and personal networks affect the internationalization activities of Chinese private enterprises. Specifically, business networks have a positive impact on the timing of the first foreign market entry, the internationalization pace, and resource commitments, whereas personal networks have a positive impact on the internationalization pace and resource commitments, but not on the timing of the first foreign market entry. In this paper, we report our findings of our survey, discuss the contribution that this study makes to the existing internationalization literature, and suggest future research directions. Policy implications on how to facilitate the internationalization process are also discussed.

Keywords Chinese private enterprises · Network relationships · Internationalization

Research on internationalization has traditionally focused on multinational enterprises (MNEs) from Western countries. The rise of Asian MNEs in recent years has attracted research attention (e.g., Mathews, 2006; Sim & Pandian, 2003). While research on Asian MNEs is growing, relatively little is known about the nature of their internationalization processes. In particular, traditional theories have largely overlooked the contextual perspective in the internationalization of firms from emerging economies in Asia. It is important to investigate Asian MNEs in the context

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of institutional and socio-cultural embeddedness (Sim & Pandian, 2003). The internationalization of Asian firms tends to be organized through a wide range of social and ethnic networks. Chinese businesses and their international operations, in particular, are run based on a set of beliefs and values known as the "Spirit of Chinese Capitalism" (Redding, 1990). In searching for the theoretical explanation of the rapid growth of foreign direct investment (FDI) from emerging economies, Yiu, Lau, and Bruton (2007) integrated both asset-exploitation and asset-seeking perspectives and proposed that the firm-specific ownership advantages of emerging market firms should be extended to include relational assets derived from network ties. Either the specific ownership advantages of the firm or the specific institutional factors of the emerging economies motivate firms to pursue outward FDI.

Xie and Amine (2009) found that one of the major drivers of internationalization among Chinese privately owned small and medium-sized enterprises (SMEs) is their accessibility through social networks, both at home and abroad, to information and advice about foreign markets. According to Rauch and Trindade (2002), ethnic Chinese networks have significant impact on bilateral trade between countries, as they provide market information and matching and referral services, and they also act as community enforcement of sanctions that could deter opportunistic behaviors. However, very few empirical studies conducted focus on examination of the effect of host country network on internationalization.

With the surge of outward FDI from China in the last decade, researchers have called for more studies on the internationalization of Chinese firms (Morck, Yeung, & Zhao, 2008). The existing literature on internationalization of Chinese enterprises, however, has mainly focused on the internationalization of large state-owned enterprises (SOEs) (e.g., Child & Rodrigues, 2005), with special attention given to the so-called "national champions" (Zeng & Williamson, 2003). Although SOEs still play a dominant role in China's outward FDI, the emerging role of private enterprises cannot be ignored. In June 2007, the total exports of private enterprises exceeded the total exports of SOEs for the first time (MOFCOM, 2007). Therefore, as Liu, Xiao, and Huang (2008) argued, instead of focusing on the internationalization process of "national champions," researchers need to understand how Chinese private enterprises go international. Similarly, Li and Matlay (2006) called for studies that explore the internationalization tendencies of private enterprises from China. Chinese private MNCs are found to behave differently from their state-owned counterparts along major dimensions, such as internationalization motivation, entry strategy, and managerial capabilities (Lin, 2010). Distinguishing private MNCs from state MNCs in the study of internationalization of Chinese firms can be an important approach to theory development.

Since the economic reforms began in 1978, China's economy has experienced fundamental changes, moving from a planned economy to a mixed economy in which the private sector plays a significant role. However, not until 1999 did the private sector receive formal recognition in China when a constitutional amendment, the Tentative Stipulations on Private Enterprises, was passed. By 1998, China's private sector had already grown to around 33 % of the gross domestic product (GDP). According to the most recent National Economic Census, the number of China's private enterprises increased by over 80 % in the 2004–2008 period (*China View*, 25 December 2009). By the end of 2008, China had 3.596 million private enterprises, which accounted for about 72.5 % of all business entities. Recent data shows that private enterprises generate about 50 % of the GDP and that they are the primary source of employment generation in China (*China Daily*, 2011).

Unlike SOEs, private enterprises face disadvantages in market competition due to resource constraints, such as lack of financial, managerial, and technological resources, as well as lack of established brands and innovative products (Aulakh, Kotabe, & Teegen, 2000). Additionally, the barriers for small firms to access external financial resources are high owing to the underdeveloped financial market (Wu, Song, & Zhen, 2008). Due to these constraints, private enterprises may seek alternative resources to compensate for their disadvantages. Network relationships, a critical cultural and social element in China, can provide important information and resources (e.g., Luo, 2003; Park & Luo, 2001; Xin & Pearce, 1996). Inter-personal ties and social relationships are important for private enterprises not only in terms of developing competitive advantages over larger state-owned firms and foreign competitors (Siu, 2001), but also in terms of breaking into international markets (Xie & Amine, 2009). A network perspective has been found as one of the important explanations for the internationalization of private Chinese firms, a promising area for future research (Ning & Sutherland, 2012; Sutherland & Ning, 2011).

