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THE INTERNATIONALIZATION OF EMERGING MARKET MULTINATIONALS:
EFFECTS OF HOST AND HOME COUNTRY INSTITUTIONAL FACTORS

ZHANG YUANYUAN

MPHIL

LINGNAN UNIVERSITY

2011

THE INTERNATIONALIZATION OF EMERGING MARKET MULTINATIONALS:
EFFECTS OF HOST AND HOME COUNTRY INSTITUTIONAL FACTORS

by

ZHANG Yuanyuan

A thesis
submitted in partial fulfillment
of the requirements for the Degree of
Master of Philosophy in Business
(Marketing and International Business)

Lingnan University

2011

ABSTRACT

The Internationalization of Emerging Market Multinationals:
Effects of Host and Home Country Institutional Factors

by

ZHANG Yuanyuan

Master of Philosophy

As we all know, economic globalization and internationalization have sparked off countless studies and arguments in the past years. Some of the conventional theories about the internationalization of firms, however, are repeatedly challenged when they are applied to the less developed countries. The internationalization of firms from less developed countries has been a topic of growing interest in the international business and economics literature. In our study, we consider the influence of institutions from both the host and home country on entry modes of Chinese firms expanding overseas. Based on a sample of 314 China's MNCs, the results support our hypotheses that both home and host institutions have significant effects on entry modes. Meanwhile, there are significant interactions between institutional quality of the host country and the government support of the home country and ownership type. At last, we find that both home and host institutional factors also affect the entry mode for a certain investment type, especially for the R&D investment. These findings have meaningful implications for understanding the internationalization behaviors of Chinese firms and the effect of dual institutional factors in studying the foreign entry modes of MNCs.

DECLARATION

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

ZHANG Yuanyuan

Date:

CERTIFICATE OF APPROVAL OF THESIS

THE INTERNATIONALIZATION OF EMERGING MARKET MULTINATIONALS:
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by
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CHAPTER 1. INTRODUCTION

1.1 Problem Definition

As we all know, economic globalization and internationalization have sparked off numerous studies and arguments in the past years. The leading theories of internationalization covered different perspectives such as Economics (Dunning 1988 & 2001, Coase 1937, Vernon 1966 & 1979), Knowledge Development (Johanson & Vahlne 1977, Luostarinen 1979) and Organization Learning (Kogut 1988). Some of them, however, are repeatedly challenged when they are applied to the less developed countries. The internationalization of less developed countries has been a topic of continuous interest in the international business and economics literature.

Many studies focused on the role of home government in supporting the emergence of outward activities from less developed countries (Korhonen and Luostarinen and Welch, 1996; Child and Rodrigues, 2005). Even though some studies touched upon the relationship between inward and outward activities and technology transfer in the internationalization process (Lall 1983, Cantwell 1989), those studies mainly emphasized the technology learning and accumulation for the less developed countries, without explaining the reason for various modes and location choice of their outward investment.

Our study argues that the modes and location choice of China's outward investment can be explained in perspective of both home and host institutional

factors and the interactions between them. Our findings will not only shed new light on the modes and location choice of outward investment from less developed countries, but also contribute to the empirical studies of outward internationalization in the perspective of institutional factors which may provide better explanations for foreign entry modes of LDCs in addition to the traditional internationalization theories.

1.2 Rationale

As one of the developing countries, China is a latecomer in the international market. Prior to 2000, Chinese firms lack advanced technologies, managerial experience and marketing skills. With China poised to become the second largest economy in the world, however, more firms from Chinese mainland have become formidable players in the world marketplace. In 2008 alone, China's outward FDI reached US \$52 billion. The internationalization of Chinese firms has attracted the attention of researchers from various fields.

Also, prior to 2003, Chinese outward investment was largely from the state-owned enterprises (SOEs). Private firms were then legally prohibited from investing abroad. Thus, many studies focused on the role of the government when doing research on internationalization of Chinese firms. After 2003, many private Chinese firms have expanded aggressively overseas in search of market opportunities, such as Haier, TCL, Huawei and Lenovo. As more and more Chinese firms become internationalized and move into the global marketplace, the outward internationalization of Chinese firms has become a topic of intense

interest in international business.

Moreover, although the existing studies have examined the role of institutions in constraining MNCs' investment behavior, these institutions are mostly unilateral and involve just one country, i.e., the host country. Since the investment behavior of MNEs involves both home country and host country factors, it is necessary to examine the internationalization behavior of firms under the influence of dual institutions (Agarwal & Ramaswami, 1992).

At last, the extant literature on entry mode neglects the role of investment types, which may also have great effects on the decision making of entry mode. Investment types, such as R&D, market-seeking or manufacturing operations are also closely related to the institution factors (Al-Saadon & Das, 1996; Mansfield, 1995). For example, R&D intensity is an important contingency factor that influences FDI decisions (Han, 2002; Lee, 1985). Institutional quality as the level of intellectual property protection in the host country is a very important institutional factor for favoring wholly owned subsidiary (WOS) as an entry mode for R&D investment. Consequently, entry mode decisions may be affected by both institutional factors and investment types. This study will explore the influences of institutional factors and their interactions with investment types on entry mode choices.

1.3 Research Objectives

Based on traditional transaction cost theory, our study extends extant internationalization literature by integrating institutional theory and exploring the

effects of institutions of both host and home countries on the entry mode decisions of EMMNCs.

