

Australian SMEs in China: Innovation and Engagement in the Asian Century

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Executive Summary

This report describes and analyses the experiences of Australian small to medium enterprises (SMEs), and how they use innovation to conduct business in China. The information was collected over the period August to December in 2013 and involved interviews with respondents from 40 different Australian SMEs across a range of industries including business services, manufacturing, biotech, film, information technology and so on. The project was motivated by the increasing significance of China to Australia's economy, and the fact that SMEs represent a significant proportion of the Australian economy. SMEs are also exposed to the global economy and increasing numbers participate in international business. China is currently the second largest economy in the world, and is Australia's number 1 trading partner, offering Australian businesses many opportunities. These opportunities make it important for Australian SMEs to develop the capability to be successful in China.

The economic relationship between Australia and China is central to doing business in China. Over the past decade, iron ore and coal exports have predominated the trading relationship between Australia and China, however the slowdown in the mining boom and in investment in the mining sector, means that Australia must develop other products and services to sell to its international markets. It is important that Australian firms are able to develop a range of innovative products and services to sell to Asian markets such as China. A focus on innovation and entrepreneurship will assist Australian companies to develop future competitiveness, and ensure Australia's future success and prosperity.

This project determined that SMEs currently offer a range of innovations in China, ranging from radical innovations, such as developing new products or offering new services to process/management type improvements. The innovations used by SMEs included product, market related, management tools and efficiency improvements, e-innovations and design innovations for architectural firms. The participating SMEs suggested that the ability to sell on the basis of innovation in the Chinese market was impeded by Chinese environmental conditions. In some Chinese markets, consumers were not interested in the level of innovations that consumers in Australia preferred. This was either due to the economic conditions in that market, or because of cultural factors. It is very important that SMEs planning to introduce innovations into the Chinese market determine the acceptability of those innovations in that market. In many cases, SMEs will find that they can use innovation to adapt their products or services to the demands of the Chinese market.

The study found that culture was an important consideration for Australian SMEs doing business in China. As a result, it is critical for Australian SMEs to develop social networks and guanxi in the Chinese market. Some respondents suggested there were parallels between building and developing professional relationships in China and in Australia. One good example is the common practice of discussing business opportunities over lunch. Chinese connections within the business, which might result from employing Chinese staff or staff with Chinese relatives, proved to be very helpful for the participants in interpreting Chinese culture and Chinese language.

The study identified a range of motivations for Australian SMEs and their internationalisation to China. This included growth opportunities, the size of

the Chinese market, business development opportunities, internationalisation plans, accessing low cost production, eliminating the cost of transportation from China to the Australian market and the provision of services to other Australian businesses located in China. The study found that Australian SMEs entered the market using different modes, including exporting, short-term projects, licensing, agents, partnerships with Chinese companies, long-term supplier relationships, representative offices, joint-ventures with other firms or as a wholly owned subsidiary.

The most important issue that the participants faced in the Chinese market was generally found to be due to internal resource shortfalls including funding, staffing and time. These negatively impacted on their ability to keep up relationships and develop business in China. External constraints were another important issue identified by the participants, which included dealing with the regulatory environment, infrastructure, political issues such as government-to-government relationships, problems with payments and high levels of competition.

To respond to these pressures, the participants found they required a range of capabilities including specialist skills, connections/networks, language skills, more capable staff, technological advantages, an entrepreneurial orientation, experience with the Chinese environment, the ability to extend the timeframe for these activities, attracting funding and marketing/branding skills.

External support is important for SMEs when internationalising because of their limited resources. Many participants drew assistance from Austrade, which they found helpful in providing networks, introductions, general assistance and providing grants through the Export Market Development Grants (EMDG) program. Some participants also suggested that Austrade could improve their services, and that the trade services available to companies from other countries provided more advantage than those offered by Austrade. Participants took advantage of the services provided by Australian Chambers of Commerce (AustCham) in China. AustCham was perceived to be helpful in assisting the participants to enter into a network. Other valuable support identified by the participants included state government based trade missions, which helped with learning about the market, making contacts and identifying appropriate market entry pathways. A number of the participants suggested it was difficult to identify the support available to them from the government at all levels (local, state and federal), and suggested that it would be helpful to be better informed about the types of government support that is available.

The participants reported that they used a variety of funding sources, including company funds, equity or profits that had been saved to enter the Chinese market. Funding was also derived from the business owner, family members, or from an inheritance. Government funding included EMDGs, grants for biotech businesses, grants for state based trade missions, and public donations. Some participants were funded by private investors and found that it was easier to organise funding from Australian investors than Chinese investors. Chinese investors were reluctant to fund unless they had a pre-existing levels of trust and guanxi with members of the organisation.

The study found that some participants possessed Intellectual Property (IP) which

they needed to protect. The participants suggested that it was important to protect their IP, but that this was determined by the type of product or service that the participant had on offer – some IP required more protection than others. Some respondents suggested that legal system for IP in China had improved as the result of changes to the legal system and increased support from the Chinese government, who were actively trying to stamp out IP theft. In addition, as the Chinese economy becomes more innovative, more attention is given to protecting IP. The participants mainly relied on practical techniques to protect their IP. Some had experienced IP theft and fraud in the Chinese market, such as other companies using their business name in business dealings. SMEs in China experienced difficulties with protecting their IP because of the associated financial costs. Most of the participants were of the view that SMEs should accept the fact that they might lose their IP in China. The participants also confirmed that it was still difficult to enforce IP issues because of the weak legal structure, and therefore it was necessary for the participants to ‘keep innovating’ to stay ahead of the pack.

The study found that consideration needs to be given to the marketing strategy selected for the Chinese market. It was important for SMEs to develop their brand in China, and the participants put considerable effort into developing their (often unknown) brand there. Once established, however, the participants reported that it was easy to establish further business. The participants also noted that it was important to use relationship and online marketing approaches. By developing relationships the participants were able to tap into customer networks, which helped their business grow. The participants also engaged in trade missions, trade shows, exhibitions, the Canton Fair, international conferences, speaking at events, or creating their own industry events. The other major strategy for SMEs was developing an online presence in China. The explosion of social media in China, with many different online and mobile phone platforms appearing, made this a valuable marketing channel. Some of the popular online platforms included LinkedIn, Weibo, Weishing, Taobao, WeChat, Baidu and Yo-ku. It was important for SMEs to translate their English websites into Chinese. Other methods adopted for engaging with clients and consumers was through short videos on websites, or in social media.

The participants reported experiencing difficulties with recruiting skilled workers and retaining employees. They used a variety of staffing options including expatriate staff with China experience, local staff, part-time staff and external consultants, interns, Chinese sea turtles or Haigui (Chinese who had lived for extended period in other countries, returning to China), and Australia based staff with a Chinese background. Training and development posed issues for the participants, who found that they spent time and money training employees, and then the staff would leave. The participants experienced retention issues because of salaries, holiday time, the type of job, perceptions that it is easy to find jobs elsewhere, and rushed selection processes. The participants indicated that the main measures for retaining employees included better money/salary levels, building trust with employees, providing staff with interesting work, multi-tasking, gifts and bonuses during Chinese New Year/ Moon Festival, and building morale of staff.

The key implications for business, government and future research identified in this project were that:

- SMEs need to create strategic plans for both the macro environment of China and then micro-environmental conditions in the region. Important factors include the nature and acceptance of the innovation, the importance of culture, the need to develop strong business relationships and networks, motivation for internationalisation, entry mode, capabilities and resources required, understanding IP issues, marketing technique and HR strategies. SMEs also need to develop contingency and exit plans for their market entry.
- Australian Federal government support and encouragement is important for Australian SMEs investing in China and should be continued. Austrade could benchmark their services against other government providers to determine how they may develop their services. The portfolio of services provided by Australian international trade support organisations could be reviewed to reduce overlap and avoid confusion over their roles. Funding and incentives could be provided to help SMEs improve their strategic planning for China.

Further benefits could result from continuing this research. One of the most fruitful areas for future research in this area would be to develop case studies on the strategic planning process for internationalising into China with particular attention given to local environmental conditions, partner matching and subsidiary performance assessment. Another important research project would be examining the current operations management issues in Australian SMEs in China, with particular emphasis on innovation, marketing, human resource management, networking, the use of technology, and the relationship to performance management. The authors examined this in 2007, however, the conditions have changed since that time.



About the Authors

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1. Introduction

China's strong economic growth in the past decade has provided many opportunities for Australian businesses to create long term and valuable commercial activities in China.

China offers many companies great potential for growth (Economist 2007). China accounts for 34 per cent of the world's crude steel output and 47 per cent of the world's pig iron output (Hua 2007). Australia's current mineral boom is largely built on this Chinese demand (Kirk 2004). It is important that Australian businesses are able to offer other products and services to the Chinese market. This is where the role of innovation comes into play. Australian companies have been pursuing the Chinese market with other international MNCs since Deng Xiao Ping's "Open Door" policy was introduced in 1978 (Tian, 1986). The results, however, have been inconsistent. This project was conducted to examine the issues and gain insights for Australian innovative SMEs who are conducting business in China.

Australian-Chinese business relationships are important to Australia. China has enjoyed a consistent double-digit economic growth over the years (Department of Foreign Affairs and Trade (DFAT), 2013), but this has since been forecasted to drop to 7 per cent in 2014, due to a weaker outlook for net exports (Bloomberg News 2013). Australian organisations including SMEs have been very active participating in China related activities. However, little is known about the issues that Australian SMEs face in their internationalisation to China, how they conduct business there, and how they can improve their success in China. Hence, understanding this in greater detail and developing a process model for the internationalisation of innovative SMEs to China is very important.

This report provides the findings of the research project investigating Australian SMEs in China, with a focus on innovation and engagement. This report presents the project findings of innovative SMEs in China and the issues that they face in their internationalisation. Forty Australian SMEs with current business activities in China participated in the research. Business owners, senior managers, directors and executives familiar with their business activities in China were interviewed.

As a result of the research a range of factors were identified as important for the internationalisation of Australian SMEs to China. In order to illustrate these factors and their impact, the report presents a model that SMEs should consider when developing strategies to enter the Chinese market. This model incorporates a range of factors which impact on the decisions made when establishing operations in China (see page 60). The report concludes with recommendations for approaches Australian SMEs operating in China can take to further improve the outcomes from their Chinese operations.

2. Background, why is China important for Australia and what is the role of innovation?

Australia's number one trading partner is China, which means that China is important to the Australian economy. The level of Chinese investment in Australia indicates that China also has a significant level of commitment to Australia. Chinese investors have invested in mining, agriculture and real estate. Exports to China were worth AUD78 billion in 2012-13, whilst imports were valued at AUD44 billion (DFAT, 2013). Australia's total trade relationship with China was AUD122B in 2012 (DFAT, 2013). Major exports to China include iron ore and concentrates, coal, gold and crude petroleum. Key imports from China included telecom equipment and parts, clothing, computers and furniture, mattresses and cushions (DFAT, 2013). Trade between Australia and China has been on the increase and has had a positive impact on the bilateral investment relationship between Australia and China. In 2012-13, Australia's investment into China was AUD19.7 billion, and Chinese investment into Australia was AUD22.9 billion (DFAT, 2013).

The Australia China free trade agreement (FTA) is an important consequence of the high-level trade between the two countries. Negotiations to establish an FTA commenced in 2005. Surprisingly, these negotiations have not yet concluded – the 20th negotiating round was held in Canberra in 2014 (DFAT, 2014). The objective of the FTA is to support Australian exporters and businesses in the Chinese market and to provide better access for Chinese companies to Australian resources.

Apart from the growth in the Chinese economy, and in the Australia – China economic relationship, structural changes in the Chinese economy have created many opportunities for Australian business in China. These changes have included an increase in the size of the middle class, an urbanised population, a greater level of economic development focus for the western regions of China, the increased role for innovation in industry and society, and a focus on sustainable and environmentally friendly business (McKinsey, & Company 2013). Australian businesses, and in particular innovative SMEs now have access to a range of opportunities in China, as a result of the structural changes, as explained in the following section.

Increasing middle class

The size of China's middle class has been increasing, and is estimated to be 300-400 million (Fukuyama, 2013) of their 1.35 billion population. Middle-class Chinese income has also been increasing significantly – and it is predicted by 2022, that 75 per cent of China's urban consumers will earn between AUD9000 - 34,000 per year (McKinsey, & Company 2013). This increase in income suggests that the wealth of the Chinese consumer is increasing. Along with this wealth, Chinese consumers are also becoming more sophisticated. This presents a huge opportunity for Australian business to offer their innovative products and services to China, to consumers who now have greater wealth, and who also have a desire for western and potentially innovative products. For example, an increased sophistication has meant the Chinese consumers now like Australian wine or dairy products for instance organic baby formula. Australia also has huge strengths in service provision, which China now has a desire for, meaning that Australian businesses can offer their services there too.

Urbanised population

China's population is also becoming more urbanised, which means that there are many opportunities for Australian SMEs to offer their innovative products and services to assist with the urbanisation. This could include better architectural design of buildings and living spaces, better public spaces and consumer products that enhance the Chinese people's lifestyle. Over the years China has moved from being a rural based economy, to being much more urban. China has plans for further development of transport networks, urban infrastructure and residential real estate until 2020, to enable a further 100 million of China's population to move from rural to urban locations (Anderlini, 2014). Approximately 54 per cent of the Chinese population is now urban, compared to 80 per cent per cent in developed countries (Anderlini, 2014). The Chinese Government's goal is to have 60 per cent of their population urbanised by 2020. The urbanisation of the Chinese population means that they will also increase their wealth, propensity to purchase consumer products and will expand the range of goods and services that interest them.

Chinese economy is becoming innovative

The development of an innovation based society is one of the overriding goals of the Government's 2011 five-year plan. The Chinese government declared that China would be 'an innovative society' by 2020, and a world leader in Science and Technology by 2020 (Abrami, Kirby and McFarlan, 2014). The Chinese government have developed a range of measures to develop China into an innovation-based economy. This includes investment in high-tech zones, foreign investment in the wind turbine industry, caps on importing technology (to motivate local producers to produce high technology products), and investment in research and development of strategic industries. Key industries for economic development include biotechnology, energy-efficient technologies, equipment manufacturing, information technology and advanced materials (Abrami et al., 2014). Despite China's investment in innovation, China has lacked an innovation focus in the past because of the decisions made by the communist government and as a result of the Cultural Revolution. Lack of familiarity with developing and implementing innovations is present throughout Chinese industry and markets. This has made it difficult to introduce innovations into China, in the past. Significant barriers to the introduction of innovations are as a result of regulation and the government authority structure in China.

Environment & Sustainability focus of the Chinese economy

China has also developed a focus on being a sustainable and environmentally friendly country through its recent 5-year plan (Li & Woetzel, 2011). The government focus on these areas encourages environmentally friendly consumption habits, and this will present further openings for quick movers (Li & Woetzel, 2011). The five-year plan includes investment in major pollutants reduction, living environment improvement, environmental protection in rural areas, ecological preservation, environment risk prevention, nuclear safety, environmental infrastructure and environmental monitoring (China Briefing, 2011). When the five-year plan was launched, the Chinese government announced that approximately RMB 1.5 trillion would be invested in these projects. This plan has created a large range of opportunities for Australian

companies because of Australia’s green technology pedigree.

In summary, the change to the Chinese economy structure will result in an increase in the size of the middle class, the number of urban consumers and sophistication of these consumers. Australian firms that can offer innovative services and products to the Chinese market will find that these changes create significant opportunities, suggesting that innovation should be a key strategy for operations in the Chinese market. In consideration of this, the current study of Australian SMEs in China: Innovation and Engagement in the Asian Century was motivated to investigate these issues.

3. The Study

The study was conducted from August 2013 until December 2013, with the objective of identifying the innovation based issues for SMEs operating in China. An indepth and qualitative approach to this research was taken, where interviews were conducted with key informants from SMEs.. The study was supported by a grant from the Australia China Council (ACC). The study was also indirectly supported by various Australia China Chambers of Commerce including Australia China Business Council (ACBC), AustCham Shanghai, AustCham Hong Kong and AustCham Guangzhou. Each of these Chambers of Commerce assisted the study by suggesting appropriate participants for the study. The criterion for inclusion in the study was that the business had 1 to 200 employees, they were Australian, and they were doing business in China in some capacity. Potential participants were then contacted by e-mail to request their participation in the study. Non-respondents were followed up with phone calls.

Once individuals had agreed to participate in the study, the aims and background of the study were explained, and confidentiality and anonymity was assured. A time was made to conduct the interview. Interviews were conducted in Melbourne, Shanghai, Guangzhou and Hong Kong, by the research team. Interviews mainly took place at the interviewees’ offices, but some interviews were conducted by telephone or skype. Interviews lasted approximately an hour, were tape recorded and transcribed by a professional transcriber. Three participants wished not to have their interviews taped, and instead notes were taken.



4. The Sample

A total of 40 interviews were conducted with 40 Australian SMEs. Basic characteristics of the sample, including industry, entry mode and location are provided in Appendix 1¹. The sample consisted of firm's mainly in the business and property industry (16), manufacturing (6), biotechnology (3), building, construction and engineering (5), wholesaling and retailing industry (2), mining (2) movies and entertainment (1), information technology (1), security (1), agriculture (1), sourcing and a range (1).

The major modes that were examined were wholly owned foreign entity (WOFE) (24), supplier relationships and importing (4), exporting (7), partnerships (2) and businesses that were set-up as a Hong Kong based company (4).

The SMEs investigated had representations in the following locations: Melbourne (5), Shanghai (21), Guangzhou (5), Hong Kong (5), Mongolia (1), Nanjing (1), Newcastle (1), Beijing (4), Suzhou (4), Xian (1), Shenzhen (1) and many locations across China (3).

As SMEs were targeted for this research, the employee size of businesses involved in this study ranged from 1 to 200 employees. The average employee size was 57, with a majority of those investigated having 6 employees.