Based on a sample of 1,355 Chinese private enterprises, Luo, Zhao, Wang, and Xi (2011b) found the initial evidence that the internationalization of Chinese private enterprises was driven by dual strategic intents, seeking the exploitation of firm-specific advantages, such as corporate governance, inherited advantage from mergers and acquisitions of state-owned companies, and inward internationalization, and simultaneously circumventing market imperfection residuals embedded in home country economic transformation.

The number of studies examining how Chinese private enterprises undertake internationalization is very limited, and more often they offer differing observations on the process. Liu et al. (2008) found that their sample of private enterprises chose their entry modes more or less with successively greater control. Rui and Yip (2008), on the other hand, found that large private enterprises, rather than expanding through sequential stages of international expansion, achieve their strategic objectives for internationalization by using cross-border acquisitions.

In this study, we seek to understand how network relationships help Chinese private enterprises overcome their latecomer disadvantages and resource limitations when venturing internationally. Our contributions to the existing literature of internationalization include the following areas: (1) We examine and demonstrate how network relations impact the process of internationalization of Chinese private enterprises; (2) We extend the notion of personal networks to incorporate both home country networks and host country networks, and expand our understanding of social network ties beyond domestic settings by including overseas family members and ethnic groups; (3) We provide quantitative evidence based on an empirical study of 108 private enterprises, shedding light on our understanding of the strategic decisions of private enterprises in expanding overseas; and (4) The process of internationalization of Chine private enterprises is examined in-depth in terms of the timing of the first foreign market entry, the pace of internationalization, and resource commitments specifically and simultaneously.

The remainder of this paper is structured as follows. First, we review the literature on internationalization from a network perspective and propose relevant hypotheses.

Second, the data collection process, data analyses, and results are described in the methodology section. Third, this paper concludes with a discussion on the results and their implications, as well as offering suggestions for directions for future research.

The network perspective on internationalization

There are generally three lines of internationalization research: one based on FDI theory (e.g., Dunning, 1988), one based on behavioral models of stages (e.g., Johanson & Wiedersheim-Paul, 1975), and one based on relationship models and the network perspective (e.g., Johanson & Mattsson, 1988; Sharma, 1992). As a relatively recent stream of research on internationalization, the network perspective draws upon social exchange and resource dependency theories and focuses on firms' internationalization activities in the context of interorganizational and interpersonal relationships. Recent studies show that network relations (interchangeably as *guanxi*) constitute an important source of firm specific advantages of MNEs from emerging economies, representing unique and inimitable human and organizational capital. It is an indispensable element of any generalized theory of internationalization process (Xie & Amine, 2009). Such network relationships may involve business (formal) networks that include customers, suppliers, business partners, and governments, as well as personal (informal) networks that include family members, friends, and so forth.

In a network context, Johanson and Mattsson (1993: 306) defined internationalization as "a cumulative process, in which relationships are continually established, maintained, developed, broken and dissolved in order to achieve the objectives of the firm." Similarly, Johanson and Vahlne (1992) noted that internationalization is a gradual process in which relationships are developed and/or maintained over time as a result of interactions between parties. Sharma and Johanson (1987) reported that network relationships become "bridges to foreign markets" and provide connected firms with both opportunities and motivations to internationalize.

Empirical studies have provided evidence that the internationalization behaviors of many firms can be explained by the formation and utilization of network relationships (e.g., Coviello & Munro, 1997; Johanson & Vahlne, 1992). Firms' network ties with key suppliers, financial institutions, and local governments enable firms to access various resources that have impacts on their international expansion (Liang, Lu, & Wang, 2012). Based on a case study of the software industry in New Zealand, Coviello and Munro (1997) found that both formal and informal network relationships have impact on various aspects of the internationalization process, including foreign market selection, entry mode, product development, and market diversification activities. Johanson and Vahlne (2003) also confirmed that learning from and building trust with network partners can change the perceived psychic distance that would in turn influence market entry decisions. In addition, in a study of small- and medium-sized manufacturing firms in New Zealand, Chetty and Holm (2000) employed Johanson and Mattsson's (1988) network-based model of internationalization to explore how firms utilize business networks while they internationalize. Their results indicated that firms interact with business partners to penetrate, integrate, and extend international markets. Bonaccorsi (1992) also argued that network relationships such as buyer-seller relationships are used by small firms to trade and acquire information, which in turn enhances the speed of export entries.

Social networks are found to play an important role in the internationalization process (Ellis, 2000; Ellis & Pecotich, 2001; Zhao & Hsu, 2007; Zhou, Wu, & Luo, 2007). Zhou et al. (2007) contended that social networks would bring information benefits in three areas and positively mediate the relationship between internationalization and performance. First, social networks "play the role of 'infomediaries' in facilitating exchange of the most valuable information" (Zhou et al., 2007: 677), thus enhancing the awareness of foreign market opportunities. Second, social network ties in the context of internationalization provide tacit knowledge about international business practices and help broaden international vision, thus promoting advice and experiential learning about cross-border business operations. Third, social networks bring referral trust and solidarity, which can be an effective means to enhance legitimacy and credibility. This is because social networks can serve as important referral for endorsement and assurance of economic transactions with the third parties.