For the first part, we consider the main effect of dual institutions on entry modes. Then we explore the interaction effect between those institutional factors by examining how both home and host country institutions jointly affect MNCs' entry mode decisions between equity modes and non-equity modes (FDI vs. Export) when investing overseas. For the second part, we further integrate the investment type and try to explore the influences of institutional factors and their interactions with investment types on entry mode choices. We first examine the main effects of investment types on entry modes, and then explore the interactions of institutions and investment types. The key objective of this study is to adopt the institutional theory to explain the entry modes of MNCs from less developed countries, which can not be well explained by the traditional theories.

This research adopts the quantitative study method for empirical analyses. The results based on a survey of 314 China's MNCs support our hypotheses that both home and host institutions have significant effects on entry modes. Meanwhile, there are significant interactions between institutional quality of the host country and the government support of the home country and ownership type. At last, we find that both home and host institutional factors also have effects on the entry modes for a certain investment type, especially for the R&D investment. These findings have meaningful implications for understanding the internationalization behaviors of Chinese firms and the effect of dual institutional

factors in studying the foreign entry modes of EMMNCs.

1.4 Organization of the Thesis

This thesis is organized as follow: In chapter 2, theories about internationalization of firms are introduced, including transaction cost theory, OLI theory, IPLC theory, Process Theory, Other Behavioral Theories and institutional theory. We furnish a brief review of the literature on those extant popular theories and elaborate the research gap. In Chapter 3, we propose hypotheses on the entry modes choice based on institutional theories and investment types. In the first part, we focus on the effect of institutional factors and the interaction effect between them on the entry mode choice between FDI and export. In the second part, we integrate investment types and explore the effect of institutional factors on entry mode choice between WOS and JV in a certain investment type. Research methods are described in Chapter 4. The results of hypothesis testing are presented in Chapter 5. Lastly, in Chapter 6, we draw theoretical as well as managerial insights form the results and explore the implications for the role of institutional theory in the internationalization of firms from less developed economies and the direction for future research.

CHAPTER 2. LITERATURE REVIEW

In this section, the definitions of internationalization of firms are reviewed first. Then, the traditional theories of internationalization process of firms are discussed. Third, it is followed by a discussion of the internationalization of firms in less developed countries. At last, this section analyzes the internationalization of firms in China. In the literature review, we point out the limitations of some traditional theories and emphasize the importance of institutional factors for examining the internationalization of firms in China.

2.1 Definition of Internationalization

The internationalization of firms has been captured by different terms such as multinational corporations, transnational enterprises, and more recently global companies. Researchers have defined internationalization from different perspectives.

From an outcome perspective, some researchers use “foreign sales as a percentage of total sales” as criteria of internationalization of firms (Stopford and Dunning, 1983). The multidimensional measure of internationalization focus on five characteristics of firms: 1) having manufacturing operations in multiple regions/countries, 2) integration of resources globally, 3) leading product quality, 4) world-class R&D capability, 5) well-known brand in the world market (Morgan and Katsikeas, 1997). Both the two definitions are suitable in this study since they focus on results of internationalization, but the former is more

objective and the later is based on the subjective perspective.

From the process perspective, internationalization is frequently described as “.....the outward movement of a firm’s international operation” (Johanson and Vahlne, 1997; Johanson and Wedersheim-Paul, 1975; Luostarinen, 1979). Previous researchers divided the entry mode for the outward movement to new foreign markets into two ways: exporting (directly or through independent channels), and foreign direct investment (FDI) (joint ventures, acquisitions, mergers, and wholly owned new ventures). Entry modes vary in the degree of control that a firm has over invested tangible and intangible assets. Therefore, according to the concepts of international product life cycle and organization life cycle, internationalization is also considered to be a gradual, sequential process through different stages.

2.2 The Leading Theories for Internationalization of Firms

Transaction Cost Theory

Classical economics claimed that due to the perfect competition in market, price mechanism may lead to the optimum allocation of the resources. Transaction cost theory originated from Coase (1937). He did not explain the firm behavior in the perspective of production function, rather claiming that firm dependency and market dependency are two different strategies, which one is preferred when the transaction cost is lower. Transaction cost arises when MNCs are more efficient than markets and contracts in organizing interdependencies between agents located in different countries. It includes the searching cost, bargaining cost, contract cost, supervision cost and default cost (Coase, 1937).

Since it always claims that transaction cost generally refers to all the costs caused by transactions, it is difficult to obtain a specified classification for different kinds of transaction cost. Williamson (1975) classified the transaction cost into: searching cost, information cost, bargaining cost, decision cost, supervision cost and default cost. Williamson (1985) further divided transaction cost into “ex ante” cost (contract cost, negotiation cost and monitoring cost etc) and “ex post” cost (adjusting cost, bargaining cost, construction cost and restriction cost). Dahlman (1979) classified the transaction cost in specified categories in Table 1.

