An Intercultural Comparison of the Internationalization Strategy between China and Germany – A Case Study how Networks Influence the International Strategies of SMEs

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Abstract. Research that deals with the internationalization strategies of MNEs (multinational enterprises) but also SMEs (small and medium-sized enterprises) stays popular. The increasing number of publications still leaves many worth knowing research gaps and unanswered questions. SMEs and MNEs act different in the internationalization process because of their different available resources. SMEs need special attention because in every economy the big number of SMEs – compared to the small number of MNEs – plays a very important role. It is shown that networks are important for SMEs during their internationalization process. This study takes a closer look at the internationalization of SMEs from the IT (information technology) and manufacturing industry and compares the global strategies in different steps of the internationalization (pre-phase to post-phase). The focus during this process is kept on the network activities because of its unique characteristic to compensate the limitations of SMEs. Based on the network approach this study uses a multiple case-study method to explore the strategy development, changes and realization of SMEs in China and Germany. The results of this study point out differences during the internationalization process and the significant role of networks during that process.

1. Introduction

The proportion of the number of SMEs to MNEs is the same in almost every country. The major part of the companies are SMEs. In all European countries the rate of SMEs is higher than 99 percent [1]. An identical situation exists in China where also more than 99 percent of the companies are SMEs [2]. The statement that SMEs present the backbone of the nation's economy counts for China but also Germany [3,4]. Especially for emerging markets like China with a continuous and fast growth SMEs play an important role.

In Germany, a developed industrial country, around two thirds of the working population are employed by SMEs [4]. The service industry in Germany is the leading part of the SME sector. Only about seven percent of the SMEs can be found in the manufacturing industry [4]. In China the situation is similar in terms of the working places but the manufacturing industry plays a more important role [2].

In both countries, China and Germany, SMEs are a key element of the economy. The trend that more and more SMEs extend their business to other countries is present in China but also in Germany. Different factors that are rooted in the globalization of business drive the continuation of the internationalization [5,6]. SMEs and MNEs act different in the process of internationalization because of the available resources. The limitation of resources involves financial and human resource problems that create an increased risk for SMEs during the internationalization process. For that reason it also influences the internationalization strategy of SMEs [6].

Networks build an important resource for SMEs in general and especially during the internationalization process. Different steps of the internationalization process are influenced by the
use of networks. Networks and relationships – often seen as social capital – of the SMEs’ top management and owners count as a compensation for disadvantages compared to MNEs [7].

The following parts of the paper take a look at the internationalization of SMEs from the IT and manufacturing industry. China and Germany are used as geographic domains of research to compare the strategies. From every country one IT and one manufacturing firm is selected for the multiple case-study. The elaboration starts off with a short literature review to get an understanding of the important definitions and characteristics of SMEs. The literature review also includes the identification of the research gap and the research questions that are connected to it. The following section presents the research design that is used for this study. The comparison and discussion build the next part. Finally, limitations and possible further research directions are pointed out.

2. Literature Review

The literature review is divided into different parts, the overview of the relevant definitions and characteristics that are important for the paper, the identified research gaps and guiding questions.

**Definitions.** Internationalization is seen as “a synonym for the geographical expansion of economic activities over the national country’s border” [6]. Studies often limit the internationalization process to the market entry as the first foreign market access including a short period before, when the market and/ or the entry mode is selected. The limited observation period often ends with the first fiscal year after the first foreign market entry. In this study the period is extended and starts with the time the initial idea to enter a foreign market is born. At the end there is no limitation. That means that the examination continues with additional other foreign market entries.

Even though the research subjects are from China and Germany the SME definition of the EC (European Commission) is used. By using the criteria of the EC it is possible to draw culture comparisons for this paper and further studies. The SME definition in China differs in term of sector-specific quantities. The EC definition of SMEs includes three criteria. First of all it is necessary that the number of employees is fewer than 250. Additionally, only one of the second and third criteria has to be fulfilled, either the yearly turnover is less than 50 million EUR (that is about 388 million RMB) or the yearly balance sheet total does not exceed 43 million EUR (what is equal to about 333 million RMB) [8]. In comparison to the Chinese SME definition no specific criteria for different industrial sectors exist.