Social networks are particularly valuable for MNEs from emerging markets when investing overseas. Luo and Rui (2009) posed an ambidexterity perspective on international expansion when examining the phenomenon of surging outward FDI by enterprises from emerging market and developing countries. Under their multidimensional conceptualization of ambidexterity, they argued that emerging market MNEs are more salient than counterparts from advanced countries in possession and exploitation of relationship capabilities. "Relationship competence overseas can compensate emerging marker MNEs' liability of lateness and foreignness and their weakness of transactional competence vis-à-vis more established indigenous firms" (Luo & Rui, 2009: 54). Relational capabilities enable emerging market MNEs to obtain a wide array of information, forge global cooperative alliances, and consolidate their positions in the host country.

Hypotheses development

Networking and timing of the first foreign market entry

Economic liberation and foreign trade policy reforms have facilitated the internationalization of Chinese private enterprises (Xie & Amine, 2009). Prior to 1999, private enterprises in China were allowed to conduct international business only via designated state-owned trading companies. After January 1, 1999, private enterprises could apply for import and export licenses from the Ministry of Foreign Trade and Economic Cooperation of China. After China's accession to the World Trade Organization (WTO) in 2001, the licensing system was further replaced by a registration system (Li, 2003). Since then, Chinese private enterprises have more autonomy in trading with foreign companies, as long as they meet the required conditions such as registration, size, and financial competency.

Early entry decisions into international markets require comprehensive market information. Because of the strategic significance of the timing of entry (Lieberman & Montgomery, 1998), obtaining market information and knowledge quickly and identifying potential business opportunities in a timely manner become critical. The possession of various network relationships is likely to prompt Chinese private enterprises to make quick foreign market entry decisions for the following reasons.

First of all, formal business network relationships allow Chinese private enterprises to identify opportunities quickly when they arise. Because of China's massive domestic market and low labor cost among other factors, China has become the world's second largest recipient of inward FDI. Researchers have long recognized the impact of inward FDI on the internationalization process of firms from emerging economies (Luo & Tung, 2007; Young, Huang, & McDermott, 1996). Private enterprises may benefit from their business network relationships with foreign-invested enterprises (Hitt, Li, & Worthington, 2005; Meyer, 2004). Private enterprises may participate in the global value chain by acting as an original equipment manufacturing (OEM) provider for foreign MNEs. Establishing joint ventures or strategic alliance relationships with foreign firms provides private enterprises with valuable global information and market knowledge needed for early entry decisions. Such information may not be easily available in the open market. Network ties with various levels of government may also improve the internationalization process of private enterprises, especially because foreign trade and investment were largely controlled by SOEs at the early stage of China's economic reforms (Xie & Amine, 2009). Relationships with the government not only enhance a company's ability to speed up administrative processes (Tsui & Farh, 1997), but they also reduce search costs related to information on foreign markets and product standards.

Second, informal personal network relationships allow Chinese private enterprises to obtain reliable and trustworthy market information that is needed to overcome the potential risks associated with early foreign market entry. In China, an environment characterized by bureaucratic hierarchies, public information regarding government policies and regulations of foreign trade is sometimes unreliable, inaccurate, and inaccessible (Tan, 1996; Xin & Pearce, 1996). A manager's personal ties developed through informal social networks can assist in early entry by obtaining more accurate and reliable information. Xie and Amine (2009) found that social networks answered Chinese private enterprises' needs for information as well as assisting in their decision making about internationalization. In addition to information search and acquisition within the domestic environment, ethnic ties, especially embedded in foreign countries, also provide valuable sources of information for managers to identify business opportunities (Boisot & Child, 1996). We therefore hypothesize that:

Hypothesis 1a The greater the extent of business networks, the earlier a private enterprise will make its first foreign market entry.

Hypothesis 1b The greater the extent of personal networks, the earlier a private enterprise will make its first foreign market entry.

Networking and the pace of internationalization

As latecomers in the global economy, Chinese private enterprises may not necessarily follow the incremental approach to internationalization; instead, they may jump stages or leap forward (Luo & Tung, 2007). Even though they were permitted to export to overseas markets directly only a decade ago, Chinese private enterprises are internationalizing rapidly. For instance, Galanz, a private microwave oven company from Guangzhou province, became the world's largest microwave oven producer and China's second largest exporter in the home appliances industry in less than ten years (Ge & Ding, 2008). One of the key factors for the rapid internationalization of Galanz was its relationship with around 250 foreign MNEs via OEM.

Another example is Huawei Technologies, the largest privately-owned telecommunications equipment manufacturer in China. To facilitate its exponential international expansion, it adopted a strategy of forming global partnerships with leading players in the industry (Luo et al., 2011a). This strategy allows Huawei to leverage its partners' technology by internalizing it, which proves to be an efficient and cost-effective method than developing the technology in-house. According to Mathews (2006), such linkages play a significant role in driving the international expansion of Asian MNEs. In the following sections, we discuss how network relationships impact the pace of internationalization.