When there is interaction between the individuals and transaction environments, the market failures may happen to due to the rise of transaction barriers, which lead to the transaction cost. Referring to the sources of the transaction cost, Williamson (1975) also suggested six sources of transaction costs, including bounded rationality, opportunism, uncertainty and complexity, small numbers, information asymmetric and atmosphere. Those six sources of transaction cost originate from asset specificity, uncertainty and frequency of transactions. (Williamson, 1985)

One of the most important issues of internationalization concerns the reason for firms to choose a suitable entry mode in a foreign market. Several theories have been put forward to explain the entry modes choice of firms. The transaction cost theory posits that in choosing entry modes, firms make trade-offs between control (or the level of integration) and cost of resource commitment. On one hand, control is the focus of the entry mode literature because it is the single most important determinant of both risk and return. To take control, the entrant must assume responsibility for decision-making, responsibility a firm

may be unwilling or unable to carry out in uncertain foreign environment (Anderson and Gatignon, 1986). Control also entails commitment of resources, including high overhead. Therefore, when entering into an uncertain foreign market, high-control modes may increase return and risk while low-control modes (e.g., licenses and other contractual agreements) minimize resource commitment (hence risk) but often at the expense of returns. The argument above is often under conditions of considerable risk and uncertainty, particularly in lesser-known foreign markets.

Table 1: Transaction Cost Categories

Cost Categories	Cost Contents
ex ante cost	
Search costs	The cost for searching for the available information and services
Negotiation costs	Includes those costs incurred in the preparation of the project design document that also documents assignment and scheduling of benefits over the project time period. It also includes public consultation with key stakeholders
Project documentation costs	Development of a baseline and monitoring plan
ex post cost	
Monitoring costs	Costs to collect data
Enforcement costs	Includes costs of administrative and legal measures incurred in the event of departure from the agreed transactions
Transfer costs	Brokerage costs

Source: Dahlman, 1979

Moreover, the mode choice may also be influenced by the level of

firm-specific technology (asset specificity), since firms with greater technology may incur higher transaction costs in safeguarding their technology from misappropriation (Hennart, 1991; Gatignon and Anderson, 1988; Williamson, 1985; Brouthers, 2010). Asset specificity refers to those assets that lose value in alternative use (Williamson, 1985). To safeguard specific assets from potential opportunism problems, firms may adopt high control modes (e.g., wholly owned subsidiary) (Gatignon and Anderson 1988, Hennart, 1991; Makino and Neupert, 2000). Firms with less specific asset may be less concerned with opportunism and more concerned with mode efficiency (Brouthers, 2010). Therefore, transaction cost theory also suggests that firms holding high specific asset tend to choose the modes with high control rights while firms holding low specific asset tend to choose modes with low control rights.

Many previous studies use TCA (Transaction Cost Analysis) and internalization theory to explain the internationalization behaviors (Reid 1983, Saul, Gary and Victor 1990, Buckley 1988, Horaguchi and Toyne 1990). There remain some limitations for those two theories. Dow (1987) argues that it is inconsistent to invoke bounded rationality as a necessary assumption in the analysis of contracts and governance structures, and then assume that substantively rational choices can be made with respect to the contracts and governance structures (that are imperfect because of bounded rationality). On the other hand, transaction cost theory is more based on the developed countries that hold certain specific assets or technology advantages. Thus, when explaining the

influence of specific asset on the entry mode choice, it is hard to explain why some less developed countries which do not hold the specific assets remain to take the mode with more control rights (e.g. wholly owned subsidiary). Moreover, follow the transaction theory, transaction costs tend to be low in highly competitive markets, thereby providing little or no incentive to substitute internal organization for market exchange. It fails to explain the internationalization of firms from lowly competitive markets and high transaction cost. At last, follow the internalization theory, when faced with an inability of markets to impose behavioral constraints and enforce simple contracts, firms are expected to internalize transactions to reduce costs of exchange. It overemphasizes that the internal system always has high efficiency than the external market and neglect the fact that internalization is not almighty in any circumstances.

OLI Theory

Eclectic Paradigm theory by Dunning (1988) suggests that firms taking appropriate outward activities should be based on the three factors they own: ownership (O), location (L) and internalization (I) advantage. Since the 1960s, International Production Theory could be divided by Industrial Organization Theory, Firm Theory and Financial Theory. However, Dunning argued those theories could not explain the international production behavior comprehensively. Based on those three theories above, and combined with the Location Theory, he suggested the OLI (Ownership-Location-Internalization) Model. In fact, OLI

theory is consistent with Transaction Cost theory in a certain extent, but more comprehensive.

The O-advantages refer to firms that have the economic advantages and hold the characteristics and capabilities that other competitors lack. Dunning (1993) identified two kinds of ownership advantage, asset advantage and transaction cost minimizing advantages, which arise from the availability of human, knowledge and physical capital as well as specific intangible related to property rights, marketing, organization, information processing, learning, managerial skills, governance and trust, finance, experience with foreign market, etc. The latter advantage was more emphasized.

The L-advantages are the attractions of comparative advantages for the policies and investment environment in the place of production, including the geographical position, relative price of the production factors, current and potential market demand, transportation and communication cost, infrastructure, government intervention, culture distance, etc. (Terpstra and Yu, 1988; Agarwal and Ramaswami, 1992, Root, 1987, Brouthers et al., 1996) . Dunning (1988) suggested when the host countries have large location advantages, they would like to choose the entry modes into foreign markets. L-advantages not only affect the firms' internationalization tendency, but also have influence on the foreign direct investment sectors and international production categories.

The I-advantages refer to firms that keep the advantages inside of the firms to avoid the adverse effect of imperfect market. The incomplete outside market

includes the structural incompleteness as competitive barrier and government intervention, and nature incompleteness as information asymmetry and high transaction cost. Firms can gain the maximum benefit through internalization if they lose the ownership advantages caused by the market incompleteness.