**Characteristics.** SMEs and MNEs have different characteristics. Many characteristics of SMEs are considered as weaknesses. SMEs face challenges in terms of financial and human resources. Technical uncertainties, fast market transformation, and unpredictability of institutional and political environment are external influences that cause major risks for SMEs [9,10,11]. Disadvantages regarding SMEs’ internationalization process are in fact less capital and a lack of knowledge (e.g., with regard to unknown legal systems). The limited financial resources of SMEs reduce the possibility to hire appropriate people as professional assistants for the internationalization process [12]. Internationalization means a high risk for SMEs and failures can have a serious negative outcome [13]. SMEs try to compensate disadvantages with the use of network relationships [14]. Many dimensions are influenced by network relationships, e.g. initial motivation, market selection, entry mode choice, access to host market knowledge, and building credibility and trust [15]. Many of them are situated at the pre-phase of the internationalization process.

**Research Gaps and Questions.** Many studies from the past follow a typical research pattern based on qualitative and quantitative study methods [15]. The theoretical framework for studies that focus on the influence by networks and social capital is formed by the network approach, the social capital theory or the stage model [16]. Some studies rely on a cross approach that links to other theories (e.g. transaction cost theory, eclectic paradigm, institutional theory) [11,17].

SMEs that entered a foreign market present the research subjects of the investigation. Home and host markets and also firm characteristics (e.g., firm age, industry sector) vary. At this point it should
be noted that studies that look at SMEs with similar characteristics but from different countries are rare [11]. That does not allow a cultural comparison and geographic generalization of findings. Theoretical contributions are sometimes missing. Nevertheless almost all studies present implications and limitations. As mentioned before, many studies are limited in terms of the observed research period.

Many papers list managerial implications as well as practical contributions [14,16,18]. In general it is shown that SMEs often are not sufficiently aware of the influence of social capital during their internationalization. The SME executives do not know enough about the potential of social capital to enter foreign markets successfully, to influence the pace, performance and pattern or to minimize the risks and to lower costs during the internationalization process by way of example [14,15].

This study will also contribute a practical part. The intercultural comparison helps to identify general findings and special findings concerning culture or industry differences. The aforementioned gaps lead to the following research questions:

- How do SMEs use network resources from business networks – vertically (e.g. customers, suppliers) and horizontally (e.g. competitors) – and private networks (active or passive) during their internationalization process?
- How do networks influence the strategies of SMEs in China and Germany in the IT and manufacturing industry during their internationalization process?

3. Research Design

This study uses a multiple-case study to answer the research questions. Multiple sources of evidence (interviews and public online and print documents) are evaluated. The Chinese SMEs are selected from a pool of data sets. In a previous study interviews were conducted on an international fair for SMEs. An international activity (imports of any resource, semi-finished product and/ or material were excluded) was a requirement for all SMEs. The German firms were found online and by recommendation. The idea was to find a pair – one Chinese and one German SME – from the IT and manufacturing industry with similar characteristics (firm age and number of employees).

The research consists of three steps. First, a semi-structured interview guideline was used for the interviews with the SMEs' executives [19,20]. The interview guideline includes six sections: General information about the firm (1) and about the respondent (2), questions that focus on the international pre-phase (3), the entry (4) and post-phase (5) and a part that focuses on the network relationships (6). The interview data was checked with other materials (e.g., firm brochures or websites) to verify the data [16,21]. The third step was another interview to clarify some information from the first interview and public documents. In addition the questions had a focus on different network dimensions (firm internal/ external and private/ business networks) and different network characteristics (strength, size, density, own position, cohesion, channels). After the interviews some informal talks with the firms by social media or by telephone took place. All information from the different sources matched well.

4. Comparison and Discussion

The following part includes the comparison of the different SME characteristics and behaviors from China and Germany and a discussion about it.

Based on the definition of the EC [8] all four selected firms count as SMEs. The SMEs from the IT respectively from the manufacturing industry have similar characteristics in terms of the firm age and the number of employees (see Table 1). The DE (direct export) was for all firms the entry mode to the first foreign market. The firms have also in common that they see the internationalization as a necessary and seminal topic.

All SMEs have a different strategy in terms of national and international expansion. The firms are different with regard to the goal and motivation of internationalization (see Table 2). The different
dimensions of social capital had an influence on the internationalization pre-phase and actually entry of the first foreign market. Looking at the cultural differences it is obviously that the role of social capital is much more important in China. Also the strength is evaluated greater (see Table 2) – the total network strength is evaluated on a five-point Likert scale with different network characteristics.

Table 1. German and Chinese SME characteristics.