5. The Key Findings

The following presents the responses of the participants categorised under key headings that were identified from a thematic (emergent issue) analysis. The findings presented in this section portray the views of the participants as they were expressed to the researchers². The following section (Section 6.0 Implications) presents a qualified view of these observations and considers their relative importance and accuracy.

5.1. The role of innovation for Australian SMEs in China.

The participants provided a range of descriptions of what innovation meant for their business, what it comprised (i.e. either product/service, technology, management process improvements, or market related innovations, etc), and whether innovation was appropriate for the Chinese environment.

Radical innovations versus continual improvement

The participants identified two forms of innovation, the first one being the radical, 'game changing' innovations in which a new product or service was created. This type of innovation was seen as a radical, disruption to the norm, or 'big bang' type innovation. For example, one biotech participant commented on the development of a completely new product to conduct HIV testing, which sped up the treatment time of the AIDS disease.

On the other hand innovation, for some organisations was more about continual

1 Only basic characteristics were provided to protect the anonymity and confidentiality of the participants.

2 Some verbatim quotes/examples are altered throughout the text to maintain the anonymity of respondents.

improvements and processes to look for new opportunities, trends, products, services, customers and ways of doing things. For example, a respondent from an exporter, importer and manufacturer of rubber products commented on their processes of looking for new opportunities and customers:

“We are constantly looking for opportunities within the range of our expertise, and we are looking for customers to fit those requirements as well”

Innovation had also included “new ways of solving problems,” and “identifying problems and looking for new and better ways to solve them.” Apart from product innovations, it also included developing new markets for some: “integrating already existing vaccines in poorer countries.” This meant that for some participants “innovations can be both radical and incremental,” which means it could be the development of new products, but then the improvement of already existing products, for example “we developed a more enhanced test for HIV?” These innovations tend to be more small, incremental, and gradual improvements over time. Some had the perception that innovation was about “taking something already known and making it better.” One company suggested that there were conceptual differences between innovation and improvements: “Companies might talk about improvement but that’s not innovation.” So innovation should be distinguished between just improvements, and actually new innovations or refinements to products that a company has to offer.

“Innovation is about being vigilant and open to new ideas.”

“To craft solutions and being agile in the market.”

“Creating new things and solutions.”

“Learning about different things.”

“Filling in the gaps and different paradigm shifts.”

“Morphing, changing and evolving.”

“New opportunities and new avenues.”

Product related innovations

Apart from the speed in which innovation can take place, one interesting difference between the participants was identified in terms of whether the participant developed the innovation in Australia, and internationalised it to China, or produced the innovation within the Chinese market, as an adaptation process. The following example demonstrates an innovation used by the SME in Australia, and later internationalised it to China.

“Updated software for accounting and offering virtual CFO services.”

This organisation’s services (i.e. virtual CFO) were not well received by the Chinese market, and clients were disinclined to pay for them. Therefore, innovations were not always appropriate for the Chinese environment. The following articulates other innovations offered in the Chinese market:

“Paperless office and an innovation space for businesses to start

up there businesses and work in China.”

“We work with suppliers to become innovative and to help look for innovative products to sell and to design new products.”

“Offer a new service that China hasn’t seen before – so our business concept is the innovation (selling used cars), and our terms and conditions are the key parts of the products that we sell.”

“Fourth evolution of our product (our software – which we are tweaking).”

Given the difficulty of the Chinese environment, one respondent had suggested that innovation maybe required to deal with the unique Chinese environment:

“Innovate because you can’t use the same practices in China as home...the SME needs to be able to innovate, and to do things differently to compete with the government who can spend millions.”

Others took a more engineering and component approach, for example one respondent from a security participant, installing perimeter fences in China discussed the following:

“We are innovative in the sense that we do component integration – and design and manufacture...and innovation is how you put these things together...We took some innovative approach to fibre sensing including early patents in pre-optical fiber days. Patents in the optical fiber era patented them to come up with a unique algorithm. Innovative use of the two way laser more and more advanced signal processing.”

Others had developed new services that had not been used in the Chinese market before, for example, one participant created legal/arbitration chambers in Hong Kong. This service was based on the founder’s experience, understanding and knowledge that the person had developed whilst studying at a Chinese university. The services were innovative as Hong Kong/China did not have these in existence and hence it was something new to offer to the Chinese market.

Market related innovations

Other innovations were market related, with some participants thinking that operating in the Chinese market was an innovation for their company in itself, for example: “it is innovative for us to look at the China market, and the changes in the Chinese environment, and the fact it was a dynamic environment.” In terms of creating new markets, some participants were interested in: “Customizing products to what customers want”. One participant also suggested that innovations required a pull market. For example:

“Innovation is very much a pull market (develop something new and then pull the market in). Something new – no one know about it or wants it yet – so got to pull everyone in with the new idea.”

This is very relevant for China, as Chinese customers may not have experienced all western products, and therefore, even non-innovative products/services are seen as an innovation for Chinese consumers. It therefore requires SMEs to work hard in pulling in and developing the market.

Management tools and efficiency improvements

Management tools and processes were important innovations for the participants. The quotations below describe some of the Management tools adopted:

“Management tools – visioning exercise as to what your China business could look like in five years, mapping out visions and opportunities.”

“Toolboxes in marketing to innovate.”

Some of the participants were also interested in innovation from a process perspective, for example:

“Make efficient processes.”

“Management process improvement.”

“Technical improvements.”

“Making things better.”

“Processes are innovative.”

“We have an innovation strategy and we are trying to improve our company in general.”

“Innovative in developing a vertically integrated supply chain”

E-innovations

Participants suggested that Chinese consumers were very innovative towards social media, the internet and e-tailing (this is dealt with in more detail in section 5.10). They believed new businesses to China should take this into consideration with their strategies. These are the participant’s viewpoints in regards to E innovations:

“Innovative way of retailing in China – qq.”

“The innovative e-based things are being controlled so much or regulated by the Chinese are quite innovative with their bamboo technology.”

“Electronic way of innovating.”

“Software products that are derived from our technology platform.”

“Our innovation was to convert Facebook into Chinese social media.”

“We use technology to be proactive – a cloud based tool.”

Architectural type innovations

The architectural, planning type, design type participants identified their 'design philosophy' as their innovation. So the better designers they were, the more that they suggested that they were innovative. Some design companies saw themselves as multi-disciplinary, which they thought of as their innovation, for example one participant stated that they had planners, urban designers and architects, which led them to being more innovative. Whilst another participant suggested that the use of new software that competitors in China were not using gave them an innovative edge over other competitors, in the architectural area.

Chinese environmental conditions

There was also a strong theme throughout the interviews that China was not ready for some of the innovations offered by Australian businesses. As the following quote indicates:

"China is not too open to technologies yet. We use advanced weather predicting software in Australia for agriculture, but China wouldn't be ready for this yet."

"Companies in China don't use innovation that much."

Similarly, other respondents suggested that culture, including guanxi and structure of China had made it difficult to sell innovations in the Chinese market. This issue creates an implication for businesses developing their China based strategies. They need to make sure that their innovation will be accepted by the Chinese market. The following quotes articulate these points:

"Companies are not prepared to take the innovation risk"

"China is not very innovative based – its only fast construction and making money, and therefore the Chinese are not interested in innovation."

One participant thought that the Chinese would think that innovation is expensive, for example: "working on the theory that innovation in China is expensive – they can sell buildings without being innovative." Furthermore, "China won't pay for green rated buildings. I do think that if you have an innovative solution, it might not be something that the Chinese buyer even wants or is interested in." So for new innovations it is important that appropriate market research is conducted to determine the suitability of the products/services for the Chinese market (because the Chinese are not that open to new things).

Along these similar lines, others suggested that innovation wasn't really appropriate for the Chinese market, as a Managing Director of a recruitment company stated:

"Innovation is not the springboard for the Chinese market, as it might actually create more hurdles than creating opportunities. Therefore, it is risky for newcomers to be innovative. China is also a big market, and if you are small it is hard to be heard, because you are a small fish in an ocean. Rather than be innovative it is good to be focused."

Despite this, some respondents suggested that Chinese companies were becoming more innovative, and this means that Chinese companies can learn from western companies for example: “China is picking up in terms of innovation with multinational companies coming in.”

For these reasons respondents suggested that it was important for Australian SMEs to have government assistance:

“Need assistance to set up an innovative business in China (because it’s a different system).”

Other participants expressed the view that innovation in China was good, because the costs in China were low:

“Innovation is good in China because you can outsource testing and ISO standards to a cheaper amount.”

Need to innovate to stay ahead of the pack

One participant suggested that innovation was important so that “they could stay ahead of the pack”. This is because China is a fast changing and dynamic market with high levels of competition. Therefore, innovation was important for organisations to stay ahead of the curve. One SME had articulated this point exactly, and said that they were “conscious of the fact that they needed to improve. We provide services to the manufacturing industry, which means that we need to be ahead of the rest of the clan, and innovation was important to maintain competitiveness in the market place.”



Summary

In summary, innovation meant varied things for Australian SMEs in China. For some participants, innovations were radical/big bang theory innovations for new products and services and to others they were more small incremental innovations, where products and processes were improved over time. Participants mentioned that they engaged in product related innovations, which were new products or improvements on already existing products. Market innovation or developing new markets for new products was also seen as an important innovation, with the development of business in China, being an innovation in itself. Management tools and efficiency improvements were common innovations that Australian SMEs were using, and others were focusing on E based innovations to address the large use of social media in China.

Participants commented on the unique Chinese structural environment, and believe that this generally inhibited the transference or use of innovations in the Chinese market. It was found that culture, guanxi and the level of development in China generally precluded the acceptance of new innovations by Chinese consumers. One

participant suggested that innovation wasn't appropriate for China, and companies should focus more on niche markets. These findings indicate that innovative SMEs need to research the Chinese market to determine whether their innovations are appropriate for the market. Finally, the participants believed that it was important to keep on innovating to keep ahead of competitors or what they referred to as the "pack". Therefore, innovation was seen as a key way to keep competitive in the Chinese market.

5.2 Culture and guanxi is not as important as we think it was?

This section aims to examine the importance of social networks of international entrepreneurs of Australian SMEs. Focus is placed on how social networks could help to overcome the entrepreneurial challenges when starting new operations in foreign countries. With the economic reform of China, many transnational entrepreneurs strive to explore this highly promising market. This section analyses the role of guanxi in facilitating international entrepreneurs in developing their overseas businesses.

Guanxi and transnational entrepreneurs in China

Social networks are one of the central themes in entrepreneurial studies (Hoang and Antoncic, 2003) and are considered to be vital to the development of entrepreneurial businesses (Stuart and Sorenson, 2008). One of the major themes of entrepreneurial network studies is on how networks affect entrepreneurial process and their impacts on outcomes for the entrepreneurs and their firms (Hoang and Antoncic, 2003). Social networks, which could be considered as rare, valuable and difficult to imitate resources (Gulati, 1999), that could channel timely and quality information and are particularly important for international entrepreneurs as they start and operate their businesses in overseas locations of which they are unfamiliar with due to both cultural differences and language barriers. Transnational entrepreneurs are businesspersons who engage in cross-border entrepreneurial activities and the success of their firms highly depends on their contacts and associates in another country (Yeung, 2002; Portes et al, 2002).

Guanxi based social networks is considered to be the guiding principle of economic organisations in China (Walder, 1986; Cheng and Rosett, 1991). Having guanxi connections could contribute to increasing business performance (Chen et al, 2013). If there is a guanxi connection between the Western party and the Chinese party, the Chinese party will give more favourable treatment to the Western party than they will to other parties that do not have or weaker guanxi connections. As social networks could be the lubricant of business activities in China, the context provides a fruitful context for examining the impacts of guanxi on transnational entrepreneurs. The followings are responses from our interviewees on the importance of guanxi connections for conducting businesses in China:

"Guanxi is very important in China especially when you operate a business here. You will find it's very important if you know someone and you can get information straightaway. If you don't have the guanxi network you don't know what you need to do and you will probably waste a lot of time so sometimes it helps a lot and adds efficiency and maybe also save the cost for you."

“The Chinese culture is predominantly built around relationships and it’s a very family style related structure so you have to build relationships before you do business so it’s a fairly crucial component”

However, entrepreneurs often find themselves difficult in understanding the mechanism behind the establishment and maintenance of guanxi connections (Chen and Chen, 2004). These challenges are due to the distinctiveness of individual guanxi networks and the divergent cultural views between Chinese and Westerners (Ewing et al, 2000; Matthysens and Faes, 2006; Gao et al, 2012). Also Chinese tend to have high avoidance of conflicts, even if their perception of an individual or organization becomes negative, they normally do not speak up or hate to display emotions. In contrast, Westerners are more explicit in their communications and display of emotions and, therefore, they are more ready to speak up if they feel negative about another party. As a result, the relationship could come to a stop or even collapse without the Westerner really understanding what has gone wrong.

Academia has found that the Chinese interpersonal relationship differs considerably from the western interpersonal relationship (Xin and Pearce, 1996) and the term guanxi (關係) was coined to study its formation, process and consequences (Chen and Chen, 2004). With the rapid rise of the Chinese economy and the intense business interactions between Western and Chinese businesses, the study of guanxi has become one of the hottest topics in the academic field as well as in various media. Guanxi is complex and carries a number of definitions (Fan, 2002). Guanxi is referred to a special form of interpersonal relationship that is based on particularistic ties (Jacobs, 1979; Hwang, 1987) or to a kind of action to explore opportunities in personal or business relations (Luo, 1997). It is found that guanxi relationship contains cultural and social dimensions that deeply influence the behaviour of how Chinese interact with other people in business context (Luo, 2000; Lee and Dawes, 2005). Guanxi is believed to be deeply embedded in every aspect of Chinese culture and its influence reflects in also every aspect of social life of Chinese (Park and Luo, 2001) and is considered the fundamental organizational principle of Chinese society, regardless of their social status. Tracing its root back to Confucius more than two thousand years ago, guanxi can be seen as a cultural trait reflecting deeply through social and business connections as described by one of our interviewees:

“One of the very strong differences in a business sense is that people in Australia will happily do business with people they don’t get along with but that just doesn’t happen in China. It’s all built on having a good relationship and then you may or may not do business rather than deciding that there’s money to be made and therefore you’ll sort out differences. It’s a matter of making sure that those relationships are good or else there is no future”

It is so deeply rooted that guanxi phenomenon is not transitory (Fei, 1992). “So I think networks and relationships in that sense we understand is absolutely vital in terms of Chinese culture”

Others argued guanxi is not something unique and there are many similarities of business relations among Asian countries. Guanxi is comparable to kankei in Japan

and inmak in Korea (Hitt et al, 2002) and even to some Western business relationships (Langenberg, 2007). One of our respondents shared this view and believed there are commonalities between Western business relationships and guanxi:

“I don't think the two cultures are far apart. I think they're actually very similar. We're about building long-term relationships, building good networks, treating people well, all the critical things and if you call it guanxi well in Australia that's going to the pub and having a drink”

Some scholars believe the strategic value of guanxi becomes less important with the institutional development of an economy (Xin and Pearce, 1996; Guthrie, 1998). The argument takes an institutional view (Gold et al, 2002) and believes personal connections (including guanxi) are particularly important in economies without a well-developed and stable legal and regulatory environment (Xin and Pearce, 1996). As exchanges through the market is costly and creates uncertainty, managers have to rely on personal connections to acquire necessary resources and information. Taking an institutional view, Guthrie (1998) and Tan et al (2009) believes the importance of guanxi in China's business context is diminishing as China's economy becomes more open, more market-orientated and with the institutional environment maturing. This view reasonably predicts that institutional development will shift the dependence of personal connections to arm-length connections and more open market mechanisms (Lovett et al, 1999).

“The role of guanxi, guanxi to me is normalizing and it has been for the last five years in particular. Guanxi is becoming very much like the way that you go about establishing and building business professional relationships anywhere else in the world”

Importance of guanxi connections to entrepreneurs of Australian SMEs

Operating overseas businesses are risky and need to overcome a number of challenges. According to Zaheer (1995), there are four sources of liabilities that multinational organizations have to tackle. These include unfamiliarity with the local environment, lack of legitimacy, constraints imposed by host countries, and high coordination costs due to distance between home and host countries. These may also apply to SMEs.

Many of the participants were attracted to be lower cost operations in China and due to their relatively small size, they also tend to be less affected with costs incurred of coordinating different units in multiple countries. Hence, the liabilities of unfamiliarity with the local environment and lack of legitimacy are most relevant to these SMEs. This would



be particularly true for transnational small and medium sized enterprises, of which entrepreneurs are likely to be unfamiliar with the local environments of the host countries and to be perceived to be less legitimate than domestically run and owned enterprises. Previous research identifies the greater the institutional and cultural distance between the home and host countries, the larger the challenges of the entrepreneurs in managing these liabilities (Portes, 2003). Therefore, understanding cultural differences, local customs and how the local political and economic systems work prove to be successful factors contributing to the success of transnational entrepreneurs (Portes, 2003).

With reference to the two major obstacles faced by entrepreneurs discussed earlier, previous studies suggested that benefits of guanxi connections could help to tackle them effectively. Hoang and Antoncic (2003) raised the need for more empirical support between the positive relationship between social networks and performance of entrepreneurial firms. The study supported some of the advantages of guanxi relationship in literature for conducting overseas businesses in overcoming the two major challenges of entrepreneurs:

(1) Unfamiliarity with the local environment:

Kostova and Zaheer (1999) found that the lack of legitimacy is due to the difficulty of local individuals and organizations to understand foreign firms. According to Eden and Miller (2004), these less legitimate firms are more likely to be treated discriminatorily by government institutions, suppliers and customers. Therefore, being unfamiliar with the local environment and lack of legitimacy could have negative impacts on performance of small and medium sized enterprises run by transnational entrepreneurs. Guanxi connections are considered to be a substitution of formal institutional support under an economic transition period (Xin and Pearce, 1996). Guanxi connections are found to be an efficient mechanism to reduce uncertainty, search and transaction costs (Yang, 1994). The quote below from an interviewee explained how guanxi connections help to deal with uncertainties in the unfamiliar business environment of China. The quotation highlights the challenges of unfamiliarity when Australian SME entrepreneurs conduct business activities in China:

“In China you actually have a tax officer, a person, so while we get the circulars about the tax system and we follow them, because we’re dealing on behalf of so many clients with individual tax officers, we often just ask them what do you think, what do you think is coming.”