The Eclectic Paradigm above discussed the influences of these three kinds of advantages on the firms' outward activities. The different combination of these advantages will have a different effect on the firms' foreign market entry mode.

(Table 2)

Table 2: Foreign Market Entry Mode

		Categories of advantages		
		Ownership advantages	Internalization advantages	Location advantages
Form of market entry	Licensing	Yes	No	No
	Export	Yes	Yes	No
	FDI	Yes	Yes	Yes

Source: Dunning, 1981.

Until now, OLI theory is remains to be one of the most comprehensive theories to explain the international expansion of firms. It not only discusses the effect factor for international production, but also explains all outward activities of the firms. This approach attempts to analyze who, where and why of foreign direct investment (FDI) activities in term of OLI advantages and has dominated

international business research for the last two decades. Especially, the location advantages provide more explanatory power for the effect of firm-specific factors on the entry mode choice.

However, as this theoretical perspective is based on the transaction cost considerations and emphasizes the firm-specific advantages (FSAs) s largely related to Western MNCs in the internationalization process. OLI theory has some common limitations similar to those of the transaction cost theory. It is more based on the developed countries and fails to explain the outward activities of the countries which do not hold those advantages. Although it is generally regarded as a complementary theory; there are some overlaps for the explanations of those three advantages. At last, OLI theory fails to explain the case that firms from less developed countries expand into overseas market just in order to acquire particular resources that they do not have.

IPLCTheory

International product life cycle theory was originally provided by Vernon (1966), emphasized the role of “innovation, scale, ignorance, and uncertainty” and discarded the classical assumption that knowledge is a free good. It suggested three stages for the product development in the world market: (1) Location of new products: a new product is developed in an advanced country, as U.S. (2) Maturing: as the development, the production begins to extend to some developed countries to seize the market in those countries. (3)Standardization:

the production becomes standardized and the product is produced in more developed countries, advanced country becomes the importing country soon.

At the very beginning, the production is located in the innovative country. When a product becomes mature, its degree of standardization and consequently of price elasticity of demand increases; production and transaction cost become more and more important and the production will move to other developed countries.

According to Vernon's theory, Wells (1968) provide an international trade cycle which could be divided into four stages:

- (1) Innovation and U.S. export strength.
- (2) Foreign production starts, U.S. grab most foreign markets.
- (3) Foreign production competitive in export markets
- (4) Import competition begins.

At the first stage, even though there are many reasons for the U.S. entrepreneurs to produce in foreign countries, they still prefer to start manufacturing at home to be close to the market for translating demands for products design changes into more suitable ones and better communication with specialized suppliers. During the second stage, as income and product familiarity abroad increase, foreign producers begin to manufacture similar products. Even U.S. exports still supply most of the world's markets, they will decline gradually. At the third stage, foreign goods become competitive and will gradually take over the markets abroad which were previously held by American exports.

Finally, as the foreign manufacturers reach mass production, U.S. will face severe import competition.

As the acceleration of information flow and the change in the national markets of advanced industrialized countries, Vernon (1979) redefined the hypotheses to explain the international trade in terms of the product cycle. It classified multinational companies in to three ideal types and sought to explore their likely behavior. The product life cycle is reconsidered to a certain extent and weakens the explanatory power for the international behaviors of some firms.

Except for various empirical test (Vernon1967, Mousouris 1972, Ayal and Igal 1981, Almor, Hashai and Hirsch 2006), there are also some supplementary studies for IPLC theory, Tsurumi(1977) emphasized the role of country market for the product life cycle. The innovative country makes production in order to satisfy the demand in their domestic market with high income at first, then move to other developed countries market which there is an increasing desire for the new products. And the other developed countries will modify the products to adapt for their own markets, eventually compete with the innovative country for both the domestic and foreign markets.

In summary, the IPLC model suggests that many products go through a cycle during which high-income, mass-consumption countries initially export products. As development of the products, those countries eventually lose their export markets and become importers of those same products (Vambery, Robert and Yun,

1993). The standardized technique of production is key factor to the internationalization of firms from the IPLC perspective and the innovation of a new product is emphasized at the first phase of the cycle.

Therefore, IPLC theory does not quite match the situation in some less developed countries, which would import the products and learn the technology from other countries at the very beginning. The emphasis on the product development and standardization would be the key limitation of the application of IPLC theory in less developed countries. On the other hand, IPLC theory can not explain the influence of the technology innovation in some new economic fields (such as information technology) on the internationalization strategy of firms.

The Process Theory and Other Behavioral Theories

Transaction cost theory and internalization theory do not regard the firm internationalization behavior as a gradual process since they believe the firm may not have distinct advantages of scale in different time period. There is, however, another internationalization theory so-called process theory or the knowledge development theory, which suggests that internationalization is an incremental process.

The internationalization process theory is of Nordic origin, being formalized and popularized by Johanson and Wiedersheim-Paul (1975) and Johanson and Valhne (1977). This theory is based on the research of organization behavior and treats firm internationalization as a gradually improved process. Firms increase the resources investment step by step in the whole developing process and

improve the information controllability in the foreign markets.

It is also believed that internationalization is the product of a series of incremental decisions. In this incremental process, manager's gradual accumulation of experimental knowledge of foreign market reduces the "psychic distance (a set of factors preventing or disturbing the information flows between firms and foreign markets, such as language, culture, political system, level of education, and the level of industrial development)" (Johanson and Valhne, 1977).