Jones (1999) found that the rate of internationalization is determined by experiential knowledge gained via network relationships. From the social capital point of view, it is argued that experiential learning can be replaced by network learning. Arenius (2005) suggested that internationalizing firms can utilize their social capital to access their network partners' foreign market knowledge. Similarly, Welch and Welch (1996: 12) noted that "the development and utilization of foreign networks is closely related to the learning process that underlies overall internationalization. Indeed, an important part of a company's knowledge is often created and maintained through actors in its relevant networks." Networking also allows private enterprises to utilize the existing networks of their buyers, suppliers, and even competitors who have already been established in international markets. In this way, private enterprises are able to quickly identify foreign market opportunities and thus pursue them in a short time frame. Previous empirical studies also support this argument. For instance, Bonaccorsi (1992) and Coviello and Munro (1997) reported that network relationships have contributed significantly to the rapidity of firms' export entries. Coviello and Munro (1995) found that firms are able to internationalize very rapidly by connecting themselves to extensive established business networks.

In his study of early internationalization of born-global firms, Zhou (2007) found empirical evidence that foreign market knowledge leads to a faster pace of born-global internationalization, which is facilitated by international entrepreneurial proclivity. Proactive and innovative entrepreneurs, with forward-looking perspective in search of market opportunities, actively seek knowledge about international market, potential customers and competitors, and issues of operation across national borders, which speed up the pace of internationalization. In the case of Chinese private entrepreneurs, it is expected that they rely heavily on social networks, seeking international market knowledge and information, making informed decisions, and planning effectively for overseas expansion (Xie & Amine, 2009).

The global development of private enterprises may rely substantially on ethnic ties. Ethnic advantages in terms of, for instance, trust and credibility developed through overseas Chinese networks create numerous benefits for Chinese private enterprises, such as facilitating the building of international relationships, offering foreign market information, and internal financing (Ahlstrom, Young, Chan, & Bruton, 2004). In addition, Hodder (1996) noted that informal network ties play a key role in transactions among overseas Chinese businesses. For instance, ethnic-based ties have been found to be important in terms of the development of small businesses in various locations, including among the Chinese in Southeast Asia (Yeung, 1999, 2006). Ethnic ties also provide alternative financial resources when it is difficult to obtain funding through formal channels. One of the discernible advantages of this alternative financial capital is flexibility. These alternative sources of financial capital enable private enterprises to respond to the changing environment and new opportunities quickly. Hence, we hypothesize that:

Hypothesis 2a The greater the extent of business networks, the greater the likelihood a private enterprise will internationalize at a faster pace.

Hypothesis 2b The greater the extent of personal networks, the greater the likelihood a private enterprise will internationalize at a faster pace.

Networking and resource commitment

Different from their state-owned counterparts that have strong government support, Chinese private enterprises are usually cautious about their commitment to international markets because of uncertainty. Networking can help firms reduce the anxiety caused by uncertainty by reducing external dependences (Pfeffer & Salancik, 1978). Managers act as a bridge that links the external environment and the firm, by forming inter-personal connections through which they are able to link to a wider range of individuals and organizations. Such network connections ease private enterprises' anxiety so that they commit more resources to international operations in the following ways.

First of all, networks expand information and the knowledge base of a firm by widening the sweep of environmental scanning as well as by linking complementary market knowledge and experience from external sources. Uncertainty thus can be reduced by familiarity cultivated through managers' networking in terms of helping firms to access local market knowledge and to obtain relevant business information (Chetty & Patterson, 2002; Coviello & Munro, 1995). Network relationships established through formal jobs (Wank, 1996), schooling, as well as other informally networked peer groups provide various venues for exchanging and processing information, which eventually eases the effect of uncertainties that managers have in their decisionmaking processes. Firms are thus willing to commit more resources to international activities when networks help them overcome anxiety about the risks associated with uncertain environments.

Second, resource constraints limit Chinese private enterprises' commitment to overseas markets. These firms are usually constrained by size-related disadvantages and obstacles in securing external financial resources. Managers' business networking can provide the necessary means to overcome the liability of smallness and financial constraints in a number of ways. International venturing typically requires large amounts of financial or capital investment. However, according to Peng (2003), banking systems in China mainly focus on delivering financing to large SOEs and offer fewer loans to private enterprises. Private enterprises can utilize business network relationships to gain external legitimacy. The resource-based perspective of firms views legitimacy as a resource for organizations to obtain and exchange crucial resources. Private enterprises can acquire legitimacy and mobilize resources by cultivating relationships with government bodies and officials who control resource allocations. Moreover, availability of loans from banks and other financial institutions will be significantly enhanced if private enterprises are perceived to be legitimate and credible.

Moreover, managers' personal networks through family members and friends, both domestic and overseas, could also serve as a source of financing. From a sociological point of view, family ties and social backgrounds can have impact on the availability of investment capital from relatives (Porters & Zhou, 1992). Krug (2002) also reported that family members and friends can provide financial support for early development of private enterprises in China. Cardoza and Fornes (2011) found that funds from private sources are key for Chinese SMEs to cross the country's borders. Increasing availability of financial resources gained from networking thus enables private enterprises to commit more resources to overseas ventures. Hence, we hypothesize that:

Hypothesis 3a The greater the extent of business networks, the greater the resource commitment a private enterprise is willing to make to foreign markets.

Hypothesis 3b The greater the extent of personal networks, the greater the resource commitment a private enterprise is willing to make to foreign markets.