(2) Lack of legitimacy:

Guanxi connections could provide legitimacy and reputation (Tsang, 1998), which could enhance trust level among business partners. Trust levels affects the depth and richness of information exchange (Saxenian, 1991; Uzzi, 1997). Higher trust level could facilitate exchange and minimize transaction cost to increase competitiveness (Farh et al, 1998) and could enhance competitive policies, including sales and marketing and better negotiation advantages, such as credit terms (Luo and Chen, 1997):

"They're the people that they trust and then people outside that circle are initially considered warily and you have to build trust over time. So to win a Chinese investor's confidence to invest in a group or a partner or a group of people, a venture, a company overseas takes a while."

"It's about trust but it's also about the Chinese being much more cautious about feeding information even to the friends or whatever they tell people or what they think they need to know to do the next stage. I think in the West we're probably more likely to sit down and tell them everything that's happened and be a little more open about it and not try and control the process."

"You then meet with somebody and you say we want to meet a few marketing firms or a technology companies, we'd like to explore some innovation on how we can grow and develop our brand in China. You want that guy to then go talk to xxx at zzz and you go OK and they might say I had a dinner with him last night down the street, I'll do an email introduction. So even though I'm not doing business with that guy, you want that they know what you do because it's mostly word of mouth and then you make contact with me and we catch up but actually you didn't find me on my own, you found me purely from a referral from being in the community."

"I guess also if you've got good networks, it gives an advantage, a distinct negotiation advantage as well."

"A lot of the jobs that I go to them with, if I was just anybody they'd say sorry we're not interested. But because we've got that connection that goes back such a long time and we've got a very close family connection with the owners of the factory and they just tell their staff that whatever xxx wants just do it."

Entrepreneurial challenges in understanding and establishing guanxi connections

Comparative cultural research studies found that personal relationships are more important in China's business environment than in the Western ones (Chen et al, 2013) and many of our respondents were aware of their importance for entrepreneurial ventures in China.

In terms of guanxi bases, transnational entrepreneurs suffer huge disadvantages due to their ethnic identities and as new arrivals. Farh et al (1998) found that mainland China executives reported high levels of trust in business relationships that were based on guanxi ties rather than based merely on ties based on working relationships. For instance, trust could be perceived differently between Westerners and Chinese. For Chinese, trust often relies on one's oral commitment and ability to keep his promise while Westerners would mostly depend on legal agreements and contracts (Wang, 2005). In this sense, transnational entrepreneurs could find themselves in a disadvantageous position.

Although guanxi is considered to be a guiding principle in conducting business activities in China, many elements of guanxi ties, such as reciprocity of favour could not be measured objectively (Hwang, 1987). An inappropriate behaviour in not returning the favour (renqing) properly could cause the Chinese party to lose “face” (mianzi) and can even trigger negative emotions. This would particularly be a common mistake for Westerners because they depend more on formal legal systems to resolve business disputes, guanxi provides an effective alternative for dispute resolutions (Lee et al, 2006).

“The issue of face (mianzi) is probably the hardest one for foreigners I think to come to terms with. When we lived in the Philippines it was a question of understanding which way a no was said, the tone of the no, there are seven or eight ways people say no in order to work out. To me face is a little bit the same. I think sometimes people take a while to understand it because it’s not just about who just pays the bill, it’s very definitely about rank, power, it’s about where you sit in the hierarchy of your own community, where you sit in the hierarchy of your own family.”

Responses to the challenges of establishing guanxi

Acknowledging the importance of guanxi in conducting business in China, and the difficulties in understanding and initiating guanxi connections in China, we found in our study that some entrepreneurs decided to hire local employees to manage networking for them. For an entrepreneur, “whether to employ a local manager” is found to be a major decision that could have significant impacts on performance of domestic firms (Villalonga and Amit, 2006). In addition, since transnational entrepreneurs have little local experience and that they have fewer local connections than local managers, there is a strong incentive that they would need well-connected local managers in their firms. As Chinese business people like to deal with people they know and with someone that shared the same guanxi base, it is unlikely that they would prefer to conduct business with Westerners that do not share any guanxi referencing. Previous studies suggested that staff with local personal networks help firms to access financial and human resources (Shane and Stuart, 2002; Bygrave et al, 2003). Our study found that some entrepreneurs depend on local managers in establishing and maintaining guanxi connections:

“In all seriousness having somebody who understands the value of relationships and relationship building and the importance of sitting down over a meal and showing appreciation for Chinese culture and food and so on.”

However, the decision of hiring and having local managers to work on networking and liaising activities could have the possibility in creating agency problems. Agency problems arise when a hired manager does not act in the best interest of the owner(s) of the firm. Rather the manager works for his/her own interest and the owner(s) could not effectively monitor his/her behaviour (Fama and Jensen, 1983; Eisenhardt, 1989). When agency problems arise in a firm, the hired manager is likely to decrease work effort, pursue personal goals or even cheat for personal benefits, ultimately bringing negative impacts on the firm performance (Jensen and Meckling, 1976).

The high entrepreneurial spirit of Chinese (Hessler, 2007; Xu, 2008) heightens the risks that agents could prepare their ventures on starting their own businesses by collecting information, such as those about customers and suppliers. Interestingly, our study found that in order to avoid the agency problems, some entrepreneurs were married to Chinese partners. Interviews showed that these entrepreneurs actively engage on their better halves into their business ventures to facilitate them to understand what guanxi means in the minds of the Chinese.

“Interviewer: How can you tell me which way, what’s your understanding of Chinese culture and how it impacts on your business, does it have any effect on your business?”

Interviewee: My wife understands it very well, she’s Chinese.”

“I speak enough just to survive but my wife without her I’d be lost.”

Summary

The section examined the importance of networks of entrepreneurs of Australian SMEs in overcoming challenges of unfamiliarity and lack of legitimacy when venturing into China. Our study allowed us to examine Australian entrepreneurs in learning, establishing and managing guanxi connections to promote their overseas ventures in China.

Although, there is an opposite view on the importance of guanxi connections in today’s China business context as well as on its future development. Responses from interviewees confirmed findings of some previous studies on the contributions of guanxi connections. Interviewees also pointed out the major challenges that they face when they try to learn and work with guanxi connections to facilitate their entrepreneurial ventures in China. These Australian SMEs were found to be resourceful and responded to these challenges by hiring managers from the host country or by getting married and involved their better halves in networking activities for their business operations.

5.3. Motivations to internationalise to China

Participants were asked about their motivations for internationalisation. The research found that growth opportunities was a key motivation factor for SMEs for internationalisation to China.

“If we’re going to expand then it will be just expansion with China I think. I don’t think I’ll ever have a business plan for the rest of Asia necessarily.”

China was also seen as an attractive market place because of its size and wide range of business opportunities available within the market:

“China is obviously of attraction to us because of its size but it’s difficult. And it’s interesting with all of these issues and somewhere perhaps we step back a little bit and we found that China is generally the more difficult market to try and sell to.”

“China I think there is still a significant market opportunity because it’s a huge population.”

There were also many business development opportunities from an industry perspective available, which made China an attractive market for some:

“There’s a whole new sort of industry opening up in China that we can supply so we are meeting with them regularly and these plants take a year to design, a year to build, a year to commission so it’s a slow ramp up so we’ve got plenty of time to talk with these customers and generate sales for the future. Yes, lots of market development.”

“So China has an enormous amount of opportunity for foreigners coming in because you’re exposed to stuff you wouldn’t be exposed to otherwise.”

Some participants were also motivated by strategic reasons, such as acquisition of new businesses.

“I acquired this business in 2007. I bought the company and it was an outdoor media business, there was about 10 staff downstairs at number one and we had three levels and used to sub-license up the building.”

Along the strategy lines, participants suggested that it was not necessary to have preconceived strategies for entering China although it was important to carry out research on the market sector concerned before making a decision:

“It’s innovative in a sense that you haven’t got a preconceived strategy. You need to smell the roses and you need to listen to people and your idea of what to do about strategy is evolving all the time. I think you do certain things to test the water in China. ...I think my strategy in China is just steady as she goes, just little steps, not really big steps because I’m in no rush to do crazy things.”

Lower cost production was also a motivator for some participants, and has traditionally being an attractive reason for investors to internationalise to China. The following quote demonstrates how innovation with processes assisted the company with reducing their costs:

“So we do warehousing, we bring bulk shipments into China; we have three warehouses at three different ports in China. We discharge the ships and then we bag the material and I suppose that’s an innovation over the last 10 years or so, rather than in the past we would bag products in Australia and the bagging costs and then container shipping from Australia all up were say \$140 a tonne whereas we can ship it bulk from Australia for \$40 a tonne and then bag it in China for \$20. It’s a labor offshoring but also not just that, we’re more efficient with our shipping inasmuch as you can ship in bulk by conveyors than containers.”

Other motivations were as a result of some businesses wishing to provide necessary services to other Australian business internationalising to China:

“Our business is a bit different because we’re not pitching for Chinese clients. We’re offering access to distributors, importers, legal people, etc. We’re helping them get into the market so in that sense we probably need to use social media more to expand our knowledge and our networks or the parties that our clients need to connect with. But our bread and butter clients are Australian so we need to be using Australian social media more.”

Other participants were introduced into the market by previous clients or other organisations whom they worked with in Australia.

“We started a number of clients in the last five years from China. I guess a lot of it is word of mouth so we’ve worked with a number of consultants who act on behalf of several Chinese clients and they recommend us. We also have attended some trade shows or missions to China with the Australian Government and we’ve had a number of leads from that, but primarily it’s through word of mouth or having worked with clients before.”



Summary

Therefore, the SMEs investigated for this study had experienced a range of motivations for internationalisation to China, which had included growth opportunities, the size of the Chinese market place, business development opportunities, strategic reasons, low cost production and transportation from China to Australia and the provision of services to other Australian businesses.

5.4. Entry modes used

The study found that participants entered the market using different modes such as exporting, fly-in-fly-out mode (project basis), licensing, agents, making partnerships with Chinese companies, supplier relationships, using representative offices, forming joint-ventures with other firms and as a Wholly Owned Foreign Enterprise WOFE

(Appendix 1, provides details on the variation of entry modes across the sample). Participants described the different entry modes that they used:

Exporting was used by one company to minimise the costs of other modes such as a WOFE or Foreign International Commercial Enterprise (FICE):

“It’s like an export business at this stage. If you go back to when we approached the market in 2011, we were going to set up what they call a wholly owned foreign enterprise which is a WOFE as they call it and then we determined that to set that up was about 140,000 Australian and we decided that unless we had a decent project it wasn’t worth doing and then we looked at a FICE, which is a foreign international commercial enterprise or something or other and we have decided now after a number of discussions with prospective partners within China that we can probably get away with a representative office which is effectively the cheapest way to enter China.”

The following provides the example of a respondent who utilised a fly-in-fly-out mode that then turned into a more permanent venture, once business had been developed:

“Basically we started because we had a job here so we got a job in Sydney, remember for the Chinese guy that lived in Sydney, gave us a project here so we started flying in flying out. Since we were in Taiwan and we were very close to China, we thought it was a good opportunity and we had one project to actually see what the market was like so we started flying in flying out and having a look and then decided we should move here.”

Joint-ventures/partnership was also chosen by some, because it is assisted them in getting future contracts and business with state owned enterprises:

“You need a bit of luck as well and from that we got work with China Southern Railway, China Railway Construction Company. So when we set up a joint venture in 2004, we set up a joint venture ... because it helped us to keep in the market for state owned enterprises. If we’re a wholly owned company, we can only work for foreign invested companies and for a joint venture we can work for anyone. That relationship is ongoing.”

Others had decided to acquire a WOFE, which had presented its own unique challenges in developing a good reputation:

“I came here and sort of started media companies. My alternative was start a new company, a WFOE, and invest whatever I needed to do that, do a joint venture with a Chinese firm and you’ll always be subject to not really owning it or acquire a WFOE and establish brand and have credibility in the marketplace. So that’s what I chose, that third option. Little did I know it had its own credibility question mark over it because of the previous founder but that took a couple of years to dissolve and develop our own character

and our own personality.”

A common strategy for a number of participants was to develop an ‘offshore’ entity in Hong Kong, which meant that invoicing and payments could incur there, which reduced the difficulty associated with China:

“Having a Hong Kong entity turned out, to be very useful ... it provides a useful facility in that many of our clients are offshore. Most of them are onshore so we invoice them locally but some are offshore. I’m working for a Dutch company just at the moment so they don’t have any entity in China to pay me, they can pay me in Hong Kong in Euros. I’m happy because I have some money offshore, they’re happy because they don’t have to do any currency stuff so it works all OK.”

It also meant that the SME could avoid the high capital requirements that WOFEs in China require

Summary

A variety of entry modes have been used by Australian SMEs for entering China. The decisions were frequently affected by the local policies and regulations and what the participant wanted to get out of the structure. Also these companies selected the appropriate modes of entry with consideration of commitment of resources on international expansion as well as acceptable level of risks. Respondents also shared with us their knowledge on the advantages of establishing joint-ventures with local Chinese companies in seeking for greater support, in terms of financial resources, knowledge in exploring the local market and increasing the ability to secure local contracts. WOFEs, which could allow greater autonomy is another popular choice. Choosing a Hong Kong based business was also popular because of the advantages offered in comparison to Chinese based businesses.

5.5. SME issues and problems

The participants experienced a number of operational problems, which can be classified as internal based issues such as staffing, timing and investment, and external issues such as the regulatory environment, infrastructure, political issues such as government-to-government relationships. This section summarises the key problems that they experienced.

Internal issues

The first set of issues related to internal based issues, which are caused by the structural conditions of the organisation/SME.

Resource based issues

It is generally acknowledged that resources play an important role in the development of innovation, and innovative businesses. Some respondents described their innovative companies as including multiple research engineers on staff, and these staff had higher-level degrees such as PhDs and masters degrees. Participants also suggested that it was difficult innovating in an SME because of their limited resources, for

example, “innovation costs money, and small businesses don’t have that type of money.” Innovation also requires a particular skill set in staff, and it needs moderate capital to finance it. Therefore, for some, innovation often takes a back seat to getting things done:

“SME’s have problems with innovation because of resource-based issues.”

The size based constraints that SMEs dealt with included staffing, time, funding and investments/cash flows. The following are some indicative quotes:

“Attracting the necessary resources and staff to make this how I want it to be, that’s definitely the biggest issue and time, finding enough time.”

It would appear that these SMEs have good dreams/plans in regards to their business in China but are constrained by a lack of resources. Having a large cash injection would be helpful:

“I suppose for us it really is resources. We’ve been given a licence to try and make this happen and significant resources, including a cash investment that we didn’t think was going to be necessary... at the last minute to make things happen the company had to put some cash into the company in China which at some stage we can get back but there is a cash flow implication for that. I’m not saying we need to turn a profit, we just need to see that things are progressing and we’ve got investment in, we’re doing R&D that we’ve got one or more of our grants that we’ve put in, getting funded.”

Finding talent was also a major issue for companies, as articulated by the following participants:

“Finding the talent, not retaining it, finding it.”

“I need more people, good quality people.”

“It’s really hard to find really good people.”

“Time, we’re very stretched in terms of - we would love to do this over here but that is just not possible yet. People would like to meet us over there but we haven’t finished training these guys over here yet, that’s not complete so maybe staff and time.”

Keeping up relationships and guanxi

Related to staffing, participants thought that keeping up relationships, and maintaining contact was important to assist in the development of guanxi. However, for SMEs this was often difficult because of resource constraints; “You need to regularly visit them. If you don’t regularly visit them, you’re not going to get the consistent quality.” This has a resource implication of having key staff or the business owner available to do visits, and the expense associated with multiple business trips to China.

Managing growth correctly and cash flows

The management of the SME business is also important. For example, it was identified that a business should be carefully grown so that one doesn't over expose themselves: This also requires SMEs to be focused on important activities:

"I think in China it's more the issue of how to grow it the right way and trust in partners in China because there are so many different places you could do it. It's just rethinking what you're doing. I think the issue with China is it's evolving and changing and you've got to be careful about what you do and you don't overexpose yourself. One of the biggest issues is more that you're continually being conscious that you've got to be careful, the issue with China is being very careful how you do business because you can destroy your business."

Linked into business growth was managing cash flows as one participant stated that he needed to be more careful about how much cash he repatriated to Australia:

"It's a very long answer ... the lesson I need to have learnt is that we have generated a lot of cash here and I repatriated too much cash from here and I'm now today in a very cash poor position so therefore I haven't managed my cash situation. Business goes in cycles always and I'm at a point in my cycle where I need a little bit more cash than I've got available and the only way I can get it is to get my colleagues to repatriate some of the cash that I've already given them."

Therefore, it is important that businesses manage their cashflows, and not repatriate too much. From a resources perspective joining with partners had positive effects on developing more resources for the SME:

"So you need a partner to get the money and that's another reason for the partnerships so that you can borrow money locally or you can get money locally."

Others suggested that having a significant amount of capital was really important in China, and this was related to the capital requirements that WOFEs had of \$140,000:

"First of all don't underestimate the capital required because it's much more significant than you think."

Despite the prohibitive amount for very small SMEs, some thought that this capital requirement was helpful, as it meant that the SME had enough capital on hand to engage in their business activities.