In brief, firms start with no regular export activities, begin to export via agents, and then establish their own foreign sales subsidiaries, and finally move to production by investing in foreign countries. According to the theory, firms expand internationally through various stages: from low risk, low-commitment mode of entry -- direct exporting -- to high risk, high-commitment modes of entry -- foreign sales and manufacturing subsidiaries (Johanson and Wiedersheim-Paul, 1975).

Other perspectives on firms' internationalization include the adaptation of organization learning theory and the resource-based view in the internationalization context. Organizational learning theory explains the incremental process of knowledge development (Szulanski 1996). Organizations not only hold specialized knowledge, but also have the opportunity to learn from other organizations. However, even though the knowledge is available, organizations may not be able to access such knowledge, because they may not have the same capability of learning to absorb and apply it for its own use. Difference in their absorptive capabilities then explains the probability of local firms to develop knowledge of international business (Tsang 1999).

While previous research on the internationalization of firms has focused on the outward activities: exporting or setting up oversea subsidiaries, several researchers recognize that there is clearly an equivalent process of inward activities as multinational firms engage in foreign sourcing activities (Korhonen & Luostarinen & Welch 1996). These researchers emphasize that inward activities play a key role in the process of knowledge development and resource acquisition among local firms and greatly affect their outward internationalization (Welch & Luostarinen 1993). They suggest that domestic firms can begin the knowledge development process by engaging in inward activities, such as becoming a distributor of foreign products or forming a joint venture (JV) with a foreign company (Bjorkman and Kock 1995). Firms may also be integrated into the global economy through inward internationalization or up-stream internationalization. The inward internationalization process is very relevant for multinationals from less developed economies, where firms often begin their initial contact with the international markets by being a customer, supplier, or distributor for multinationals from advanced economies.

Advocates of the process theory contend that acquisition of knowledge about foreign markets allows the firm to enhance its learning abilities, reduce the uncertainty and risk often associated with international business, and improve its competitive position (Robock and Simmonds 1989, Autio et al 2000). And also some previous studies conducted an empirical test of this theory and foundt that process development theory is mainly applicable to the internationalization behavior in small and medium-sized enterprises (Bilkey & Tesar, 1977; Johanson and Nonaka,1983; Ali & Camp,1993).

However, the basic assumption of this theory was challenged by some

previous studies. (Oviatt and McDougall, 1994; Schrader et al, 2000; Autio and Sapienza, 2000) The main criticism is that process theory emphasizes internationalization become at the later stage of the organization growth process. It fails to explain some firms which the outward activities take place during the venture creation process or in the early stage of venture growth. On the other hand, it fails to explain the leapfrogging of certain stages by internationalizing firms.

Institutional Theory

Institutions can be defined as humanly devised constraints that structure political, economic and social interactions (North, 1990). Levchenko (2007) claimed that institutions typically refer to a wide range of structures that affect economic outcomes: contract enforcement, property rights, investor protection, the political system, and the like.

Scott (2001) argues that there are three pillars of institutions: the regulative, the normative, and the cognitive. Regulative or the legal aspect of institutions commonly takes the form of laws and regulations. They guide the actions and perspectives of organizations or firms by the threat of legal sanctions. For example, corporations adopt new pollution control technologies to conform to environmental regulations, and nonprofit organizations maintain accounts and hire accountants in order to meet tax law requirements (DiMaggio & Powell, 1983). Normative or the social aspect of institutions generally take the form of rules-of-thumb, standard operating procedures, occupational standards and

educational curricula. This aspect guides the actions and perspectives of organizations or firms by social obligation or professionalization. Cognitive or the cultural aspect includes symbols-words, signs, and gestures as well as cultural rules and frameworks. Cognitive institutional aspect forms a culturally supported and conceptually correct basis of legitimacy which may not be questioned. For example, it is regarded as natural that environmental activists pursue idealistic or collectivist interests, whereas corporations pursue economic and materialistic goals (Hoffman, 1999).

While the conventional firm-specific factors have been criticized for offering a narrow view of organizational activities and only focusing on the technical environments of individual transactions, there is a greater need to take the country-specific factors into consideration based on a broader institutional environment. Institutions are shared, collective understandings or rules of conduct reflected in laws, rules, governance mechanisms, and capital markets (DiMaggio & Powell 1991; North 1990). Institutional factors include elements in the technical environment as well as cognitive and sociological elements, such as norms, standards, and expectations shared by relevant members. Each organization is embedded in both its own internal institutional environment, which consists of the structures, systems and practices established in the past as well as its external institutional environment.

Until now, most studies of institutional factors have focused on the attributes of the host countries in the internationalization process and have largely

neglected the role of the home country institutional factors. While the institutional quality and investment incentives of the host country can help attract foreign investors, institutional factors from the home country such as government support and ownership type of firms may also affect their internationalization behaviors, especially for those firms from emerging market economies such as China (Peng et al. 2008). This study takes into account both of the host country and home country institutional factors and also their interactive effects on the foreign market entry modes of EMMNCs.

Institutional theory provides a new perspective of ownership strategy for foreign expansion. The traditional theories on internationalization tend to view the difference between wholly owned and shared ownership as a matter of the alignment of control rights between partners (Makino and Beamish 1998). Institutional theory suggests ownership may be a means of conformity to the institutional environment. When firms expand overseas, they face a dual pressure of conformity: to the national environment of the host country, and to the organizational practices within the multinational enterprise (Rosenzweig and Singh 1991).