Methodology

Sample selection and data collection

Data for this study were collected on private enterprises in the manufacturing industry located in Zhejiang province (adjacent to Shanghai), one of the most economically developed provinces along the east coast of China. Zhejiang province was chosen for this study because it has a vibrant private sector. Zhejiang tops among all the provinces in the country in terms of total output value, total sales volume, and foreign currency earnings from export by private enterprises (Zhejiang Online Technology Transfer Center, 2006). In 2008, nearly 45 % of Zhejiang province's total exports were from the private sector (Zhejiang Statistical Yearbook, 2008). Firms from Zhejiang are typically regarded as entrepreneurial and internationally orientated. Zhejiang province is also known for its vast number of people who migrate. For example, Wenzhou, a coastal city in Zhejiang province, has a big number of migrants in almost every corner of the world and they have established more than 230 overseas Chinese associations that form a global network for business (*China Daily*, 2010). Therefore, we believe that private enterprises in Zhejiang provide an appropriate research platform for us to examine the internationalization of Chinese private enterprises from a network perspective.

The initial survey questionnaire was prepared in English based on a literature review. It included all the measures considered pertinent to this study, as well as demographic information of the firms. Following the translation-back-translation method (Brislin, 1970), the English questionnaire was translated into Chinese by the first author and translated back into English by the second author. Both authors are bilingual. The two authors then compared the English versions and discrepancies were resolved.

Before we conducted a full survey, we ran a pilot study based on in-depth interviews with three top managers in three Chinese private enterprises that had several years of international involvement. Face-to-face interviews are particularly helpful in terms of understanding emergent phenomena and uncovering associations between key constructs. Conducting face-to-face interviews with top managers as an initial step towards a survey-based study also provides sound qualitative evidence regarding the content validity of the key variables. After the interviews, each interviewee was asked to complete the questionnaire. On the basis of their comments, a few wordings were changed for a better understanding of some of the questions. However, no substantive changes to the measures in the questionnaire were made.

Several prior empirical studies have claimed that it is difficult to collect primary data from firms in China (e.g., Brouthers & Xu, 2002; Peng & Luo, 2000). To remedy potential difficulties, such as managers' unwillingness to participate, we utilized a personal contact who is a family member of one of the authors who works in the Economic and Trade Bureau of Lishui (a city located in southwest Zhejiang). He helped to obtain a list of firms that are engaged in international activities from the Economic and Trade Bureaus in each city in Zhejiang province. All the companies in our sample are officially registered with the local Economic and Trade Bureaus, and they all meet the requirements of the government for trading with foreign companies. During the period of June to August 2009, we distributed the questionnaires in person to the founders or owners of targeted private enterprises and collected the questionnaires upon completion. Prior research has suggested that self-reported measures are acceptable in the absence of archival data if care is taken when obtaining the data from reliable informants (Dess & Robinson, 1984). In the current study, we promised that the individual informants would not be identifiable in the final report in order to reduce their possible tendency to provide inaccurate information in the questionnaire. Previous research has found that Chinese managers were more willing to supply accurate information when promised anonymity (Tan & Litschert, 1994). Out of 150 questionnaires that were sent out, we received a total of 129 questionnaires, resulting in a high response rate of 86 %. After a rigorous screening process, 16 cases were discarded due to incomplete information and five cases were dropped because they were trading firms, which were not the focus of this study. A total of 108 cases

Table 1 General descriptive information of the sampled firms ($N = 108$)

	Frequency	Percentage
Age of the firms		
<5 years	12	11 %
5–15 years	70	65 %
>15 years	26	24 %
Number of employees		
<100	22	20 %
100–500	71	66 %
>500	15	14 %
Industry		
Heavy	37	34 %
Light	71	66 %

remained for further analysis. Table 1 shows the general descriptive information of the sampled firms.

The age of the firms ranged from 1 to 35 years with a mean of 12 years. In terms of the firm size, 14 % of the sampled firms employed more than 500 employees while the rest employed 500 or fewer. In addition, approximately two thirds of the sampled firms were from light manufacturing industries, including synthetic leather and leather shoes manufacturers for which Zhejiang province is famous.

Collecting the dependent and independent variables from the same respondent in the same survey may result in common method variance problems. Following the instructions of Podsakoff and Organ (1986), we conducted a Harman one-factor test. A factor analysis of the dependent and independent variables yielded four factors accounting for 69.73 % of the variance, and factor 1 accounted for 35.91 % of the variance. Since a general factor did not emerge to account for most of the variance, common method variance may not be a problem in our data.

Variables and measurements

Dependent variables Similar to prior studies on entry timing (e.g., Zhao & Hsu, 2007), timing of the first foreign market entry was operationalized by the difference between the year of a firm's establishment and the year of first exporting or FDI. The smaller the difference, the earlier the market entry.

Internationalization pace was measured by asking the respondents to rate their internationalization pace against that of their major competitors on a seven-point scale (1 = very slow, 7 = very fast). Other measures were adopted by previous research studies. For example, Cheng and Yu (2008) followed the stage model by asking sample firms to indicate the entry mode they used in initiating internationalization. Modes included exporting, local agents, a sales subsidiary, and a subsidiary with a production function. Although their measures of pace were theoretically well grounded, they may not be appropriate in terms of measuring the pace of internationalization of Chinese private enterprises as they are still at their very early stage of internationalization and the entry modes they employ are relatively simple with exporting as the dominant mode.