Marketing

Other issues for the participants was their ability to develop appropriate marketing strategies for the Chinese marketplace, which was further compounded by the lack of resources such as staffing and funds. As one, respondent from an Accounting SME based in Shanghai stated:

"At the moment it's very hard for us to find the right place to

target and that's why we are still learning different ways. We are going to the networks and we are using different strategies and our Australian business is also helping us to do that. I think networking and finding the right channels to grow your business to get the clients in is still the biggest challenge for us."

This type of experience is probably very common for SMEs who lack knowledge of the Chinese market, where to find customers and how to market themselves.

External issues

SMEs had also faced a range of issues with the external environment.

Regulatory Issues

It has been well documented that legal and Intellectual Property (IP) issues can present problems and issues for foreign business in China, and this was further identified in the research. A few respondents commented on the difficulties that regulatory issues created for them to get into the market:

"The first one would be licensing in China. Licensing premises and the regime is extremely prescriptive and it is extremely hard to satisfy all licensing requirements. For us we don't have a license in China. We actually form JVs with other design institutes and so forth and while we can apply for licences, it's a very timely and difficult thing to do and I believe that history shows that most companies acquire a license rather than go buy one."

Some SMEs had experienced issues with getting their products across the border, for instance:

"Getting the product into the country and regulations on the border"

Bureaucracy and red tape were also significant issues:

"I have to say that a lot of people complain they have a lot of difficulties setting up enterprises, small scale enterprises, and they are slowed down especially for the paperwork. There is no such thing as a one-stop shop here for anything. I guess you've heard this plenty of times already and it seems to be a never-ending procession of things that they have to do. Last year I wanted to set up a business, I had to fly back to Australia to get forms filled in and hand bring them to the Chinese Embassy in person in Canberra and have these certified as true copies so I could send them back here. It can be horribly time consuming."

Political relationships

Linked into regulatory issues, political issues also had caused problems for SMEs, and one participant had indicated that: "Western, US and American policy towards China had caused damaging relationships". Therefore, what happens at a political level can have a flow on effect to smaller businesses. Similarly, some SMEs had issues with

tariff barriers in place, which are a result of government-to-government negotiations. As the following Hong Kong based participant commented on how the lack of the FTA between Australia and China had an impact:

“Not necessarily here in Hong Kong but one of the biggest issues are the tariff and non tariff barriers in place in our markets around the world. So the negotiations our federal government is doing and the fact that Australia still does not have a free trade agreement with China.”

Infrastructure

SMEs had huge problems with Chinese internet connection and China is well known for the ‘Great firewall of China’, which caused reliability and efficiency problems for SMEs. A management consulting/training participant commented on the issue:

“If it’s business probably the internet as a whole is my biggest issue for two things. One, it’s incredibly unreliable so I can Skype Shanghai and have pure connection, clarity perfection and Shanghai has difficulty Skyping Beijing. The connection in China is often worse than the connection from outside inside. So I would say that the internet instability and we never know if a website that is being recommended or utilized is going to go down. I used to recommend slideshare.net and I loved it and I got a lot of information from it and then one day it just became blocked by the Chinese censors.”

A security participant based in Melbourne, providing services to China also had infrastructure problems in regards to “cable assets’ that they use for their business and “what published data says about them is unreliable.” This impacted on their ability to provide innovative products/services to the Chinese market.

Problems with payments and squeezing on margins

The participants also experienced challenges with pricing arguments, and a squeeze on margins. These issues may have greater impact on SMEs rather than larger firms because of size based issues, and the fact that these SMEs have less bargaining power. The following is indicative:

“We get a constant argument about pricing from China in a lot of customers always want to argue about price.”

“Our biggest issue in China at the moment is that the developers are actually getting worried. The developers, everything is a cost saving exercise so the budgets are less...Everything is affecting the project so there’s less submissions that are coming around, the contracts are worse, fees are worse, budgets are worse and it’s all because developers are actually worried and they’re just trying to save anywhere and everywhere even if it’s to the detriment of the project. So that’s our biggest problem.”

Linked into price squeezes and margins, one participant noted the unpreparedness of

clients to pay for ‘innovative services,’ after they have been provided. This has been identified by previous research in the field:

“It’s a bit peripheral but it impacts upon cash flow and therefore success of innovative exercises and that’s the preparedness of particularly Chinese customers to pay for services, possibly even after they’ve been delivered.”

Summary

In summary of this section, it was revealed that these participants faced a range of problems and dilemmas that were both internal and external to the organisation. Internal issues mainly related to resource based issues, meaning that these participants had found it difficult to find good quality staff in China, or were limited in terms of the amount of human resources that they could devote to developing the Chinese based business. Time, money and investment capital were also resource-based constraints that these participants had experienced. Other problems that were apparent included having the resources to keep up relationships, so as to develop the necessary trust that will promote business in the future. Many trips abroad might become costly in terms of time, human resources and money. Linked into resource-based issues the study also identified that managing growth correctly, so as to not spiral out of control, and cash flow issues were other problems that these participants had encountered in China. Cash flow was a challenge for the participants which repatriated money back to Australia, and couldn’t get it back to China when they needed it, or if they lacked cash flow they may have required a local partner to assist with this, or to help with securing loans. Other resource based issues related to marketing as well, with some participants struggling to work out the best marketing techniques in China.

These participants experienced problems associated with the regulatory environment, relating to business setup, IP issues and red tape. Strained political relationships between Australia and China, had also posed a problem. Infrastructure, such as bad internet connections and blocked websites had created efficiency problems for these participants, or lesser quality infrastructure had impacts. This suggests that education of the market may be relevant. SMEs had issues with Chinese customers who had issues with services, or that margins were constantly being squeezed which had an impact on competitiveness of projects. From the interviews it is appears that Australian SMEs are facing a range of problems, and issues when



operating in the Chinese market. Most of these issues will equally apply to larger organisations, however, some of them such as resources, managing growth and cashflows may apply more and be relevant to smaller organisations, simply because they do not have as many resources as larger organisations. The interviews also identified that external conditions such as regulatory issues, political relationships between China and Australia, infrastructure, the level of development in the market, and problems with obtaining payments. Some of these factors are beyond the control of SMEs, however, attempts could be made to manage some of these external problems.

5.6. Capabilities and competitive advantages

We asked our participants about the capabilities and resources that they utilized for their Chinese based work, and a range of them were identified. Barney (1991) classes capabilities into tangible and intangible resources. Firms can increase their performance in foreign markets by leveraging their internal resources and capabilities. Researchers, Zhao et al. (2006) finds that the quality of resources are linked strongly with performance in China. Therefore, better quality resources, and the utilisation of those will positively impact on firm performance. According to Barney (1991) it is important for the firm to identify their resources. The SMEs commented on the following important resources/capabilities that they utilised for the Chinese market.

Skills sets

Skill sets or having specialist skills or being able to find them can be classified as an intangible resource that give SMEs a competitive advantage in the Chinese market. These included profession related skills, for example lawyer and arbitration skills, or people skills for those skills required to relate people, and the ability to find skills necessary to develop guanxi in the Chinese market. The following quote is indicative of someone using their management skills to get things done in the Chinese market:

“I think you use part of your own skills and attitudes obviously and then you can leverage your connections and other people’s skills.”

Some SMEs commented on their ability to attract the skills required to complete jobs or projects that they were working on, and this was despite that it is a well-known issue in China that finding skilled staff, with the necessary competence is difficult. Hence, finding skilled staff is rare, and is likely to afford companies a competitive advantage over those who do not.

Connections/networks

As dealt with in the culture section, connections, networks and being based in a community, were suggested as being a valuable resource for SMEs in China. A manufacturing participant, based in Guangzhou, provides a good example:

“I think in terms of resources, I’ve got good connections here in China like with the Australian Government here, also with my business partner he’s very well connected in there and also with the Chinese side, because he is Chinese.”

Network connections were seen as important in China because of the relational based nature of the Chinese culture, and therefore this is seen as a valuable resource for the firm that leads to competitive advantage.

Language skills

The ability to speak Cantonese or Mandarin was also seen as an important resource, and participants mentioned that having staff who could speak Chinese, or speaking Chinese themselves was an important consideration for being successful in China. Some participants employed Chinese-speaking staff that eased phone conversations, for example dealing with importing and exporting documents between Australia and China:

“We employ a fair few Chinese speaking people in our purchasing areas so we have about three or four Chinese speaking purchasing officers. They don’t necessarily come to China with us but day-to-day liaising with suppliers is quite easy on the phone. If they need to pick up the phone they can.”

“Similarly having Chinese speaking staff for and thus people were employed to that effect. Again having competencies in the Chinese language will put the firm at a competitive advantage over those companies that do not.”

Educated and Knowledgeable Staff

Having educated and knowledgeable staff was seen as a key resource for the innovative participants. Considering that education is often the crux for innovation. Participants mentioned that the educational background that they preferred included industry, professional, business, technical and corporate knowledge. Having educated staff either from Australia or China was helpful for some businesses as one business owner from Guangzhou reflected on:

“My education of business management and Chinese from university in Australia is definitely a major help with what I’m doing, being able to understand what’s going on, the way things are done in China.”

Technology

Technology was also seen as a key resource and cornerstone for innovative businesses. For participants, this had included technical knowledge/know-how capabilities, understanding of technical industries, for instance bio-tech or having/developing novel technologies were seen as important resources. Having sophisticated or novel technologies assisted participants to gain a competitive advantage in China. However, having novel technologies for some firms might be a disadvantage, because of the low level of maturity of the Chinese market. Many participants observed that their western technologies were not accepted in China yet simply because the Chinese was not at the stage of development necessary (as noted in Section 5.1):

“Having this sort of network and again there are thousands of

competitors here, nobody has it and we've invested \$50 million over the years in cloud computer technology. What that means is and even 15 years ago the cloud didn't exist, we had an IT network that was a lot more advanced than any other and in fact there weren't any competitors. So thanks to this cloud that we've invested so heavily in we're able to provide seamless travels throughout the portfolio, flexible pricing access to all of the resources internationally."

This participant possessed a technological competitive advantage in the marketplace which resulted business success.

Entrepreneurship

Participants also mentioned entrepreneurial skills as a key resource. Participants described a range of words that could fall into the entrepreneurial category. These resources include being flexible, agile, adaptable, having unconscious competence, fearless, serendipity, luck, meeting the right person at the right time, energy, dynamism, synergy, freedom, excitement, persistence, hunting opportunities, creative, not rigid in ideas, problem solving, constant tweaking, sharpening the sword, evolving, fluid, agile, perservance, determination, diversity, taking the risk, passion, and having an amazing team. It's likely that these types of characteristics would give firms the ability to be successful in China, and give them an advantage. The following quote is indicative of these types of resources:

"I think it just comes down to one thing and that is just the passion and we're finding the right people. This year has been really, really ... we've gone gangbusters this year because our national local team has been absolutely amazing."

China Experience

Chine experience or previous collaborations and engagement with Chinese associations/partners was seen as an important resource. For example, some participants had said that they had dealt with China for over 40 years, which gave them the necessary capabilities to effectively engage with and develop strategies for the Chinese market. Others had also mentioned that they had either extensive experience with China, or working with China for a long time:

"We've a fair bit of experience within our organisation of dealing with China, myself, my boss and some of the other guys have had fairly extensive dealings with China."

Tying this in with the theme of engagement with China, other SMEs had said that their business owner had visited China many times a year, and had been doing so for a very long time. Engagement was also achieved through having staff that were Chinese background, being Australian Chinese, or being Chinese and studying in Australia (for instance Haigui). Some participants had reported utilizing these staff in Australia and transferring them back to China. A number of respondents had utilized these resources in their Chinese operations. This 'China experience' may give SMEs an advantage when operating in the Chinese market over SMEs that don't have China

experience.

Marketing and Branding skills

Marketing and branding skills was seen as an important capability for the Chinese market, for instance Australian SMEs who were selling organic and natural products such as organic baby food/milk formula or organic meat products, seemed to hit it off positively in the minds of Chinese consumers. Recent food scares in the Chinese market (i.e. the melamine milk saga), may give Australian food manufacturers and SMEs quite distinct advantages in selling their products to the Chinese market. In addition, as Chinese consumers become more sophisticated in their tastes and preferences, they will probably want products that are organic, made in Australia, safe and reliable. Branding was also seen as an important resource for SMEs with a number of them mentioning that their brand had being clearly defined in the Chinese market, which meant that people knew what it was, and this assisted them in getting business. Having an Australian brand was also seen as helpful for some businesses, as the Chinese thought that quality was often synonymous with Australian products. The following quote from an architect is indicative:

“They want to say ok this was developed or designed by famous Australian architects and I think that comes from their marketing point of view. So there is a bit of prestige associated with an Australian product in this market.”

Having good products, brands and engaging in marketing type activities were seen as positive resources for the participants, which are likely to lead to a competitive advantage.

Summary

It is apparent that the participants had a multitude of intangible and tangible capabilities, which could assist in developing competitive advantage. These are broadly classified into items such as skills set/specialist skills, connections/networks, language skills, having educated and knowledgeable staff, technology, being entrepreneurial, having China experience, time, funding and marketing/branding skills. The participants suggested that these were important in developing a competitive advantage in China, as it allows firms to operate successfully. As a result, other SMEs wishing to do business in China should examine this criterion to determine whether they have similar capabilities. If they do not have these resources they could look into developing such capabilities.

5.7. Government support

We asked participants about whether they received any government support for their internationalisation to China. We found that participants had a range of answers, which can provide insights on key areas of government services and their future improvement.

Used Austrade

A majority of the businesses had indicated that they had used the services of Austrade:

“We actually met with the trade commissioner in our area and I met the manager here and they requested us to provide a company profile and a company referral list to be sent around their database. Also I met the New South Wales trade commissioner.”

The types of services that SMEs used included introductions:

“I do understand there is a limitation where the government can help and I think they only can help just by introducing you to the right people.”

Other respondents suggested that having high level representatives of government come over from Australia was also highly beneficial, as it signified the importance of Australia’s relationship with the Chinese:

“And AustCham does try...I know John Howard was here actually in the last couple of months and he holds talks about China and the relationship. I see it’s more about relationship though that when you actually get down to doing work and working with major SOEs it can be a little bit more political, like the China political people come and our political people come”

Others had glowing reports of the services provided by Austrade:

“AusTrade is fantastic. AusTrade does a lot for Australian businesses here. They’re just across the road we have good contacts with them. They’ve been helping us with this project and interestingly we’ve noticed the difference between the AusTrade offices in China and this is far and away, the one here, is the most active.”

Export market development grants

A number of participants (7) had mentioned that they had obtained grant funding through Austrade’s Export Market Development Grant (EMDG) scheme:

“I got an EMDG grant when I first started. It’s always helpful to get some extra cash. But what has been helpful for I must admit was something that probably I might end up feeling pleased about than not is that for smaller companies it’s hard to get your APEC card renewed these days and if you’ve had an EMDG grant you get your APEC card renewed. Very useful.”

On the whole, participants suggested that the EMDG were helpful, in paying for expenses that these firms incurred in any case, and therefore as one participant stated “it was just nice” to have the expenses paid for by the government. This participant had stated that they had “spent a lot of money on marketing up here and a lot of money on plane fares. I have a very big frequent flyer account.” This no doubt, assists SMEs with more effectively setting up their business in China.

Used state based trade missions

Other participants had utilised state based trade missions that the Victorian

government through the Department of State Development, Business and Innovation (DDBI) provided. Participants suggested that this trade mission which was run once a year was helpful in developing more knowledge about China, and understanding what it is about:

“Trade missions have been important. Most of those have been run by the state...So they have been useful in terms of actually getting a number of us there to really cement the idea that we wanted to go down this path.”

Apart from finding out about the Chinese market, participants of the trade mission suggested that it was helpful to do the trip with likeminded colleagues, where they could share stories between each other, and support each other:

“It’s interesting like the super trade mission, funnily enough one of the biggest advantages I got out of it was talking to other Victorian companies, discussing what they’d done, what they’d achieved, what they thought of things.”

Others suggested that the trade mission was helpful in terms of getting new contacts, with which to follow up on at a later date:

“In principle we didn’t really get but they did organise a trade mission to China so we went and it was quite productive, we do get a few contacts by the Australian trade mission.”

On the other hand one participant lamented on the difficulties with meeting with a lot of people over a short amount of time (i.e. speed dating for SMEs), collecting business cards and then never having the opportunity to follow up on those contacts:

“If you meet someone here, you have to follow up. I have been told several times in China that it’s three times you’re out. If a Chinese buyer asks you do you want to come to lunch today and you go I don’t have time and he asks you again do you want to come to lunch today, you go, no, no time. They’ll ask you one more time and they’ll never call you again. They’re asking you to come out and they want to develop this relationship so you have to really go after it. So these 120 guys, as soon as you go back and even I had this problem, is you go to a conference and you get 120 business cards. You go back home and the next minute everything else is a priority, the cards go in the top drawer, you do nothing with them and therefore you’ve almost wasted the investment in the trade conference.”

Therefore, it is important that organisers and participants don’t over extend themselves meeting too many people on trade missions. Rather they should take a more concentrated approach to meeting people, developing relationships and following up on contacts.

Chambers of Commerce are good

The participants commented that the support provided by the Australian Chamber of Commerce in China, and by the Australia China Business Council, which is located in

Aust SMEs in China

Australia was useful:

“I think the one thing that AustCham does very well in representing Australian SMEs and actually individuals within China, within Australia and within DFAT, they’re very good at when we meet one on one or in groups engaging with us to understand where the challenges are for the SMEs across all the different sectors and trying to help if they can to then reflect that in their discussions say with the free trade agreement or whatever between Australia and China.”



Chambers were considered to be helpful for developing connections in China:

“The Chamber is a good starting point for anybody who’s coming into Hong Kong and needs to connect with other organisations because they will facilitate introductions.”