<table>
<thead>
<tr>
<th>Firm</th>
<th>GER-IT</th>
<th>GER-M</th>
<th>CHN-IT</th>
<th>CNH-M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country/ province (state)</td>
<td>Germany/ Berlin</td>
<td>Germany/ Berlin</td>
<td>China/ Guangdong</td>
<td>China/ Fujian</td>
</tr>
<tr>
<td>Firm age</td>
<td>8 years</td>
<td>36 years</td>
<td>10 years</td>
<td>19 years</td>
</tr>
<tr>
<td>Sector/ product</td>
<td>IT/ software development</td>
<td>Manufacturing/ accessory</td>
<td>IT/ machinery software</td>
<td>Manufacturing/ car parts</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5</td>
<td>7</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>1st foreign market/ firm age</td>
<td>Turkey/ 4 years</td>
<td>Switzerland/ 16 years</td>
<td>Thailand/ 5 years</td>
<td>Malaysia/ 14 years</td>
</tr>
<tr>
<td>Entry mode</td>
<td>Direct export</td>
<td>Direct export</td>
<td>Direct export</td>
<td>Direct export</td>
</tr>
<tr>
<td>Number of foreign markets</td>
<td>2</td>
<td>~ 10</td>
<td>3</td>
<td>6</td>
</tr>
</tbody>
</table>

Three of four firms have in common that the idea about the first foreign market differs from the actually first foreign market (see Figure 1). CHN-IT had the plan to enter the USA first. GER-IT as well as CHN-M had the plan to enter EU countries. The strategy and plan to extend the business to a foreign market plus the entry of the first market was vague for firms CHN-IT and CHN-M. The German SMEs invested more time in developing a strategy even though it cannot be seen as a long-term business strategy. The education background and experience abroad of all SME executives was not very different with the exception that on the German side the language skills were higher. After the first market entry the growth objective was the dominant strategic goal for all firms. GER-IT limited its business strategy to the domestic market. The existing network relationships were used predominantly unknowingly; this finding is similar to other studies [15]. All firms continued their expansion with DE and did not move towards an entry mode with higher financial risk and commitment. Only firm CHN-M thought about a JV (joint ventures) as a further option.

Table 2. German and Chinese internationalization characteristics.

<table>
<thead>
<tr>
<th>Firm</th>
<th>GER-IT</th>
<th>GER-M</th>
<th>CHN-IT</th>
<th>CNH-M</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial motivation/ goals</td>
<td>n/a</td>
<td>Growth objective</td>
<td>Client following</td>
<td>Competitor following</td>
</tr>
<tr>
<td>Influence pre-phase</td>
<td>Employee(s)</td>
<td>Customer(s)</td>
<td>Family Friend(s) Customer(s)</td>
<td>Friend(s) Customer(s)</td>
</tr>
<tr>
<td>Influence internationalization</td>
<td>Customer(s)</td>
<td>Employee(s) Customer(s)</td>
<td>Friend(s) Customer(s)</td>
<td>Family Friend(s) Customer(s)</td>
</tr>
<tr>
<td>Total network strength (1st market)</td>
<td>3 – family</td>
<td>1 – family 4 – family</td>
<td>3 – family 4 – family</td>
<td>4 – family 4 – family</td>
</tr>
<tr>
<td></td>
<td>3 – friend(s)</td>
<td>2 – friend(s)</td>
<td>2 – employee(s)</td>
<td>1 – employee(s)</td>
</tr>
<tr>
<td></td>
<td>5 – employee(s)</td>
<td>4 – employee(s)</td>
<td>3 – customer(s)</td>
<td>2 – customer(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1 – supplier(s)</td>
<td>2 – supplier(s)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2 – financial institution(s)</td>
</tr>
</tbody>
</table>

Social capital gets more important in the time period when the foreign market entry is exactly planned and during the actually market entry. In all four cases the intensity of the social capital use raised during the process. On the Chinese side it can be discovered that the social capital was used as
a resource to have access to financial resources and to find potential customers or even potential suppliers. But it cannot be discovered that private or business networks have a significant influence on a strategy change. The employees of GER-M and GER-IT had an influence on the development of the strategy because of their education background and close ties to the SMEs executives. In all cases it is more likely that an economic evaluation and decision leads to the strategy change.

5. Limitations and Further Research Direction

The cultural comparison based on a case study research method presents a deep insight into the Chinese and German internationalization process of SMEs from the IT and manufacturing industry. The findings of the case study provide valuable information which cannot be discovered with a study only based on survey data. Even though the exploitative study serves as a good orientation for further studies it is not possible to generalize the findings below the scope. The observation can be used to develop specific hypotheses, which can be tested with the support of quantitative studies. Furthermore the results from that quantitative survey can be used to verify and to generalize the findings from this study. An extension of the area of this study to other sectors and geographic regions can raise the value and contribute to a wider theoretical generalization. The study looks at a long period of internationalization but in order to improve the quality of study, especially to reduce the risk of a recall bias, a longitudinal study can be applied.

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References