Resource commitment normally measures the size of investment in foreign markets (Ursacki & Vertinsky, 1992). Resource commitment in this study is measured on a seven-point scale that assesses a firm's willingness to invest in foreign markets (1 = very weak, 7 = very strong). Previous survey-based studies have reported that firms are typically unwilling to offer numerical measures of their resource commitment to their foreign businesses (Brouthers, 2002). Therefore, instead of asking for the amount of investment, we used a subjective measure by asking for the firm's willingness to commit resources to international activities including both exports and FDI.

Independent variable In this study, business networks are defined as the linkages that a company has established in connection with business stakeholders, such as business partners, suppliers, distributors, and government institutions.

Personal networks refer to an informal structure of personal relations, which are mostly characterized as personal ties and connections that are built upon goodwill and trust.

Both business networks and personal networks are measured by seven-point Likert scale. In the questionnaire, each respondent was asked to circle the number (1 = very little, 7 = very much) that best described the extent of networking between the focal firm and other parties including competitors, suppliers, consumers, various levels of governments, industrial authorities, and other institutional bodies, such as taxation bureaus, banks, financial institutions, and industrial and commercial administrative bureaus. Each respondent was asked to report their extent of personal networking with family members and relatives, friends including previous and current school mates and colleagues in China and overseas (1 = very little, 7 = very much).

Control variables Following similar previous studies on internationalization, a number of variables were included in the model as control variables. *Firm age* was included because older firms are more likely to be risk-averse towards international expansion. Firm age was measured as the difference between a firm’s establishment year and 2009. *Firm size* was a control variable because larger firms benefit from a number of size-related advantages. For instance, larger firms can gather market information and detect profitable opportunities more easily and quickly. Larger firms may also be able to exploit their resources and functions internationally. Firm size was measured by the total number of employees in the company.

International market potential refers to growth opportunities for firms (Zhao & Hsu, 2007). Foreign markets being perceived as an alternative growth path to domestic markets would have a strong influence on firms’ strategic decisions. Firms are likely to make early investments and commit greater amounts of resources to internationalization when international markets provide potential opportunities to gain profits. International market potential was measured with a single question asking firms to rate the importance of international markets to their development and growth (1 = least important, 7 = strongly important) (Brouthers, 2002; Zhao & Hsu, 2007). Finally, the industry type of the firm, heavy or light in terms of product type, was also a control variable. An industry dummy of 0 indicates that the firm belongs to light industry, which includes industries such as textiles and garments, shoes, food and beverage, and home appliances; a value of 1 indicates heavy industry, which mainly include such industries as machinery, equipment, steel, and automobiles.

Results

Factor analysis

We first conducted an explanatory factor analysis on items measuring network relationships. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy value was .756, above the recommended level of .6. Bartlett’s test of sphericity was also statistically significant ($p < .000$). These results suggest that it was appropriate to use the factor analysis. Two factors were subsequently extracted by using principal component analysis with varimax rotation using the Kaiser normalization rotation method (see Table 2). The first factor, labeled *business networks*, consists of relationships with major competitors and customers, industrial authorities, government and other government agencies. The second factor, labeled *personal networks*, consists of top managers' personal ties with different groups of individuals including domestic family members, friends, colleagues, as well as overseas family members and other Chinese ethnic groups. The total variance explained by these two factors was 62.5 %. The Cronbach's alpha for the business network items was .824, and the Cronbach's alpha for the items of personal networks was .779, which indicates that the scales were satisfactorily reliable.

Regression analysis

Table 3 presents the means, standard deviations, and correlation coefficients of the key variables used in the models.

Hierarchical regression was employed to examine the hypothesized direct effects of network relationships on internationalization. The control variables were first included in the baseline models in the hierarchical regression analysis. Independent variables were then added to the full models. The F statistics for all six models were significant at the $p < .01$ level. Results are reported in Table 4.

Model 1 in Table 4 is the baseline model for examining the effects of network relationships with the timing of the first foreign market entry of Chinese private enterprises with the control variables included. As shown in Model 1, firm age was positively correlated with the first foreign market entry ($\beta = .787$, $p < .01$). This indicates that the older the firm, the longer it takes to launch the first foreign market entry. On the other hand, the younger the firm, the shorter it takes to enter a foreign market for the first time. Model 2 demonstrates that business networks were positively related to the first foreign market entry ($\beta = .124$, $p < .1$). However,

Table 2 Factor analysis results

Rotated component matrix	Factor 1	Factor 2
Networking with other government agencies	.901	
Networking with industrial authorities	.891	
Networking with governments	.861	
Networking with domestic competitors	.625	
Networking with domestic customers	.426	
Networking with overseas' family members and friends		.869
Networking with domestic friends		.772
Networking with overseas' Chinese groups		.741
Networking with domestic family members		.686

Extraction method: Principal component analysis

Rotation method: Varimax with Kaiser normalization

Table 3 Correlation matrix and descriptive statistics of measures

Variables	Mean	SD	1	2	3	4	5
1 First foreign market entry	4.46	5.36					
2 Internationalization pace	4.73	1.29	.07				
3 Resource commitment	4.96	1.64	.00	.48**			
4 Business networks	5.18	1.20	.14	.28**	.21*		
5 Social networks	5.21	1.19	−.04	.29**	.17	.44**	
6 Market potential	5.93	1.27	−.03	.30**	.34**	.05	.07

* $p < .05$; ** $p < .01$

surprisingly, personal networks were insignificant and negatively related to the first foreign market entry ($\beta = -.063$). Thus, based on the regression results, Hypothesis 1 was partially supported.