Chambers were beneficial for developing customers also:

“At state level, I did speak to state and they put me in touch with AusCham in China and I actually went and did some early visits with AusCham and that’s how we met some potential customers in the early days but because we were really unprepared with our marketing materials and being able to demonstrate, the perception was you’re just another distributor. In China it’s all about price, I can get that same bit from the local distributor here anyway so unless you can do it cheaper well what are you doing for me? We’re trying to tell them no it’s the value add, it’s the system design, and convince them and sell that story, is what we haven’t had success with as yet.”

Others thought that the Australian Government and Austrade were fairly distant from Australian businesses and SMEs had to hunt out the support from these bodies:

“But I would have to say they’re fairly distant like I don’t hear

anything from the Australian Government. Yes, you almost have to go and hunt it out. I was at a luncheon last week with all these Victorian trade ministers and...Yes. I was talking to them and they were do you do much with the government and I was no, what's there to do, no-one ever told me, I'm not aware of anything. It's not like you leave the country and they go make sure you give us a call. You get here and you're on your own."

Similarly, one participant stated that even though they had won multiple business awards in China, this did not result in any further government support for the participant:

"There're annual business awards. We won that. I think we won twice, the Australia-China Business Award. We won the entrepreneurial award but even with that you can't you get on the map, you think you're on the map with the Australian Government – no. We won the most entrepreneurial company award, not even a phone call, for China that was an open category. There was a big business award for the banks and BHP and all that but I think that was the one for Kevin Rudd when he was here. I knew John Howard when he came on stage so he asked me to be there, it was fun but that's just because I know those guys but not the government at all. It seems to be pretty off the front unless you're big business. If you're doing a multibillion dollar contract negotiation for coal or something like that, yes, you need that government relationship."

This suggest that the Australian Government could do more to support smaller players. Participants also reflected on the differences that AustCham's and Austrade's were across China, for example:

"And I would have to say AustCham, AusTrade in Shanghai compared to, and other AusTrades and AustChams in other cities in China even, there's a very big difference between the kind of service that you receive here than in the other cities."

Differences in AustCham's and Austrade maybe reflective of the size of the Australian business community in each location. For example, Shanghai has a larger Australian business community in comparison to Guangzhou, and as a result the AustCham/ Austrade maybe larger, more developed and have greater resources in Shanghai, than in Guangzhou.

Didn't utilise government support

At least five of the respondents in the study had not used any government support, either because they didn't know about what Austrade provided, or it was not available for start ups in China, because the firm was not Australian based, but was established by an Australian national in China:

"No, nothing.: Yes. I don't think there's really anything available in Australia for start-ups. They're more concerned with people that are importing or exporting?"

As an implication the Australian government may wish to consider providing marketing/business development grants for start ups in China, who are developed by Australian nationals.

Austrade could improve their service/offerings

Participants were truthful and direct when they said that they thought that Austrade could improve the services that they were providing:

“The Government is quite hamstrung here with what they can do in terms of the scope of the Federal Government back home, what’s their new push, what areas they’re trying to focus on. AusTrade works a lot here as a service which is kind of awkward and weird”

The following quote indicates some of the issues that participants have had with Austrade:

“From time to time I have asked for information from ... the Australian Government who has an investment advisory section that can help you identify other businesses in your business or if I wanted to promote something to the wine industry I could get them to provide me with a list of all the people in the wine industry in Hong Kong, it has that service. But so does Invest Hong Kong and frankly Invest Hong Kong I think does a better job of it”

“It’s got a better database, it understands very clearly that it’s goal is to make sure anybody considering investing in Hong Kong can and does. It also, and it was a while ago now, it doesn’t charge for its services, I don’t think it does, I don’t think I’ve heard anybody, but the Australian Government does.”

This might be due to the fact that trade services from other countries, have better funding and resources than the Australian version. This indicates that Austrade may need to benchmark and learn from other trade services to improve their practice. Alternatively, if other services are already good, Austrade could collaborate and partner with these services to provide them to Australian clients.

“Yes, I think so. I think there’re opportunities around particularly for Australia now and our government to be able to help us to connect us to importing requirements but I would imagine also from a service perspective. The US Government does an amazing job of translating, helping directly.”

Others suggested that Austrade could have assisted with government-to-government level approvals, which would have facilitated business:

“One thing that AusTrade could have helped us was from a government-to-government level with our approvals.”

Others suggested that Austrade was expensive, and people thought that it was difficult to pay for services, when it is known that Austrade is a taxpayer-funded entity:

“Yes. I know it’s challenging, they’ve got budgets and it’s not easy

and I know they have to charge for a lot of the services as well.”

Duplication of support services provided by different government bodies

Some participants reported that it was difficult to know the types of support that was available by different government bodies.

“Department of Business & Innovation that connected me with a few people but I still don’t know what government resources are available to help companies. So if there was an easier model to understand what services, what functions are available in the government departments.”

This stemmed from the fact that there was a range of government bodies from federal, to state, and local councils that were all providing trade facilitation services, and sometimes these services duplicated one another. Similarly, others were quite interested in having information sheets or more prescribed details on doing business in China, for example:

“I’d like to have a dossier that someone just hands to me and says in China if you’re about to start a business, these are all the things that you need to consider, here are lists of people who we trust and they’ve got good reputations, talk to them, whether it’s legal services, whether it’s accounting services, things of that nature. That’s probably the only thing, apart from that it’s very much wait and see.”

Summary

In summary of this section we found that participants had ranged from utilising Austrade, which they believed was helpful in providing networks, introductions, general assistance and providing grants through the EMDC program. On the other hand some participants had used Austrade services, but had not always found them to be useful or they thought that the trade services provided by other countries were better than Austrade, and as a result they suggested that Austrade could improve their services. When commenting on government support some participants referred to the Australian Chambers of Commerce (AustCham). In general, participants identified AustCham’s as being helpful, because they assisted firms to enter local networks, which could be beneficial for the establishment of their business. Other participants had used state based trade missions to find out about China, to make contacts and to develop appropriate pathways into the Chinese market, which they had found useful. In general, some participants suggested that it was difficult to know what resources are available from Government providers at the various levels, and therefore some participants wanted to have clearer information on the types of government support that is available. This last point was especially pertinent because of the various forms of support that was available at local, state and federal levels.

5.8. Sources of Funding

We also investigated funding issues for innovative businesses and found that SMEs had utilised a variety of funding mechanisms to support their internationalisation to

China and the innovations that they were developing for the Chinese market.

Company funds

Most participants had used company funds, to develop their business in China:

“We use company funds, sometimes personal, it just depends on what it is, but the majority of it is company funds.”

“We fund it out of profits. Our own business profit.”

“All funded internally. Our Australian business has invested in this one in China and will continue to do so if it’s needed or the other way round, or use profits made here to grow here.”

Others were funding and growing their business in China organically:

“So you’re organically growing it. Yes, no major capital investment or anything.”

Some participants suggested that reinvesting profits and saving up capital in China was important, so that they could use this to fund further activities:

“The recipe is quite simple. Initially you’ve just got to reinvest all your profit and build up your cash bank, don’t take money out. And yes of course they say Chinese enterprises have no trouble getting capital. It’s very interesting and quite a challenge. Some of the other companies we’ve spoken to basically repatriated everything they make back to Australia because it was the expectation in China, making bucket loads of money, send it on back. In this case there was not that pressure, you had the opportunity to reinvest?”

Similarly one respondent had stated that it was important to use company funding because it was difficult to get loans, or other forms of investor capital:

“Thinking about funding, obviously for the WFOE you have to transfer capital and so on, so we used private capital from our organisation? No, it was always equity funding but we’re happy to take more cash. But it is challenging because there isn’t really any ability to tap into any funding to go offshore from anyone else. It has to come from equity. You can’t get loans from the banks.”

These findings suggest that equity financing is the most realistic way to fund activities for the Chinese market.

Capital requirements for WOFEs

Participants also commented on the importance of having savings/capital in the bank as a buffer if things go wrong:

“You use your suppliers as your credit, yes. So to grow in size you need cash just to turn over money, just to keep the business turning over. And it’s good because it’s also security. We’ve got 40 million registered capital with our joint venture partner so we’ve

always got like 7 million dollars sitting in the bank, that's your buffer. A lot of businesses don't operate like that in Australia and it's completely different environment."

In addition, the Chinese government were very particular about WOFE having certain amount of capital in the bank to also act as a buffer:

"That is part of the restrictions in the industry. So when you get to that stage ... I think we had to go from six to 20 but you can only do five times ... you can only sign a project five times your registered capital. So if I've got 20 million investment, I can only do a project that's 100 million RMB and then I'm finding that the projects are getting bigger. My clients' business is getting bigger, they want bigger projects and they're pretty low investment in. So to get that I'm thinking I need to be in that 100 to 200 million range so I can bid and win these projects because then I can work efficiently because in construction the processes are all the same, the same amount of work building a small building as a big building, you just need more people and more cash."

It was important to have enough capital for entry into the Chinese market, and in addition regulations by the Chinese government require it for WOFE setup:

First of all don't underestimate the capital required because it's much more significant than you think. If you can come here and pay someone \$1,000 a month and have three staff like that and live in a \$500 a month rental office and then set the world on fire, you're kidding. It's the same as anywhere. Unless you've got the idea from God and suddenly it just catches on fire all over the place which 99.9% of ideas aren't like that, then you need to be prepared to spend money here and you need to be prepared for it to take a bit longer than you thought it should. So you're going to



have to take a bit longer, it's going to cost, not more money than Australia, but everyone has this impression of China as very cheap,

so probably more money than you think.

Own money, inheritance or family sources

Considering that a lot of SMEs are start-ups of one or two people, their funding for business ventures often come from their own funds, a loan from family members, or inheritances as the following demonstrates:

“My great aunty passed away and left me money, that’s the truth. It really takes a lot of money. A huge amount of money and years of work so whilst you’re doing that, you don’t just walk into an office and go that’s fine and that’s when I already lived here, I know the city.”

Others had borrowed money from their business partner’s dad:

“We did get a bit of funding from my partner’s dad at the tough time of the global financial crisis. He brought it out again but we borrowed it for about 20,000 RMB, which was I think about maybe up to year and he then became a shareholder for loaning that. Our initial money that we put in, we pulled out again probably within about six months.”

Or their mum:

“I borrowed off my Mum.”

Using these sources of funding might be an indication of the reality that these businesses were SMEs, making it more difficult for them to get business loans, or list on the stock exchanges to obtain capital.

Government funding

Some SMEs had used a variety of funding sources from the Australian government to fund their activities in China over the years. This was for innovative businesses engaging in diagnostics and drug development. This is something that the Australian government would see as positive, and are therefore likely to support the activity quite favourably:

“But if we think a bit more broadly about the China programme and your question around what have we utilised over the 20, 30 years that we’ve been working in China, we’ve received an enormous amount of support from the Federal Government so we routinely have large AusAID funded activities.”

Private investors

SMEs also reported that private investors were also a source of funding, for example:

“Private investment. We don’t have it yet but we’re seeking that. Most of the investors we’re talking to are based in mainland China investors.”

“We did get some additional private investors about 10 years ago and those private investors put more capital in, but most of our

day to day activities are self funding out of sales. There was a couple of years ago when we decided to do a really major step forward when we started to see competitors quickly coming over the fences in the UK trying to develop and they had a lot of troubles when they started but then they started to get more mature, investors raised a bit more capital to put an intensive development effort in there but pretty much all our funding requires us to be self funding.”

Some SMEs had even gone down the venture capitalist route:

“We are putting together our own venture capital firm, or we’ve launched that, and we’ve just started putting together a philanthropic foundation as well.”

“And the purpose of that was of course to get investor capital for the development? You’ve got to grow, you’ve got to develop and in construction your cash flow it’s not a credit system like Australia so I buy first, get paid later. In Australia you order, you get it delivered and you pay later.”

Public donations

Some participants used public donations to fund their internationalisation (those that had a health and community benefit purpose).

“Certainly in the Institute we take public donations, we do have philanthropic funding that comes into the Institute and yes I would love somebody to write a cheque for the China programme. To date that hasn’t happened. We have had a number of small donations to our activities in China so the public has funded some of our activities in Tibet for example when we had an office up there over the last couple of years.”

For new innovations involving pharmaceutical developments there seemed to be a lot of opportunity in this space:

“Yes. But philanthropy is a big one and put in context the total budget for commercialisation in Australia is \$80 million, it’s nothing, whereas annually there’s about \$2 billion worth of philanthropy going into research, so there are some good opportunities there.”

Debt finance

Only one participant commented on using debt finance:

“We did get some loans.”

Others suggested that it was difficult to organise loans in China:

“You can get loans here. They won’t give us loans. We’ve had banks in here and their risk managers and explained to them what we do and they listen, then they go away and they’ve still got no

idea how we make money. They just don't get it."

Summary

In summary of this section the major findings from this research indicated that business used a variety of funding sources, including company funds, equity or profits that had been saved in the past by the participant, and had grown organically as a result. Other sources of funding came from the business owner, family such as a loan from a parent, or from an inheritance. Government funding was used by biotech participants, and included grant funding, AusAid scholarships, funding to attend state based trade missions, and public donations. Some participants had used private investors and found that seeking investment from Australian investors was more successful, then seeking investment from mainland Chinese investors. Part of the problems with seeking investment from Chinese investors, was that it was necessary to have trust and guanxi with people, before they would invest in a company. Generating investment from Australian private investors will usually be easier.

Some SMEs had created venture capitalist companies to seek funding. The use of debt financing loans was only mentioned by one participant, however it was difficult to obtain loans in China for foreign investors. One important issue that effected businesses that set up WOFEs in China was that they had to have particular amounts of capital in order to set up their businesses. Some had even said that there were restrictions in the industry with to how much capital they required to set up their business and bid for contracts, which as a result influenced the financial sizes of jobs that they could bid for.

5.9. Innovations and intellectual property issues

China's accession to the World Trade Organisation (WTO) in 2001 meant that it was obliged to strengthen its legal system and amend its intellectual property (IP) law to agree with the WTO's agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) (Economic Analytical Unit, 2005). Despite this, China is well known for a country where IP theft occurs. IP issues maybe more important for innovative businesses rather than non-innovative businesses, because of the costs associated with developing inventions and the research and development associated with it. Given this, it would be expected that innovative SMEs would be concerned about their IP in China.

We asked participants about IP issues in China and found that they had a range of varied responses in regards to it.

No intellectual property in China

A number of participants had stated that IP issues were not that important to them, and therefore they were not concerned about it:

"IP, maybe at the moment it's not very important for our business."

Similarly, a building and construction participant stated that:

"We have our systems and protocols. We're not too concerned about people stealing the IP in that regard. It's different to a technology I guess. A lot of these things are international

standards, we take them from ISO 9001 and follow a lot of their procedures and protocols. It's like you have a manual on how to drive a car, you can have the manual but it doesn't mean you'll drive the car well."

Others also limited the amount of IP that went into China, so as to limit their exposure:

"They're probably not overly important for us because we don't have anything that has a huge amount of IP associated with it but it still is a crucial issue in China."

So in general to protect IP, it seemed that the best practice was to limit the amount of IP that is bought into China.

It is important to protect your IP

Participants with IP suggested that it was important to protect their IP because China was still notorious for IP theft and copying:

"My assessment is the Chinese have been very good at copying something that is duplicating something they don't necessarily or haven't been able to date to understand the technical detail of how things work. What I mean by that is I've seen a piece of mining equipment that looks exactly like the OM, the international equipment, it's exactly the same colours, everything and it will just not work. It will not operate and it's been that way for the last three years. So IP, I think ... it's like in Australia you need to make sure you don't give away critical technical information without appropriate measures in place to protect yourself."

Nature of the IP is important in terms of protection

In terms of the types of protection that one is to use, participants suggested that the nature of their IP was an important consideration in working out how to protect IP. The following SMEs used both patents and the product itself as a form of protection:

"We've got patents registered in a large number of countries that do so. We probably don't have strong legal protection in China and we're very baffled by their legal system and I'll go back to it that we're not kittens in this legal issue because we have had to take legal cases with our patents. If not, we're out of business because that's what we own. In that case, we also rely on the fact that patents don't tell you everything and the second part that goes with that there's also a lot of know-how in configurations. Even my boss and I have got framed on the wall there from about six years ago in China a chap said I copied your system and I built it and I can't make it work. He wrote us an email to that effect. So there's some know-how about it and also too there are some complexes and complexities in signal processing that make it hard."

Chinese have their own IP so are protecting it more

A number of the SMEs suggested that the environment for IP protection was getting better as a result of Chinese companies developing their own technologies, which will motivate them to protect their own IP:

“I think it’s better too as much because the Chinese now have a lot of their own IP with regard to innovation and they’re beginning to understand how it can impact on their company profits but it’s still a very significant issue.”

Participants also suggested that the legal system had more backbone in regards to protecting IP:

“Yes, it’s improving. If you look at 2009 or 10 or 11 I can’t remember, the largest register of IP protection in the world was Huawei. They probably still hold more patents than almost any country on the planet. It was never going to improve while foreign firms were challenging Chinese firms. It was only ever going to improve when Chinese firms started to challenge Chinese firms and that’s what they’re currently doing.”

Therefore, local firms using IP laws gives greater strength and credence to those laws. Similarly, others suggested that because the laws were in existence, and that they were getting stronger and top leaders were supporting them, meant that they as firms trusted the IP laws to a greater amount:

“I don’t know a lot about the IP laws, exactly how they’re structured. I do read where they’re getting better and introducing more laws and they’re trying to enforce them and the message from the top, right at the top, Xi Jinping and Li Xi. IP is something they want to improve over the long term.”

However, others believed that there was a lot of anxiety about the system for IP protection, for instance:

“I’ve spoken to Australian counterparts who have partners in China and they talk about improvements - but what does that mean? I don’t know so I’m still a bit ... I guess I’m tippy toes and wanting to get a better knowledge of it while I’m there. For me that’s probably the perception is some anxiety about actually having to use it and go through the system.”