Yiu and Makino (2002) argued that institutional theory differs from transaction cost theory in at least two important areas. First it pays more attention to contextual variations in institutional environments. Even transaction cost theory has mentioned some institutional constraints in their models (Williamson 1991), their focus has been limited to certain aspects of regulative institutions,

and the normative and cognitive domains of the institutional environment are mentioned comparably less (Roberts and Greenwood 1997). Second, key determinants considered to have an impact on the choice of organizational structure differ between transaction cost and institutional theories. Transaction cost theory focuses on “efficiency” as the primary determinant of the choice of organizational structure, while institutional theory regards “legitimacy” as the primary factor.

2.3 The Internationalization Theories for Less Developed Countries

The leading theories above mainly take the developed countries as the research target. Since 1960s and 1970s, many LDCs begin to engage in outward activities and gradually become the import part of international labor division. Some LDCs are moving away from wholly inward-oriented import substitution policies toward outward-oriented export-led growth (Aulakh, Kotabe, and Teegen, 2000). Compared with the developed countries, however, most LDCs do not hold the competitive advantages or monopolistic advantages. Some new theories are required to explain the internationalization of firms from those countries and some new factors are required to be considered in the new global marketing circumstance.

2.3.1 The Motivation of Outward Activities in Less Developed Countries

Wells (1977, 1986) elaborated systematically for the internationalization behavior in developing countries. He claimed that the main motivations of

outward activities of developing countries include the following points:

Protect the Export Market: Based on the research on many countries in Asian and South America, Lewis (1991) found that because of the trade barriers as tariff and quota limits, export is not a long-time plan for international operation procedure for those countries, the capital investment in foreign markets, however, protect most of their market.

Lower Cost: as the developed countries, the developing countries are searching for the districts where have lower wage labors than their own to compete with the export from other countries. Some countries invest in the third country to save the transportation cost.

Race Relations: Developing countries make outward activities to serve the same racial group. The outward investments linking to race relations are taking some proportions in total outward investments amount, especially in India, Thailand, and Hong Kong.

Risk Aversion: The political situation in some developing countries is instable and leads to the capital outflow from domestic enterprises. They engage in outward activities to disperse such risks.

Other Motivations: They include the support of host county governments, suggestions of consultant institution and staff training.

Ghymn (1980) also pointed out that based on different degree of economic development, LDCs show variety of interesting motivations: 1. ethnic ties, 2. risk reduction from economic and political instability at home, 3. solidification of

business with trade partners, and 4. manpower exports.

Dunning(1993) argued that there are three key motivations for FDI: strategic asset-seeking, resource-seeking, and market-seeking. Based on his argument, it is claimed that some newly industrialized economies (NIEs) tend to invest in DCs for either strategic asset-seeking or market-seeking purposes, small and large LDCs for resource/labor-seeking purposes, and large LDCs for both resource and market-seeking purposes (Makino, Lau and Yeh, 2002)

2.3.2 The Advantages of Less Developed Countries

Multinationals from LDCs usually utilized smaller scale, more labor-intensive, more flexible (among inputs and outputs) technology than did other MNEs and often domestically owned firms (Lecraw 1977, 1979, 1981). Their output was generally of lower quality than that of other MNEs and they competed based more on lower price than on product differentiation (Wells 1983; Lecraw 1977, 1981)

Makino, Lau and Yeh (2002) also claimed that there are three capabilities to support the investment of NIEs: labor intensive production capability, technology-based assets, and prior technology-seeking experience. All these three capabilities are firm-specific factors. For the country-specific factors, there are either natural endowments (e.g., low cost labor and natural resources) or created endowments (e.g., strategic assets) available in a host country (location).

Other literature on the advantages of firms in LDCs includes the following

three parts.

Small-scale Technical Advantages

Wells (1977, 1986) suggested that since the lower income countries have limited market capacity, they may not be able to gain the scale benefits through the large scale production. Many enterprises in the LDCs develop some technology skills which are labor intensive, production flexible and very suitable for small scale production. Because of this kind of competitive advantage, the LDCs sell the products at a lower price. Because of the low production cost and low labor wage, cheap price is always a powerful arm for seizing the market share and the competitive advantage compared with the developed countries.

Technical Localization

Lall (1983) claimed that the localization process of techniques in LDCs is highly related with the factor price and quality in their own countries. For small-scale enterprises, they can only benefit from these technologies if the products can satisfy their own economic conditions and demands and also satisfy medium and low consumption demands. Those conditions above lead to the enterprises in LDCs to engage in internal innovative activities to construct and develop their own competitive advantages.

Technique Innovation and Upgrade

Firms from LDCs are always regarded as lacking advanced technology and specific assets. Cantwell, Tolentino and Paz (1990), however, explored the technique innovation and upgrade theory in 1990s to explain the accelerated

growth of direct investment to the developed countries from the LDCs in 1980s. It was claimed that technological accumulation promotes the economic development of one country. The LDCs may not have powerful R&D capabilities; however, they grasp and develop the existent techniques through learning experience and organizing capacity. It was also claimed that the industrial distribution in the LDCs is predictable and changes as time goes on.