Model 3 is the baseline model for testing the direct effects of network relationships on the internationalization pace of Chinese private enterprises with the control variables included. Model 4 shows that both business networks and personal networks have positive effects on the pace of internationalization: business network ($\beta = .172$, $p < .1$), personal networks ($\beta = .264$, $p < .01$). Therefore, after controlling for the control variables, both business and personal networks improve the overall model fit ($\Delta R^2 = .085$, $p < .01$) supporting Hypothesis 2.

Table 4 Results of hierarchical regression models ($N = 108$)

	Timing of first foreign market entry		Internationalization pace		Resource commitment	
	Restricted (Model 1)	Full (Model 2)	Restricted (Model 3)	Full (Model 4)	Restricted (Model 5)	Full (Model 6)
Control variables						
Market potential	−.055	−.079	.278***	.253**	.346***	.363***
Firm age	.787***	.769***	−.022	−.024	.008	−.091
Firm size (Medium)	−.034	−.093	.218*	.223*	.214*	.294**
Firm size (Large)	−.099	−.114	.234**	.239*	.174	.221*
Industry (Heavy)	.051	.060	−.064	−.087	.106	−.008
Direct effects						
Business networks		.124*		.172*		.175*
Personal networks		−.063		.264***		.198**
Model F statistics	3.814***	18.171***	3.384***	3.354***	3.725***	4.088***
Model R^2	.602	.608	.142	.227	.154	.259
Adjusted R^2	.582	.575	.100	.161	.113	.195
ΔR^2		.006		.085		.105

Beta coefficients are provided. Significance is based on a two-tailed test

* $p < .1$, ** $p < .05$, *** $p < .01$

The results from Model 5s and 6 are consistent with Hypothesis 3. After including all control variables, it is found that both business and personal network ties improve the overall model fit ($\Delta R^2 = .105, p < .01$). Network ties have a positive impact on the resource commitments of Chinese private enterprises to international activities (with $\beta = .175, p < .1$ and $\beta = .198, p < .05$ for business networks and personal networks, respectively), supporting Hypothesis 3.

Overall, these results suggest that network relationships have a positive impact on all three internationalization variables. Specifically, business networks were found to have impact on the timing of the first foreign market entry, the pace of internationalization, and resource commitments, whereas personal networks were found to have impact only on the internationalization pace and resource commitments but not on the timing of the first foreign market entry.

Discussion

Contributions and implications

With the increasing importance of MNEs to the global economy, theories on the internationalization of firms have been developed over the last four decades. Conventional theories in this area are based on the asset-exploitation perspective, assuming that firms internationalize when they have competitive advantage that allows them to overcome the liability of foreignness and to obtain enough returns to compensate the additional costs and risks associated with operating overseas (Dunning, 1988; Johanson & Vahlne, 1977). This asset-exploitation perspective has been built primarily on the experiences of large MNEs in the West and ownership advantages are mainly those of Western MNEs, which have strong capabilities in technology, marketing, and management. Besides theoretical advancement made by early scholars from the West, recent studies have helped us to understand what are the drivers and motives behind the internationalization of Chinese MNEs (Agyenim, Wang, & Yang, 2008; Deng, 2009; Lu, Liu, & Wang, 2011; Rui & Yip, 2008). However, more studies are needed to understand how resource-limited private enterprises go international. Our study thus further advances our understanding by examining the factors that affect the internationalization process of Chinese private enterprises. In contrast to the assumptions of conventional internationalization theories, private enterprises in China do not possess these traditional ownership advantages. These firms tend to explore and leverage unique or non-traditional resources that differ from those of large MNEs to overcome size-related disadvantages. As suggested by Dunning (1995), a firm's competence to seek outside resources and assets is also counted as a part of its ownership advantage. For Chinese private enterprises, network relationships are important resources to be leveraged, so that the firms can seek necessary resources especially in terms of market knowledge and financial resources when venturing into overseas markets.

The findings based on 108 sampled Chinese private enterprises suggest that network relationships have impact on the internationalization process of Chinese private enterprises. Specifically, support is found for the direct effect of business networks on the timing of the first foreign market entry, the pace of internationalization and resource commitment. Personal networks are found have significant impact on the pace of internationalization and resource commitment but not on the timing of first foreign market entry.