This suggests that SMEs need to build their capabilities in regards to understanding the legal system related to IP in greater detail. .

Being an SME affects the resources that you can spend on IP protection

Some SMEs suggested that trying to protect IP was an expensive and time-consuming exercise to engage in:

“Also we are relatively small. For an SME you won’t spend a lot of money to protect your IP but for big companies I would say it’s very important for them to think about doing IP registration or

protection in China because if you didn't do a global protection you need to do it in every jurisdiction."

Therefore, size and resources affects a firm's ability to engage in formal protection using copyrights, patents and trademarks.

Looking to protect through patents or practical means

Some participants were very adamant about the need to protect IP and some had engaged in getting patents and trademarks registered:

"We're currently going through the process of trying to protect ourselves properly and whether that works or not but at least we'll have things in place to help. We think its very difficult to control over there. It will probably still happen but at least we've got a recourse of action if we need to now."

The following indicates some of the difficulties that Australian SMEs had with using patents:

"I wouldn't want to rely on a patent in China even though the rhetoric is they're starting to take that very seriously. So we've been told by a number of people that the government now is getting more serious about protecting IP. I think we would always rely on practical means of protecting a product. IP is, I think, so overused in Australia. We have an industry around getting patents and protecting IP and yet how much of this stuff actually makes it into real products and does any good. We're sitting on a mountain of patents and paperwork."

One architectural participant had problems with their designs being copied by others:

"This is really hard to control because we are charging sometimes that's much higher than the local designers so sometimes in doing the competition they got ideas and say OK we'll pay them their money and they give us the contract design and if we like it we sign a contract and sometimes we run into the case like they like our concept but they take the concept to someone else and that's happening sometimes."



Accept that you might lose your intellectual property

The participants suggested that it was possible that they might lose their IP in the Chinese market place, so they had to enter the market, excepting this risk:

"We have intellectual property but you can't protect it in China so you go in with a perception that you can derive a return initially that will allow you to exit the country and move on somewhere

else. You've got to go in there on the understanding that you're going to lose your intellectual property and there's nothing you can do about it."

"Yes, that could be copied. I don't think they'll build as good a technology as us, it may not look as good but certainly the Chinese could build something like that."

Therefore, a lot of people suggested that it was worthless trying to engage in protection for IP:

"You can go and protect it legally but at the end of the day you can't enforce it so what's the point of spending the money. It's just effectively not worth enforcing. It means you throw a lot of money at lawyers and all you do is make the lawyers rich and at the end of the day you don't get any compensation so it's just not even worth going down that path. So if you go in there with the idea that you're going to lose the intellectual property, you've got to go in there with the intent to get high returns and get out of there and move on to the next one. Set up a decent succession plan so that you can sell out to Chinese partners."

Experienced intellectual property breaches and fraud

Some participants had experienced IP breaches, for example:

"There always is. In the past I've found my website on someone else's page. IP issues with what we do in terms of digital printing, there's a lot of companies, logos, even their packaging of the large brands, put on their logos and things like that which you've got to be very careful with. But there are ways around it where you source it and parts of the manufacturing will be done by different people so in terms of tags and things like that."

One SME had experienced fraud, with one company pretending to be them:

"It sometimes what we do is we get parts manufactured by different suppliers and we can control intellectual property. I even had one person go to a job interview with a company who pretended to be our company. It wasn't us selling, it was this guy pretending to be us and he went out there and they tied him up to a pole and robbed him."

Have to keep on innovating

Therefore, to deal with IP issues and keep ahead of the pack, the participants suggested that it was important to keep innovating, as the following respondent pointed out:

"IP is a big topic in China. How do I put IP? The best defense that we see on IP is you never stand still so you never believe that you sell the same product every year to the same client for the next 10, 20 years. You have to keep evolving and you have to keep

researching and developing and that's something we're big in and most of our IP, to be honest, would come from Australia. We do largely all our research and development in Australia. So that's one protection mechanism."

Summary

Some of the participants reported possessing IP which they needed to protect the Chinese market. Others suggested that it was important to protect IP, but that this was based on the type of product or service that the SME was offering. Therefore, some IP needed more protection than others. Some respondents suggested that legal system for IP in China had got better and this was the result of improvements made in the system, but also as a result of support from the Chinese government, who were actively trying to stamp out IP theft. Therefore, as the economy becomes more innovative, businesses will pay more attention to protecting IP. Australian SMEs were very adamant about using practical techniques to protect their IP. Some had also experienced IP theft and fraud in the Chinese market, with other people using their names in business dealings and through websites.

More generally participants suggested that it was important to engage in protection through legal and practical ways. . Being an SME caused problems with protecting IP because of the associated financial costs, and SMEs do not have the financial resources of large multinational enterprises. The general consensus was that SMEs should accept the fact that they might lose their IP. Some participants suggested that it was still hard to enforce IP issues because of the weak legal structure, and therefore it was necessary for firms to 'keep on innovating' to stay ahead of the pack.

5.10. Marketing issues and approaches

Participants were asked about the types of marketing strategies that they were using for the Chinese market.

Marketing Strategy

The study revealed that a well-defined market strategy was critical for the Chinese market, to access to potential customer bases:

"Our well defined marketing strategy now is to work out our relationships with the industry bodies and the ACBC that we know to get regular speaking engagements. And maintaining close links with the state government trade offices. They're all here so that when they bring in their trade missions that we get invited"

For some participants it was important for them to get inside the minds of Chinese consumers, and hence employing Chinese local nationals to assist with creating Chinese marketing materials was important to be able to connect with Chinese consumers:

"We decided that we would need to market to Chinese so we had to engage, because we're not Chinese ourselves, we had to engage a company to think like Chinese with Chinese employees to think like Chinese. When you create a press release for Westerners,

you have to have six dot points. When you create a press release to appeal to Chinese, you talk about six other things completely different. You have to learn to think like your customers.”

Some SMEs were following a niche strategy for China, by looking at key market segments:

“It’s a pretty big niche market, there are two ends. There’s a commodity end where it’s just a box, no-one cares, and then there’s the complete other end where it’s project driven, it’s very customised for BHP Billiton and Rio Tinto, whatever. Because we offer products in a number of segments there’s a lot of customisation that we do.”

Developing the Brand

SMEs suggested that it was important to develop their brand in the Chinese market:

“One is brand, they are the things that help our brand be seen publicly in a positive light in areas that are attractive so we host an entrepreneurial award so it makes us look very entrepreneurial ...”

A HR participant commented on the value that they got out of their branding:

“We make sure that we have those associations and other places where our community gets together; we make sure that our brand is there. Branding or marketing has been one of the things we’ve done well here I think. I’ve built a brand. One of my team has been with me now since we started and she was telling somebody else just the other day that when we first started, you’d ring up and you might have to call someone three or four times before they remembered that they had spoken to you before and now we don’t have any of that. People call us or if we call up they know who we are and it’s been very successful. From that point of view I’m quite pleased with the way our brand building has gone.”

Developing brand recognition may also be difficult, as Chinese consumers may not have brand awareness or recognition for Australian brands/products or services:

“For brand recognition, China is so large, if you’re meeting a mid-level bureaucrat from a second tier city government agency, there is no way that they will have ever heard of Monash or RMIT or our institution. I think people underestimate the scale of everything in China. We’re a tiny little player in a very, very large pond.”

Others suggested that partnering with existing brands in China could be helpful:

“We haven’t started that yet but the idea is we would partner with existing brands - We’re not actually building our own brand in China. We would go in with our technology.”

Others already had a strong brand internationally, which was transferable into the Chinese market:

“They’re comfortable with our name and its reputation and we’re seen as one of the market leaders and OK they do plants for all the major companies around the globe, we can trust them here, that’s probably the difference.”

Relationship marketing

Participants stressed the importance of relationships and knowing people when referring to marketing, which is important because of the key cultural value of guanxi:

“You’ve got to rely on what partners and what relationships you establish and that network is what really drives how you go. You don’t get anything done in China unless you involve yourself with other people within China because the whole market is really developed around relationships: With no relationships, no work. Basically you’ve just got to use network groups to get contacts to get involved and there is no straight way of jumping into the market. It’s not what you know it’s who you know.”

Building networks and finding connections is one of the more harder experiences for SMEs, but is something that Australians do very well, especially using the Chambers of Commerce:

“In terms of entrepreneurship its finding the network and finding the connections here that’s really of absolute importance and Australians do a great job of it and AustCham for example when you tap into the AustCham network you meet all these amazing people. So once you’ve tapped into that you’re OK because then the network becomes infinitely larger.”

But a representative from one participant stressed the importance of being located in the market to engage in networking opportunities:

“The networking opportunities are extraordinary in Hong Kong so in Australia the head office is in Brisbane, it’s probably number three city in Australia behind Sydney and Melbourne so the networking opportunities aren’t as good as they would be if you lived in Sydney or Melbourne. But also I’m a member of the Australian Chamber of Commerce and I get to network with CEOs, CFOs of big corporations in Hong Kong and the representatives of our company wouldn’t have that opportunity if we were all living in Brisbane.”

Others suggested that meeting people in business lounges of hotels was a good way of developing customers:

“We haven’t done any marketing at all. All my clients have come from people I’ve known in the past and people I meet up with over here. Like you go to a conference or a trade show, even staying in hotels around China, you meet a lot of international businesspeople. I always stay in the business lounges, I’ve done millions of dollars of business with people I’ve met in business

lounges so that's been my marketing, just meeting people."

It was also important to develop credibility and use referrals for developing business:

"Also referral networking here, word of mouth makes a difference...The marketing is done by every single team member. It doesn't matter who they are so we have a different approach to marketing. It's innovation too because it's not the way it's normally done in the industry."

Some SMEs had engaged in trade show activities, which played an important role in developing markets:

"Our initial contacts were probably through trade shows, exhibitions, sometimes through a trade show, occasionally through the internet."

Others utilised the super trade mission or journals:

"Apart from the super trade mission, we occasionally advertise in journals. We have an agent that works part-time and will probably next April or so participate in trade fairs and exhibitions so we'll probably give him collateral material."

In addition, some SMES did the Canton Fair, but reflected on how expensive it was:

"We probably will this year do trade shows like the Canton Fair. Sometimes you've got to look at the value because its 10,000 US dollars for one trade fair. We could pay two people 10,000 to be online getting the name out and emailing customers so really you've got to think is it worth having the show or do we choose a different strategy and the show is so big, there are so many people in there."

Others had used the Canton fair too many times, and therefore did not find it to be an effective marketing tool for them:

"The Canton Fair, I'm sick of the Canton Fair but we do go. But what we find generally, we don't need to go to source things but a lot of clients will come over or people who want to know what's going on in China will come over and so we take them out to the Canton Fair and basically help them to know what they're looking for."

Subscribing to journals, magazines and keeping closed links with professional associations/universities or going to conferences in relevant fields were also other methods utilised:

"So we subscribe to some magazines, industry papers, and trade journals to find out potentially where new customers are. We contract some consultants to do market studies for us and then we'll go and target customers that are identified there. We'll go to conferences and just look at the list of attendees and meet with as many as we can and learn their business. Yes, so lots of

marketing.”

Public speeches also worked well for some SMEs and it depended on the type of business (i.e. consulting type SMEs) and the personal talent of speakers:

“People tell me I’m very good at giving public speeches and lectures so we do give seminars. In our business the way we really create value and the way you build your business is to take ideas to clients. So that’s what the team spends a lot of time doing, analysing different situations and coming up with an idea and we prepare a pitch and take it to the clients to see if they like it or not and in the process we establish the relationship.”

Attendance at annual international conferences or symposiums was other means by which SMEs could network:

“Basically in China the company also organises the annual international conference or an international symposium on computational sciences so it has been done for three years so we started in 2011 and normally it’s in Shanghai so next year we probably shift it to South East Asia such as Thailand.”

Other ways of finding customers was through extensive market research, but this did not necessarily result in success:

“We did a lot of market research, finding customers, all that building the business case.... We’ve got potential customers. We’ve had some discussion, all of that, and none of it has turned into business. So there’s that and what I’ve also done is being involved in a couple of professional groups, network groups with the concept of forming clusters and getting involved in local organisations that way but that hasn’t gained any traction either.”

Online marketing

Online marketing strategies were a very popular strategy for most SMEs given the popularity of social media in China. Social media was seen as a good place to market products and build up market presence:

“Just trying to touch base on social media websites, putting our products on some of the manufacturing websites.”

The following respondent highlighted the importance of using multiple platforms online:

“That’s where we’ve been pretty innovative...So the marketing magazine...our trainers write them so that’s Rupert, he’s a full time trainer and click on him, and then there’s his articles and blogs that he’s written. If you want to know more about who he is, this is his profile and these are videos from him. We link these into LinkedIn, Facebook, Twitter; we have Wei Shing on our mobile phone as well. We all have a Weibo account. I have 906 followers. Then there’s network ahjah and our company both

have Wei Shing accounts. Wei Shing is not online; you can't use it on your computer. It's a little bit like SMS, like on steroids. It's the same story but it's across multiple platforms. We have been doing, SEO, well probably less SEO than what we called trans-media storytelling. It's about getting the message across multiple platforms."

"In the beginning we used a lot of online. It was quite successful. We did some search engine optimizing, a bit of social media."

Short snippet video's were also popular ways to market, and businesses were using video conferencing and online webinars to post on their websites and social media sites:

"In terms of marketing we do a lot of video, Yo-ku like YouTube as good. So we have yo-ku pages."

Others suggested that it was important to have a Chinese translated website, or converting their Australian facebook pages into Chinese based sites:

"I think it's a matter of establishing an online presence, making a good Chinese based site, an Australian translated site into Chinese."

"We're probably looking to do that kind of social media network in the future in China using Weibo or something that's happening in China called Wechat."

One participant provided services for converting Facebook into Chinese media accounts:

"We have technology that provides anybody with a Facebook account to syndicate like they do on Facebook into China. We create Chinese social media so we just put them all together. If you have a Facebook account, let's say you're the Melbourne Demons football team and you want to talk in Chinese to Chinese people and Chinese social media, instead of hiring an agency, PR firm or a local team, you can pay as little as \$200 a month. I do your Facebook page with this technology and we actually grab it all, we package it to China and then publish it into your brand in Chinese social media accounts and then you have access to see everything in English."

Other SMEs suggested that there was a lot of importance in regards to using Baidu:

"As this online space had exploded from my three years here, three years ago we didn't do any search on Baidu search engine, nothing, and then nobody had realised the explosion of the Baidu search engine."

The use of the internet for buying products off the internet was also very popular in China, and was different and more customer focused than what was occurring in Australia:

“Probably one of the biggest outlets for us is online. We have our own online store on Weibo and we have a proliferation of people selling our products through ‘Taobao’ which is a C2C channel. Very much like eBay, they buy it from pretty much around the world and then they sell it through these outlets. So we kind of pop up in all sorts of places.”

“Taobao is the Chinese one but it’s much, much bigger and it’s known for everything you buy on Taobao is cheap and maybe not too good but still people buy it. And now they’ve started off this arm, they’ve called it Tien Bo Sky Cap and in there what happens is they’ve got this new portal and there’s a girl from Australia here –She has her own business here and she brings in all the ingredients and she mixes them all up for shampoo, conditioner, etc., and essentially this portal is that Taobao allow you to come in and put your products on the portal under your brand name. It’s very strict. It says you must sell so many, you must have so many customers giving feedback, if you get two wrong feedbacks you’re out or something. So it’s trying to pull the quality up.”

In China, buying online is different to Australia; with consumers wanting to try on and touch the product before they purchase it. Perhaps western countries can learn from Chinese ways in regards to purchasing online:

“The Western way of buying is I’ll go online, I’ll be happy to give my credit card online to book a hotel room, for example. I feel safe, I don’t mind to have a PayPal account, whatever. Not here at all. People do not even have credit cards, debit cards are the way to go and a debit card is not a credit card so a debit card does not guarantee anything. It’s the largest online purchase market in the world with Taobao, you name them. They go online, they purchase and there’s no money transacted whatsoever, no money, no guarantee. There are huge online shopping malls, you go, you buy online, the delivery guy will bring it to you at your doorstep, you can touch and feel the product, if you like it you pay, but if you don’t like it you give it back.”

Other SMEs were utilising Weishin, an online messaging program to connect with team members of their company or customers:

“Weishin is small product where you can actually connect to other people and you can text message each other and then you can talk into it and it will send that message to the other person, they can hear it and then talk back and you can send pictures or you can link up and have a video conference and it’s free, 100% free, and about 400 million users on it. So now companies are coming on to it and using it to either internally to keep your sales force or your whole production team close together. Everyone is linked up into a group on Weishin, you can use it for training or you can use it for your customers as well, that’s developing slowly.”

Weibo was also used by some participants:

“We use social media so we chat on Weibo accounts here. Forums we use them a fair bit. They’re our main platforms other than point of sale material. We have companies that do it based here in China for us and our call centre as well.”

Summary

It is evident that when doing marketing for SMEs in China, consideration needs to be given to the marketing strategy chosen for the Chinese market. Branding concerns also need to be taken into account, and SMEs generally suggested that it was important to have a strong brand for the Chinese market. As a result, the participants invested significantly in developing their (often) unknown brand in the Chinese market. Once that was established, the participants suggested that it was easy to establish further business. Therefore, developing a brand doesn’t happen overnight, but that it is something needs to be worked upon over the years.

The participants identified two different types of techniques that they were using in the Chinese market. Some participants utilised relationship marketing and developed relationships either independently or through Chambers of Commerce in China (AustCham’s). As a result SMEs were able to tap into networks and once in the network, these often grew bigger for some SMEs. Representatives of SMEs also went on trade missions or were just visiting the market seemed to have more difficulty in establishing business in China, and others suggested that being located in the market, gave better networking advantages to the firm, that they would not have got if they weren’t located in the market. Therefore, networking opportunities and developing credibility and reputation in the market may be appropriate strategies to engage in for Australian SMEs in China. Other marketing activities included engaging in trade shows, exhibitions, going to the Canton Fair, international conferences, speaking at events, and creating industry events.