2.4 The Internationalization for Chinese Firms

Several reports indicate the more and more important role of China as an investor country in recent years. By 2004, China was the eighth most important source of FDI among developing countries (UNCTAD, 2005). A survey in 2005 also points out that China would become a top four source country of FDI over the period 2005-2008 (UNCTAD, 2005). As revealed in UNCTAD's World Investment Report 2010, China is at the third position for FDI outflow, only behind USA and France, with Chinese FDI outflow up to 100 billion dollars (UNCTAD, 2010).

Chinese outward investors can be regarded as being state-owned in the period under study, since private firms were legally prohibited from investing abroad prior to 2003. Since 1979, when outward direct investment (ODI) was formally permitted under the "Open Door" policies, the internationalization of Chinese firms has been tightly controlled by national and provincial government, either directly, by administrative fiat, or indirectly, via economic policy and other measures designed to advance the economic development agenda (Buckley

et al., 2006,2007). Initially, OFDI was permitted on a very selective basis. However, in recent years administrative controls have been relaxed, approval processes and procedures streamlined, and the ceiling raised on the amount of foreign exchange that can be committed to individual investment projects (Sauvant, 2005).

The development of Chinese outward FDI experience has gone through three stages. Between 1979 and 1985, China established 185 non-trading foreign affiliates, mostly in the form of joint ventures. These overseas enterprises spread over 45 countries and economies, primarily in the developing world. Many of these early investment activities were to a great extent motivated by the government's policies rather than commercial interests (Cai, 1999). In the 1985-1990 period, China established 577 non-trading foreign affiliates. These overseas enterprises spread over 90 countries and economies (including developed countries), were involved in a much wider range of industries, such as metallurgy/minerals, petrochemicals/chemicals, electronics/light industry, transportation, finance/insurance, medicine and tourism (Cai, 1999). In the 1990-present period, China's overseas direct investment began to expand at an unprecedented rate (Yang, 2003). China has become one of the top FDI exporters among developing economies (Cai, 1999).

Although the traditional theories can be readily applied to emerging economy investors in certain respects, they have some inevitable limitations for explaining the outward activities of firms from less developed countries as we

mentioned in the above parts. Buckley *et al.* (2007) argued that in the case of emerging economy MNEs, especially for Chinese firms, there are likely to be particular imperfections in home country capital markets that (potential) outward investors can exploit. The imperfections are from (1) the state-owned (and state-associated) firms may have capital made available to them at below market rates; (2) inefficient banking systems may make soft loans to potential outward investors, either as policy or through inefficiency; (3) conglomerate firms may operate an inefficient internal capital that effectively subsidizes FDI; (4) family owned firms may have access to cheap capital from family members. Buckley (2004) also claimed that those market imperfections may be transformed into ownership advantages by emerging economy firms.

Except for the market imperfections, the ownership advantages in China including flexibility, economizing on the use of capital or resources, benefits accruing from home country embeddedness (i.e., prior familiarity of operating within an emerging market context), and the networking skills (i.e., the ethnic or familial ties with the population in the host country) are mentioned by some researchers as well (Wells, 1983, Erdener and Shapiro, 2005; Lau, 2003; Buckley, 2007).

In recent years, the institution-based view become more popular for explaining the outward activities of emerging MNEs, and it is believed to have the potential to help explain distinctiveness in the behavior of outward-investing Chinese firms (North, 1990; Peng, 2002, Meyer and Nguyen, 2005). Those

institutional factors include the home institutional environment which is formally and informally enforced by government and its agents (Scott, 2002), the norms and cognitions (Buckley, 2007) and high levels of government support, typically in the form of privileged access to raw materials and other inputs, low-cost capital, subsidies and other benefits help emerging country firms to offset ownership and location disadvantages abroad (Aggarwal and Agmon, 1990).

Until now, however, there has not been a comprehensive study focusing on the effect of institutional factors (including both of the home-institutional and host -institutional factors) on the entry mode choice of Chinese multinationals. Particularly, the interaction effect of the institutional factors on the entry mode choice is mentioned less by extant studies.

2.5 Summary

Not only from the economic perspective, or from the behavioral perspective, the leading theories of internationalization including the transaction cost perspective (Anderson & Gatignon 1986), the OLI framework (Dunning 1988), the IPLC theory (Vernon 1966, 1979), and the knowledge development process model (Johanson & Vahlne 1977) are largely based on studies of firms from developed economies and emphasize the firm-specific assets, the advanced technology and the gradual process of knowledge development. These theories are inadequate for explaining the internationalization behaviors of firms from less developed countries. The expansion of emerging MNEs offers a unique opportunity for theoretical development and empirical research of the factors that

drive the internationalization of firms (Child & Rodrigues 2005).

Although recent developments in this area have shifted attention to the role of institutional factors on the overseas investment behaviors of MNEs (Peng et al. 2008), they have not developed a comprehensive study on the effect of institutional factors on the entry mode choice, but rather considered the effects of institutional factors of the host country or those of the home country separately. Nor is there enough empirical evidence to suggest that the influence of both home-institutional and host-institutional factors for Chinese MNEs. In other words, a comprehensive framework is needed to shed light on the entry mode choice in the perspective of institutional factors.

CHAPTER 3. HYPOTHESES DEVELOPMENT

3.1 Institutional Factors and Entry Mode Choice

Firms face two types of risks when entering a foreign market. On one hand, there are contractual risks with high transaction cost for the firms with ownership advantages when they engage in international transactions. On the other hand, firms face environmental risks when they enter an unfamiliar market. Facing the dual risks, firms make a trade-off between the high control modes to protect their particular know-how and minimize the transaction cost and the low control modes that allow adapting their strategies flexibly in an uncertain environment. Based on the conventional theoretical thinking, firms without ownership advantages, such as those from less developed countries, are expected either to avoid entering foreign markets or use a low control mode such as exporting.