This study extends our understanding of social network ties beyond the domestic setting by incorporating ties with overseas family members and ethnic groups. In their earlier phase of internationalization, Chinese firms tended to enter countries where social networks were present (Deng, 2004). Chinese private enterprises would be more informed and thus capable of identifying and capturing profitable opportunities if they were able to utilize a wide range of relationships from business and personal networks. Firms with strong personal networks will internationalize at a faster pace and be willing to commit more resources. One possible explanation is that personal networks provide them a safety net in terms of reducing uncertainty, gathering market information, and providing additional funding. As the results indicate, they are willing to make faster moves and to commit greater amounts of resources to foreign markets. Surprisingly, personal networks seem not to have significant impact on the timing of the first foreign market entry. One possible explanation for this is that in their first foreign market entry, rather than relying on informal personal networks, Chinese private firms tend to rely on formal business channels to acquire information and knowledge. It also reveals that even when personal networks are not available, formal business networks are a valuable source of information and provide resources that are needed to make early entry decisions.

Moreover, firm characteristics are found to have impact on the internationalization process of Chinese private enterprises. Firm size has impact on the pace of internationalization and resource commitment. The findings reveal that, compared to small firms, medium- and large-sized private enterprises are able to internationalize faster and make greater resource commitments. This supports the traditional view that, relatively speaking, larger firms usually have size-associated advantages that can be utilized through international investments. On the other hand, firm age has a significant impact on the timing of the first foreign market entry. Specifically, it took longer for older firms to make their first foreign market entry, while younger firms were able to make their first foreign market entry shortly after their inception. This is possibly because of the fact that older firms tend to be more risk-averse and have greater organizational inertia. This finding also reflects that the internationalization of Chinese private enterprises is still a very recent phenomenon. With an overall encouraging macro-environment for “going-out,” some young Chinese private enterprises venture into overseas markets not long after their establishment.

The findings of this study suggest the significance of network relationships, both business and personal, in facilitating the internationalization of Chinese private enterprises whereas past studies have mainly emphasized the importance of strategic or business network linkages between domestic and foreign firms in host countries in pursuing international activities (Chen & Chen, 1998). Networking provides private enterprises with much needed information on international markets, so that they can respond accordingly. This underscores a crucial implication for Chinese private enterprises to purposely build, maintain, and leverage network relationships to facilitate their internationalization activities. The survival and success of Chinese private enterprises in today’s highly globalized and competitive environment suggests that they not only possess certain unique competencies, but also that they utilize them effectively. One of the distinctive competencies is argued to be network-based capabilities, especially under China’s unique institutional environment. Specifically, these capabilities give Chinese private enterprises the ability to establish and manage special relations at both business and personal levels. Hence, it is imperative to examine the internationalization of Chinese private enterprises from a socio-cultural perspective. For policymakers, the findings of this study suggest that institutional support from governments could facilitate the internationalization process of Chinese private enterprises by nurturing their capabilities and experiential learning via both formal and informal networks. Government support does not just come from direct interactions between the government and private enterprises, as the government plays an important role in building links between private enterprises and foreign firms as well. The government may also look at providing private enterprises with financial support especially during difficult periods. The 2008 global economic downturn, for example, has already had a huge negative impact on China's export-orientated private enterprises. A lot of them have suffered dramatic losses due to declining orders from foreign clients resulting in a large number of shut downs. Hence, financial support from the local government may help them to survive and subsequently to revitalize quickly at the end of the recession. Therefore, overall, networks help Chinese private enterprises overcome the liabilities of smallness and newness in their internationalization processes.

Limitations and future research directions

Several limitations of this study must be acknowledged. The first limitation is that this is a cross-sectional study. Future research can extend the current study's findings by using longitudinal data to observe firms' network relationships over time. Second, this study relies mainly on the single key informant approach for data collection and self-reported subjective measures are used for the main constructs of the study. Precautions were taken to minimize the associated possible problems by conducting a pilot study, choosing the construct measurements based on the literature and selecting the most knowledgeable person from each firm as the respondent. However, in future research, it will be necessary to use different sources to collect data on the independent and dependent variables and to adopt some objective measures of the constructs. Particularly, in this study, resource commitment is measured by asking the company's willingness to commit resources to international activities. Objective and numerical measures need to be obtained to conduct a more robust study. Third, the sample of this study was exclusively drawn from the manufacturing sector in one of the most entrepreneurial coastal provinces in China. The sample selection thus limits its generalizability to firms in other parts of China, especially firms from inland areas, as well as to firms from other emerging economies.

The institutional perspective has become increasingly important in international business research (Peng, Wang, & Jiang, 2008). The institutional environment has been found to have impact on the internationalization of Chinese firms in general (e.g., Boisot & Meyer, 2008; Buckley et al., 2007; Cui & Jiang, 2010; Rui & Yip, 2008), but not specifically on the internationalization of the private sector. The institutional environment faced by Chinese private enterprises in China has undergone many changes in the last three decades. Therefore, we suggest that it is an important research direction to examine the changes to the institutional environment and how they impact the internationalization of private enterprises.

Luo and Tung (2007) argued that MNEs from emerging economies do not necessarily follow a sequential path and tend to be radical in their location choices when expanding overseas. It will be an interesting topic to examine whether this is also the case for Chinese private enterprises. If it is, research questions such as whether and how network relationships help to overcome the difficulties brought by psychic distance deserve future research attention.

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