The other major strategy for SMEs was developing an online presence in China. This was important because of the explosion of social media in China, with many different online and mobile phone platforms that businesses could take advantage of. Some of the popular online platforms included LinkedIn, Weibo, Weishing, Taobao, WeChat, Baidu, Yo-ku. The participants noted the drawback of western sites such as Facebook, Twitter, You tube, and other sites blocked in China, which meant that they had to use the Chinese based sites. In addition, this meant that western material had to be translated into Chinese. SMEs also commented on the need to have Chinese versions of their Australian websites, and again translated into Chinese. Other methods of engaging with clients and consumers, was through short snippet videos placed on websites, or used in social media settings. Through this method, SMEs were able to communicate their offerings to clients, and engage with their clients.

5.11. Human resources issues and management approaches

Recruitment and Finding Skills

The findings indicate that SMEs used a variety of approaches to staff their Chinese businesses by using a combination of expatriate and local staff. The findings further

indicates that recruitment of the correct people is one of the critical challenge faced by them, which was further complicated by funding issues which made it difficult to recruit the correct people and retain them:

“It’s really about funding. I’m sure lots of people when they’re bigger and have more staff that’s more difficult but it’s about when do you grow and how do you fund that growth and the chicken and the egg issue - do you need to do that before you have to do this and invest the capital in order to make it work.”

The context of the Chinese market for finding labour was also an issue:

“Finding talent is a huge issue, it really is, it’s enormous. There’s no easy answer to that question on talent, on finding it. You’ve got to be patient, you just have to continue what you’re doing, keep a lookout, and continue to talk to people.”

Generally SMEs had no big issues finding people with basic skills in China (such as general labour):

“I would say it’s very competitive because you can easily hire someone to provide the services at a very cheap rate, especially the labour costs here are very cheap and they can actually complete the task in a very efficient way.”

However, it was much more difficult to find advanced, technical or professional skills and these generally were acquired through an expatriate staff appointment, because it was difficult to find it in the local market:

“Advanced skills for this office come from mostly the expats, so myself and my other colleagues, that’s what we have to bring with us. With emails and those sorts of things, we get a lot of information at our fingertips that we can get if we need to get on products. Really expertise ... I’m just trying to think what we’d need. Very occasionally we would bring someone over if there’s a major problem that we can’t fix or if we could fit it, it would take too long.”

As an alternative, SMEs did recruit Chinese-speaking individuals from countries such as Singapore, Hong Kong or other Asian countries, which had the added benefit of having a more global approach:

“I’ll supplement that with more of a go down a notch or two to a manager at VP level where you can ... Hong Kong or Singapore, Chinese speakers but Asians, not necessarily mainland to bring actually a more global sophisticated experience so they’ve got the execution and have them with us.”

Staffing choices

The SMEs had specified that they used a variety of staffing options including expatriate staff with China experience, local staff, part-time staff and external consultants, interns, and that they were able to recruit graduates from local

universities. Other strategies had included recruitment agencies, web based services, Chinese sea turtles (Haigui), and Australian based staff with a Chinese background.

For example, a participant from a Guangzhou based business suggested that it was important to utilise expatriate staff with Chinese experience:

“I got one expatriate with more than 15 years’ experience in China and one more part- time expatriate. The rest of my staff are Chinese and really the big four of your staff are Chinese because otherwise the Westerners like myself, we’re the face for the Western customers. When we’re out in the Chinese factories, there’s a barrier and it doesn’t matter how long I’m here because I’m not Chinese so you need your Chinese staff that you can trust, they can get through barriers that I can’t. So it’s crucial to have that Chinese face to your business if you’re going to do proper business here.”

Due to funding issues, and the fact that some SMEs were not that big enough to support full time staff some SMEs had resorted to using part-time workers and external consultants:

“It’s just our revenue has been intermittent. We’ve had a part time lady for a while as well but we’re at the point where we’re looking at really putting on our first full time. It’s been a slow road. So we’re slightly less experienced in the HR matters.”

“We’re using things like marketing and design and a lot of the internal small things that we don’t need every day, we have part time bookkeepers, we have an external accounting company who can do books into Chinese and English for our Australian finance team. It’s quite simple.”

Others had resorted to using interns as their strategy, which assisted with reducing staffing costs:

“We’re a big user of interns and are transitioning an intern into a semi full time person. Interns were just three or four months and then they walk out the door and all that expertise and knowledge.”

The findings revealed that SMEs had a strong preference for recruiting overseas educated Chinese called ‘Sea Turtles’ or Haigui. The benefit of these staff is that they understand both cultures that assist in smooth operations in day-to-day business activities, between China and Australia/the west:

“They’re very smart, speak English, they speak Chinese, they understand the subtleties of both the cultures and there are a lot of them.”

Participants exporting from businesses based in Australia (without a China based office) reported that they used Mandarin speaking people in their Australian offices to communicate with their business partners in China. For some SMEs based in China it was important employing Chinese based staff who had the necessary English language capabilities:

“We used a lot of the English language platforms so that immediately cuts out 90% of people who don’t have a competent level. We don’t require people to be fluent in English but they need to have a working use of English. At least who can read blogs and the news today, not wait for them to be translated into Chinese and then read them in five years’ time”

Training, development and promotion

The training of staff becomes an essential element for Australian SMEs in China in order to develop the right skills. Some participants reported that trained staff would leave the organisation within a short period of time (one-two years) and therefore firms have to make extra efforts to retain them and/or finding new people again for the positions vacated. This is costly and time-consuming which disrupts the smooth operation of businesses:

“A lot of companies have been talking about in China like the talent, maybe they train people up for two years or something and then they’re gone. Yes, it’s always like that”

One participant reported on the difficulty associated with the Chinese education system, and how this created problems for having skilled staff who can think outside of the box. Therefore, SMEs need to work out how they deal with and manage this constraint:

“As you know the schools system here is different, you learn the book parrot fashion. So you come out and you know you’re very smart, you know one and one equals two, you’re absolutely sure about that but they say here’s a problem, go away and solve that, come back with the solution, it’s not going to happen.”

SMEs also commented on the fact that it took a long time to train up Chinese staff to the level that they required:

“We train our engineers a lot, we invest a lot of time and effort training engineers and our Chinese engineers are ultimately fundamental to what we’re doing here. The Chinese engineers. They’ve all gone through an internal training programme where we’ve sent all our engineers to Brisbane. They’ve spent anywhere three to six months there and they were taught the company’s way or the company’s processes and knowledge so it was a real transferring of knowledge”

Retention issues

Employment turnover issues have been identified as one of the key challenges face by SMES in China, with most SMEs involved in the study identifying it as one of the biggest issues they experienced in the Chinese market:

“I think society is basically changing quite dynamically over there. A lot of people from rural areas are moving towards built up cities and they’re looking for different types of opportunities and I think

Aust SMEs in China

at this stage just like any other developing country. This will have issues and the issues will come about I think through retention, that's predominantly the biggest issue."

Many SMEs mentioned how difficult it was to get staff that they could train up to higher levels, for decision making as an example, and retaining them in the business was extremely difficult:

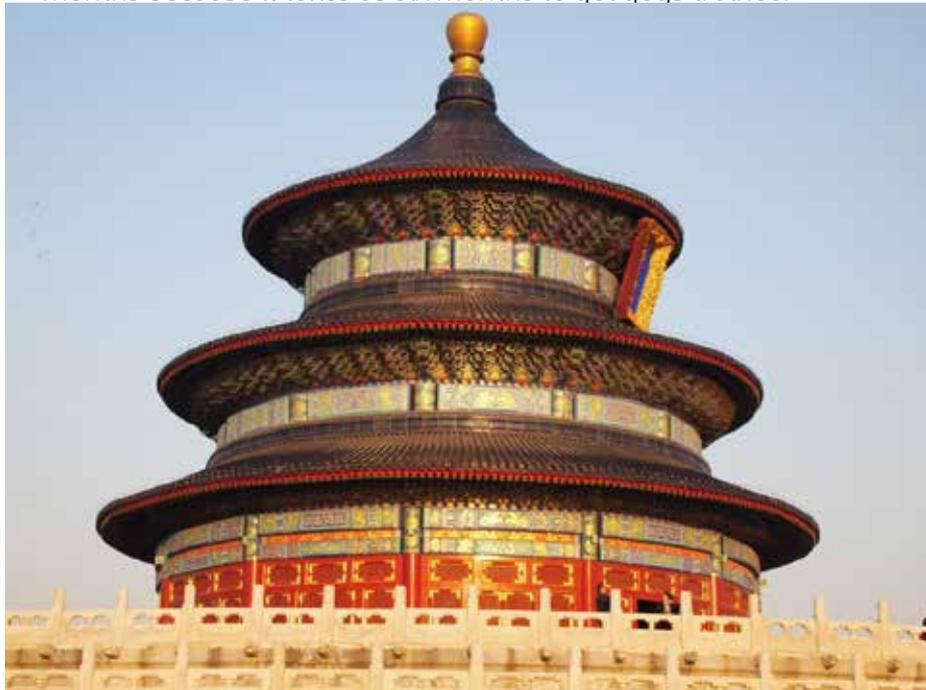
"Probably one of our biggest risks is that we don't want to be a training ground. While we're giving back to the industry by training these individuals, ultimately we go through a very rigorous recruitment process that we really understand that their aspirations match our aspirations and it's up to us as good business leaders that we keep them motivated and engaged in business so that they stay."

This posed a more serious issue for innovative businesses who also had to protect their innovations:

"We develop a young guy, they take two to three years to develop and they might stay for four years then they'll go and try something else. When I first came here, we had a Shanghainese manager, he didn't want to take on fresh graduates and train people because I think he thought they'd steal our innovation."

High amounts of turnover would have significant productivity issues for SMEs, as the following quote suggests:

"If we had an issue like that where 80% of our staff didn't pitch up tomorrow, we'd shut the doors and start producing again in six months because it takes us six months to get guys trained."



Some participants found the magnitude of the retention issue tended to vary between different locations in China:

“It does tend to vary between markets, although we don’t seem to have the same problem in Hangzhou that we do in Shanghai. It turns a bit quicker here than it does in Hangzhou and we didn’t plan that, it’s worked out lucky for us.”

Reasons for employee turnover

The participants articulated a variety of reasons for why their Chinese staff turned over, and this included money, holiday time (for instance, when staff return home for Chinese New Year they often don’t want to return to work), the type of job they were in (for example sales staff were more likely to jump, where secretarial staff were not). One interesting reason for turnover, was that the Chinese life style encourages savings rather spending. As a result, some people have adequate money to live on without needing the income from a job. This means that the employee will often leave without a job to go to go, and take a break for a year or so until their money runs out. Similarly, because of the job market in China, employees have the perception that they can walk out of work one day and then go find a job someone where else:

“Most Chinese do not think about their work so most people that resign from our office do not have a job lined up. Now if you were anywhere else in the world and you were deciding you were going to resign, you would basically go and find a new job first and then resign. Here they resign and then they go look for a job.”

This contributes to employee turnover. Other believed that turnover occurred because of inappropriate selection in the first place, or the selection process was rushed. Retention, may also be the result of higher expectations on behalf of staff, for example to get higher wages, better jobs and promotions.

Measures for retaining people

To respond to the higher expectations of staff, some participants reported that they used a number of approaches to manage retention. This included providing enhanced benefits such as more money or higher salary levels, building trust with employees, developing interesting jobs for employees, for instance giving staff a variety of different types of work or multi-tasking. Other strategies can include giving gifts and bonuses during Chinese New Year/the Moon Festival, and building morale of staff. Working for a foreign firm can be very attractive because of the higher pay, prestige and skill development:

“If the foreign companies pay well, they retain, I have a friend whose daughter works for ANZ bank here. She wouldn’t work for anybody else because she’s paid properly. She’s not paid more than somebody else working for another foreign company.”

Motivating staff to be innovative and to problem solve was one way that some participants could engage with staff, and in the process retain them as well:

“I want solutions to come to me. You have to develop that culture

inside your business and that's not easy so you have to bring tools to play. I've seen this, a guy here in a hotel, a person came with a tool, and this is the solution. I knew it wouldn't work because my experience tells me. But I loved it that this person brought me a solution so I told her go and do it. If I said no you're sending a message out. So you have to develop that culture inside your business."

Summary

Some participants had reported difficulties in recruiting employees. The difficulties emanated from firstly encountering funding issues, which impacted on the talent that these participants could afford to pay for. These difficulties required the participants to be patient and wait for the right people to come along. Some participants had also experienced difficulties with employing people, who had advanced skills, whereas employing low skilled workers was not such a problem. Some participants had specified that they used a variety of staffing options including expatriate staff with China experience, local staff, part-time staff and external consultants, interns, Chinese sea turtles, and Australian based staff with a Chinese background. Training and development posed issues for these SMEs, because SMEs would spend their time and money, training employees, and then they would later leave. The SMEs had also experienced retention issues with staff, which was as a result of money, holiday time, the type of job they were in, perceptions that it is easy to find jobs elsewhere, and utilising rushed selection processes. Some participants had indicated that there were measures for trying to retain employees and this included better money/salary levels, building trust within employees, providing staff with interesting work, multi-tasking, gifts and bonuses during Chinese New Year and the Moon Festival, and building staff morale.

6. Implications for Business, Government and Research

6.1. Conceptual Framework of Internationalisation to China for Australian SMEs

The following conceptual framework summarises the findings of this study and shows the motivations for the internationalisation to China of Australian SMEs (Figure 1). Given resource constraints, the first influential factor considered in the framework impacting on SME internationalisation is resources. A firm's resources can include a combination of tangible (cheap raw materials and energy) and intangible (entrepreneurial orientation of CEO or networking capability) resources. These resources can develop over time as a result of changes in the internal and external environments of the firm and attainment of new experiences (Mohammad, et al., 2012). The extent of an SME's internal resources, which includes funding, staffing, the ability to keep up relationships, time to devote to Chinese operations, knowledge of China, innovative capabilities (because of their size based constraints) and competitive advantage, can subsequently affect their approach to internationalisation.

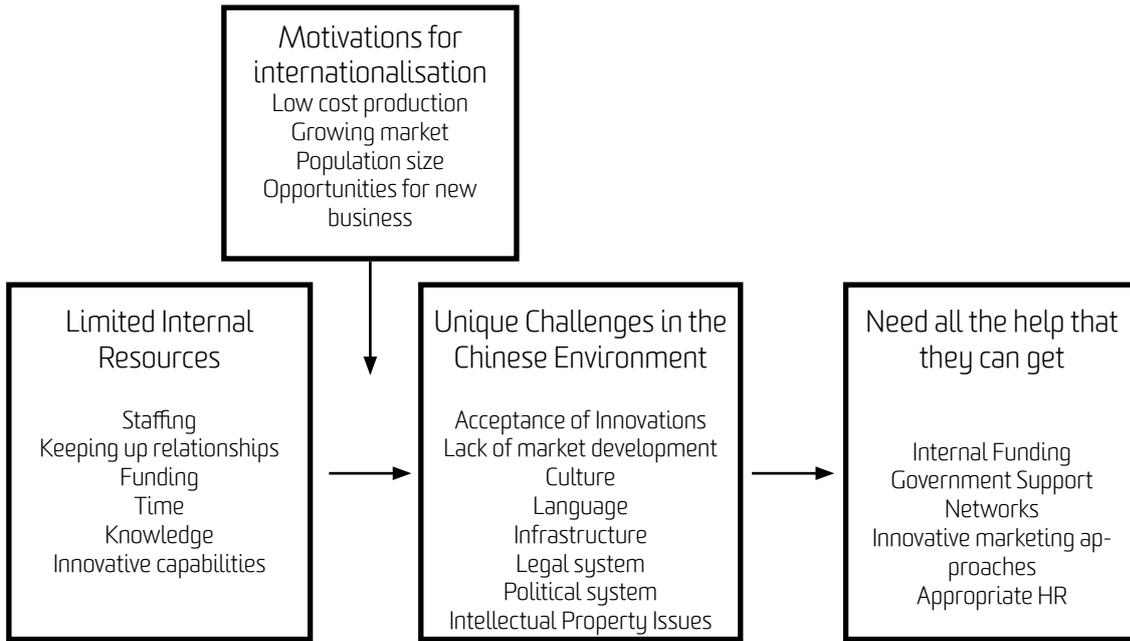


Figure 1: Conceptual Framework of Australian SME's and their internationalisation to China

Alternatively, the possession of a good range of resources will encourage SMEs to internationalise as result of increased confidence and a desire to further capitalise on existing resources (Kamakura, 2012). According to Saeedi et al. (2011) internationalization decisions depends on the critical resources and capabilities of the firm and therefore if the firm has those resources, it will view internationalisation favourably. If the firm does not possess the appropriate resources, its ability to internationalise will be reduced. A motivation to internationalise will also occur if there is an attractive environment in the foreign location (Chen, Chen and Huang, 2013). The Chinese market provides a strong motivation for foreign SMEs because of the opportunity to gain a good return from existing resources.

To utilise this framework, organisations need to start by reviewing their internal resources, then they should consider how these resources will interact and respond to the Chinese environment. This can be a complex phenomena if the firm is innovative or has innovative products. It may even be possible that the business's unique competitive advantage or innovative product or service is not effective or even acceptable in China. Barriers to the acceptance of innovative products and services can include the Chinese culture and the lack of development of the Chinese economy. An alternative view is that the SME should utilise innovations when responding to the conditions in the Chinese business environment. Key characteristics of Chinese culture that Australian SMEs need to deal with include having staff that are Chinese literate, building relationships with the right people, and being able to negotiate directly in Chinese. Some organisations will need to adapt their innovations to suit local conditions, such as infrastructure, and the particular needs of the Chinese consumer and market.

Innovative companies entering China also need to be mindful of the Chinese legal system in relation to business setup, capital requirements and human resource management. In addition, they need to accommodate the Chinese political system,

and invest considerable effort in selecting the correct location for their operations. This is because conditions in different locations across China vary significantly. For example, some local Chinese governments offer attractive packages for foreign businesses to attract international business to their region. Consequently, local international trade opportunities may have a significant impact on the decisions an innovative organisation makes when internationalising to China. Intellectual property protection may also need to be considered by innovative firms, which will generally have more to protect than other firms entering China. SMEs will also need to consider how to develop appropriate marketing strategies for the Chinese environment (i.e. relationship and online approaches).

6.2. Implications for Business

The study confirmed that Australian SMEs were keen to exploit business opportunities in China. Different modes of entry were chosen by the participants to accommodate particular situations. Although the business conditions in China posed different challenges for these SMEs, they were found to be flexible and responsive striving to overcome these challenges. The following lists are some implications that SMEs should consider when planning to enter China:

- Consider the innovation to be introduced: the participants confirmed the importance of innovation in different areas and targeting internal operations for development of innovative products and services, in order to stay competitive. However, it should be noted that Chinese consumers and organisations are reluctant to accept innovation. Thorough market research should be conducted before innovative products and services are introduced. Innovative products should also be marketed to defined market niches, rather than broad markets, to facilitate addressing resistance to innovation. While some participants stated that the cultural and structural conditions in China may be difficult to find markets for innovation, opportunity will still exist for selected innovative products and services which are new and are based on competences not possessed by Chinese enterprises.
- Choose the mode of entry carefully. The popular modes of entry for China are exporting, project-based fly-in-fly-out, licensing, franchising, joint ventures and WOFEs. The entry mode decision should include the desired level of commitment, risks, market barriers and internationalization experience required. These factors will mean that significant planning is also required for a successful market entry. A restricted entry mode will reduce the level of associated risk (by reducing the amount of resources committed), however, it will also lead to smaller market penetration and slower growth. Where joint-ventures or other forms of partnerships are being considered, due diligence is a critical component of this approach.
- Establish local contacts. Establishing suitable contacts is a significant challenge for SMEs operating in China, however, these are critical for ensuring an appropriate response to the local environmental conditions. Partnership entry modes will assist considerably with making suitable local contacts. Recruiting local staff to act as agents and liaise with local contacts is another way of facilitating their development. Using new staff to develop local contacts can result in agency issues,

so the local operation's managers must maintain a high level of control. Foreign manager's lack of understanding of the language and culture will make controlling this process a challenge. Therefore, it is important that foreign managers develop language skills, and have a good understanding of Chinese business culture.

- Protect your intellectual property. Although the Chinese government has been working hard to increase level of protection available from the legal system, respondents indicated that IP protection is still a significant issue for business and infringements of IP must be expected. Australian SMEs operating in China should consider their IP carefully and the level of risk they want to be exposed to. Enforcement policies and guidelines can be developed around the nature of the threat to that particular IP, along with alternative approaches for its protection.
- Take maximum advantage of government and other support that is available. Take the time to learn and make contact with the Federal, State and local government services, including the Australia China Council, Austrade and AusAID, as well as state government international offices (which will run trade missions and may have local representation in China) and city government offices (which may have significant sister city relationships and also run trade missions). Australia China Business Council have Branches throughout Australia, and the Australian Chamber of Commerce have offices located in the major cities in China. They provide networking opportunities and outreach support for Australian businesses and entrepreneurs. It is a good idea to attend at least one of the trade missions organized by the federal, state and city governments to learn about the latest business developments in China.
- Use online technologies to enhance marketing strategies and increase internal efficiency. It is important that businesses have websites for their business in China and that it is translated into Chinese. Australian SMEs should use online technologies to increase their market access and enhance market communication. Social media and some of the more popular virtual markets in China should be considered. Online shopping is growing dramatically in China and this increasingly offers large opportunities to SMEs. Even though online shopping is a simpler environment, Australian companies should still consider the cultural differences between the two countries to tailor their marketing strategies to be locally effective.
- Recruit and train human resources. Australian SMEs should be aware that recruitment of employees could be a challenge, particularly if employees that are dynamic, creative and innovative are required. High staff turnover rates also increases staff costs due to a loss of efficiency when new staff are introduced and training for these staff. Managers should review compensation and benefits periodically to ensure they stay in step with the rapidly changing employment market in China. They should also pay attention to employees' personal needs and develop more flexible policies to create an engaging work environment.

These recommendations will lead to a more successful entry into China and more effective and efficient operations in China. A well-formed strategic plan that considers these issues is the most effective way of incorporating them into entry into China market.

6.3. Implications for Government

This section of the report considers the key findings of the study from the perspective of government services which will be most effective for Australian SMEs establishing operations in China. The findings lead to the following observations:

- In addition to funding and other forms of incentives, both federal, state and local government should continue to support and encourage Australian SMEs entering China by providing them with services, including networking with entrepreneurs to share and exchange their experience of conducting businesses in China. Trade missions are another important vehicle for increasing local knowledge and awareness of current developments in China and should be organised on a regular basis.
- Both federal, state and local government should consider providing orientation programmes to SMEs to inform them of the services and support available and how these services can support their strategic planning for China entry. Overlap between the services currently provided by government institutions and NGOs for internationalisation China should also be examined and reduced in favour of greater investment in those services not offered elsewhere.
- The Federal government should increase the assistance to the Chinese government to help it improve its protection of intellectual property, particularly the monitoring of this issue. This is particularly important for Australian SMEs which frequently



need to leverage knowledge and expertise in China to compete against the scales of economy prevalent in the market. Providing greater protection for intellectual property will attract more Australian SMEs to extend operations to China.

- The government should consider offering more assistance to Australian organisations wishing to attract Chinese investment in their Chinese operations. Roadshows, exhibitions and introduction programmes in China could promote the

awareness of the attractive array of business sectors including biotech and clean environment. This assistance could also lead to more effective joint ventures and other forms of cooperation between Australian and Chinese organisations.

6.4. Implications for Research

The study examined the entry of Australian SMEs into China, their approach to innovation and their subsequent engagement with the Chinese market. A large range of issues was considered in this research, however, areas for valuable future research have also been identified, including:

- Exploratory case studies examining the strategic planning process for internationalising into China with particular attention on the local environmental conditions, partner matching and performance assessment would be beneficial for many companies considering entering the Chinese market. The contingency factors affecting differences in the degree of strategic planning could also be examined.
- The reluctance of Chinese companies and customers to adopt and buy innovative products and services is another area worthy of future investigation. The principal drivers behind this reluctance need to be identified. This research could utilise a resource-based view to determine where the most appropriate resources should be allocated to deal with these issues. For example, network resources may enable SMEs operating in China to leverage their innovations and improve their connections with external parties to better inform them of the desirability of their innovations. This could lead to better resource allocation planning for internationalisation to China.
- The mixed importance of guanxi identified in this research is also worthy of further investigation. In particular, whether contingency factors, such as industry types, the state of development of entrepreneurial ventures and the impact of geographical locational effects are important aspects of the impact of guanxi, which could be examined in future research.
- The study found that Australian SMEs generally have difficulty with understanding Chinese culture and etiquette. As a result, local managers are often employed to serve as liaison agent. Further research in this area could examine measures for dealing with the consequent agency problems as well as the effectiveness of these measures.
- The operational activities in China of innovation, marketing, human resource, networking, the use of technologies, the internet and social media considered in this research, demand further investigation to better understand how they can be leveraged to improve performance. Existing relationships developed in this research could be used as a framework for this further research.

7. Conclusions

Australian SMEs primarily enter China in order to gain access to the large Chinese markets. The majority of the participants in this study reported that both their overall experience in China and the Chinese markets were attractive. China was seen to offer some unique benefits and challenges in terms of introducing and leveraging innovations to gain market share and in engaging with networks in the local environment. The majority of the participants located their operations in the major cities along the eastern region of China and participate in a wide range of industries. Their experiences provide valuable information for other Australian SMEs and a basis for planning to enter the Chinese market.

The participants in the study engaged in a range innovations; ranging from radical to continuous improvement and covering a wide spectrum of products, markets, management tools and process innovations. The participants consistently reported the experience that most Chinese markets were not ready to accept highly innovative products and services, such as new technologies and that most Chinese companies were not prepared to adopt unfamiliar new products and services. Intellectual property protection is also significant issue for SMEs wishing to protect their designs and products in China. Although the respondents reported that improvements have been made to the Chinese legal system, the participants found that the types of protection that they could access were very limited, the most effective being arbitration and keeping their valuable intellectual property outside the Chinese market. This complication added a significant operating burden for most of the participants.

The respondents utilised a number of different approaches to enter the Chinese market, ranging from exporting, fly-in and fly-out projects, licensing, through to joint ventures and wholly-owned foreign entities. The study found that the entry mode decisions were highly affected by the local policy and regulations in the region that the company had targeted and by the support that they received from both the Australian and Chinese governments. The level of resource commitments required to international expansion and the exposure to risks in operating in this unfamiliar environment were also important factors driving the decisions made by the participants. Joint ventures proved to be popular approaches, primarily because they provided much greater support in dealing with the local market and understanding the local environment.

The participants utilised a range of different mechanisms to fund their entry into China. In particular, they concentrated on obtaining access to sufficient funds to enable them to maintain their operations in China over the often lengthy start-up phase. Some respondents attracted funding from the Australian government, whilst others received private investment and even public donation funding, across the wide spectrum of industries represented in the study. There was only one organisation the study that used debt financing to support its entry into China. This is surprising, given the relative difficulty a SME has in attracting investment funding for risky activities such as internationalisation. All the participants reported that it was very difficult to attract financial support from local Chinese investors, suggesting that, in the immediate future, this is unlikely to be a useful form of internationalisation funding

for Australian SMEs.

The participants frequently noted the impact of the differences in cultural norms and business etiquette between the Australian and Chinese customers, partners and suppliers in establishing business agreements. Although the value of guanxi connections for developing business opportunities in China is well-known, the respondents provided mixed viewpoints about the value of guanxi for Australian SMEs in China. Some respondents believed that guanxi could be very effective in providing connections to overcome major challenges, unfamiliarity with the local environment and lack of legitimacy. Other respondents, however, suggested the value of guanxi in the business contexts has diminished in China, due to its institutional capacity development. The participants generally found it difficult to understand the guanxi mechanisms in China due to differences in culture and language. As a result, other approaches for developing connections were adopted. In some cases, the spouses of management staff took on the role of networking agents for the SME. The



participants also frequently relied on more Western business networks and attended Australian association and trade meetings to create the appropriate connections. The challenge for Australian SMEs is to join Chinese based trade meetings and associations.

The resource-based view was utilised to identify the basis in which SMEs operating in China could compete strongly with local Chinese organisations. The individual competence of the managers, including professional skills, Chinese language skills and entrepreneurial attributes were found to contribute to business success in the Chinese market. Educated and skilled local staff and novel technologies were also found to be resources that could lead to competitive advantage in the Chinese market. Networking capabilities

were found to assist the participants in establishing the right connections and were considered by the participants to be very valuable contributors to business success. Many of the networks established by the participants, were more similar to Western networking than guanxi.

The participants reported mixed experiences with the assistance provided to their operations in China from government agencies. Government services frequently utilised by the participants included Austrade for market information and for grants to assist with establishing in China. The respondents reported that the services provided by the Australian Chamber of Commerce and Australia China Business Council were useful for developing valuable contacts in China. Other respondents, however, did not take advantage of any forms of government support and indicated that this was not necessary for business success in China. Some respondents observed that

other country governments provided a greater range of services to their businesses internationalising into China.

The respondents all stressed the importance of building a brand in China to enhance recognition trust levels for business interactions. The very high profile international brands in China created challenges for the participants in building their own brand names. Whilst a number of the participants devoted significant resources to participation in conventional fairs and exhibitions, other participants made substantial use of the Internet to increase the level of exposure to the market place, both from the perspective of distance and maintaining permanent presence.

Recruiting and managing human resources was another significant challenge for the participants. Hiring staff that could assist with bridging the culture gap between the two countries proved to be a particular challenge. The respondents generally had a strong preference for employing “Haigui” (a Chinese language slang meaning people who have returned to China after having studied overseas for several years). The participants also noted that the staff they were able to attract generally did not have strong creative thinking capabilities and they suggested that this was due to the very formal education system in China. The training and development of staff was also a challenge due to the high turnover rates the participants experienced. Training proved not to significantly increase company loyalty and sometimes departing employees even took innovations with them to start up competition in the market.

The participants were generally innovative and adaptive in their dealings with the Chinese market and approach to the Chinese market. They responded to a range of problems and issues that existed both within their own operations and outside their organisations. Some of the common problems that the participants experienced included cash flow liquidity, lack of resources and difficulty in recruiting required staff. Other factors included regulatory issues, particularly the Chinese government regulation of the Internet and weak protection of intellectual property. Australian SMEs operating in China also face strong competition from both foreign and local companies.

Well-developed strategies are required to ensure that Australian SMEs, with limited resources, can weather the challenges they will experience in China. Important dimensions of these strategies offering include continuous improvement of operations, the regular introduction of new innovations, making use of federal and state government support (particularly for establishing networks for negotiating with the Chinese government) and increasing employee loyalty by offering better than market employment conditions.

With good connections, careful planning, an innovative approach to the local market and good products and services, Australian businesses can reap significant rewards from operating in the Chinese market. This report identifies a number of different areas that must be considered when planning for operations in China and provides some evidence from the participants in the study. The authors are very grateful for the participant's contributions to this project and strongly recommend considering the valuable observations reported in this report to companies considering entering the Chinese market.

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9. Appendix

Appendix 1: Basic Characteristics of the Organisations Involved in the Study

	Industry type	Entry Mode	Employee Size	Pseudonym	Locations in China
1	Wholesaling and Retail Industry	Supplier relationship and importing	40	Product Co	Shanghai, Suzhou
2	Movies and Entertainment	Exporting and Partnerships	20	Film Co	Shanghai
3	Information Technology	Exporting of services	6	Computer Co	Hong Kong & Shanghai
4	Biotechnology	Partnerships and FDI	-	Biotech Co 1	Mongolia, Nanjing
5	Manufacturing	Sourcing and Supplier Relationships	-	Pneumatic Co	Beijing
6	Security	Exporting of services	42	Security Co	Xian, Shanghai
7	Business and Property Services	Wholly-Owned Foreign Entity (WOFE)	100	Recruitment Co	Shanghai & Beijing
8	Business and Property Services	Wholly-Owned Foreign Entity (WOFE)	25	Consulting Co 1	Shanghai & Melbourne
9	Business and Property Services	Wholly-Owned Foreign Entity (WOFE)	32	Social Media Co	Shanghai
10	Mining	Wholly-Owned Foreign Entity (WOFE)	200	Resources Co	Shanghai
11	Building & Construction	Wholly-Owned Foreign Entity (WOFE)	50	Metal Frame Co	Shanghai
12	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	1	Consulting Co 2	Shanghai
13	Mining	Wholly-Owned Foreign Entity (WOFE)	80	Resources Co	Shanghai & Beijing
14	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	40	Accounting Co	Shanghai
15	Manufacturing	Wholly-Owned Foreign Entity (WOFE)	100	Box Co	Suzhou
16	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	100	Vehicle Co	Shanghai
17	Building & Construction	Wholly-Owned Foreign Entity (WOFE)	180	Build Co	2 staffed offices in Shanghai & Beijing, 2 registered offices in Suzhou & Harbin with projects around China
18	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	-	Association Co	Shanghai
19	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	30	Milk Co	Shanghai
20	Business & Property Services	Wholly-Owned Foreign Entity (WOFE)	10	Office Co	Beijing and Shanghai

Aust SMEs in China

	Industry type	Entry Mode	Employee Size	Pseudonym	Locations in China
21	Business and Property Services	Wholly-Owned Foreign Entity (WOFE)	2	Consulting Co 3	Shanghai
22	Business and Property Services	Wholly-Owned Foreign Entity (WOFE)	1	Finance Co	Shanghai
23	Building Construction and Engineering	Wholly-Owned Foreign Entity (WOFE)	50	Architect Co 1	Melbourne, Shanghai & Shenzhen
24	Sourcing	Wholly-Owned Foreign Entity (WOFE)	8	Shop Co	Guangzhou & Shanghai
25	Building Construction and Engineering	Wholly-Owned Foreign Entity (WOFE)		Architect Co 2	Guangzhou
26	Business & Property Services	Office	3	Media Co	Guangzhou
27	Business & Property Services	Fly-In-Fly Out/Wholly-Owned Foreign Entity (WOFE)	60	Medical Equip Co	Melbourne & Shanghai
28	Manufacturing	Sourcing from China	25	Rubber Co	Melbourne & Shanghai
29	Manufacturing	Sub-contracting in China	6	Monitor Co	Melbourne & Shanghai
30	Business & Property Services	Hong Kong Based Company	1	Arbitration Co	Hong Kong
31	Business & Property Services	Hong Kong Based Company	10	Marketing Consultants Co	Hong Kong
32	Manufacturing	Wholly-Owned Foreign Entity (WOFE)	80	Print Co	Guangzhou
33	Manufacturing	Importing/Exporting	-	Chemical Co	-
34	Building Construction and Engineering	WOFE	200	Architect Co 3	Shenzhen
35	Business and Property Services	Hong Kong Based Company	5	Investment Co	Hong Kong
36	Biotechnology	Wholly Owned Foreign Entity (WOFE)	6	Biotech Co 2	Shanghai
37	Biotechnology	Chinese businesses	65	Biotech Co 3	All over China
38	Biotechnology	Wholly Owned Foreign Entity	72	Biotech Co 4	Shanghai/Suzhou
39	Agriculture	Hong Kong Based Company & Exporting	5	Agriculture Co	Hong Kong
40	Range	Range	0	Panel Co	Shanghai