In recent years, however, multinationals from emerging market economies such as China, India and Brazil have expanded rapidly in the international markets in search of market opportunities, natural resources, and strategic assets such as brand, technology and distribution channels (Child and Rodrigues 2005). Although these firms may lack firm-specific advantages, they have been observed to enter foreign countries with high-control modes such as joint ventures (JVs) and wholly owned subsidiaries (WOS). While the usual location-specific factors remain an important variable when explaining their entry modes choice, they have been referred to mainly host country factors. In

recent years, the location-specific factors have been extended to the home country factors and particularly the home country institutions, especially for firms from less developed countries, which often “leverage” their relationship networks and incentives and support from their home governments in their overseas expansion. In the absence of firm-specific advantages (FSAs), these home country institutional factors may entail certain comparative ownership advantages or country-specific advantages (CSAs), which can help shed light on the entry mode strategies of firms from emerging market economies (Cantwell et al. 2010; Sun et al. 2011).

As the transaction cost theory has been criticized for offering an under-socialized view of organizational activities (Granovetter, 1985), institutional theory has emerged as a more complementary approach to the study of organization-environment relations (Meyer and Rowan, 1977; Scott, 2001; Zucker, 1987). At first, it can better explain why some EMMNCs without specific assets can choose the high control modes in a foreign market. Moreover, unlike the transaction cost theory that is constrained to the “economic school”, institutional theory integrates more social-specific factors, such as home government support, which are more in line with China's actual conditions. At last, as EMMNCs are more concerned with environmental risks than transaction costs, institutional factors can affect firms' perceptions and tolerance of risks. In this study, we examine the effects of institutional factors from both the host country and home country on the foreign entry modes of EMMNCs. For the host

country institutional factors, we focus on the institutional quality and cultural distance as they reflect the environment risks in the host countries. Government support and ownership type represent the home country institutional factors. Then, we examine the main effects of those institutional factors as well as the interactive effects between them. We argue that home government support and ownership type of firms not only affect the entry modes choice by changing the risk tolerance of the decision makers of the firms but also moderate the effect of the host institutional factors. Meanwhile, although firms from emerging market economies may enjoy advantages in cheap labor force and resources, they often lack world-class technology and innovation ability. Thus, the licensing mode for outward investment is almost non-existent. In this study, we will not consider licensing but focus on the choice between the equity-based modes (JV and WOS) and non-equity-based mode (export).

Extant studies from the perspective of institutional factors largely focus on three main contents: *institutional quality*, *institutional profile* and *culture distance*. *Institutional quality* refers to the institutional factors which can support an effective market mechanism or not (North, 1990; Peng, 2008; Meyer et al. 2009). These factors include some market-supporting factors, for example, government stability, socio-economic conditions, investment conflict, property rights, and information systems (Meyer et al. 2009; Busse and Hefeker, 2007).

Institutional profile includes various aspects of the cross-country factors as cultural norms, social knowledge, rules and regulations and others. Based on

Scott's (1995) three pillars of institutional environments—regulatory, cognitive, and normative, Kostova (1997) further introduced the concept of a three dimensional country institutional profile to explain how a country 's government policies (constituting a regulatory dimension), widely shared social knowledge (a cognitive dimension), and value systems (a normative dimension) affect domestic business activity (Busenitz et al.2000).

Culture distance belongs to the institutional profile, but measures the difference between the host country and home country and has been adopted by some researchers. Culture distance has been used to represent the institutional profile several times in the previous literature about the location-specific factors (Dunning, 1993; Tihanyi et al.2005). Cultural context is thought to be helpful in defining profit potentials and/ or the risks associated with a specific entry mode (Brouthers and Brouthers, 2000). Most of the studies of cultural distance are based on Hofstede's (1980) culture dimensions, but with some inconsistent results. Some studies have indicated a negative relationship between cultural distance and MNE performance (e.g., Luo and Peng, 1999), while other studies have found a positive effect (e.g., Morosini et al., 1998). However, culture distance surely should have some effects on the entry modes choice, especially for the countries with deep cultural background as China (Pan and Tse, 2000). Thus, in our study, we focus on institutional quality and cultural distance as two host institutional factors.

Until now, most studies on institutional factors have emphasized the

attributes of the host countries, and neglected the role of the home-country based institutional factors. Although some studies mention the effect of government support on the entry modes choice, most of them are based on the government support in the host countries. There has been no comprehensive effort to examine the role of government from the home countries. Our study will elaborate the effect of host country government support on entry mode choice.

Moreover, the traditional international business research has not paid much attention to ownership types (i.e., state versus private). This is not surprising because private ownership tends to be norm in these economies (Peng et al. 2004). Ownership type, however, has become increasingly important when the research expanded to emerging economies (Hoskisson et al., 2000; Peng, 2000); especially as the effect of ownership type on the management strategy in these economies has some notable difference and characteristics. Thus, in our study, government support and ownership type serve as home institutional factors.

In summary, this study takes into account both of the host country and home country institutional factors and also their interactive effects on the foreign market entry modes of EMMNCs (Figure 1).

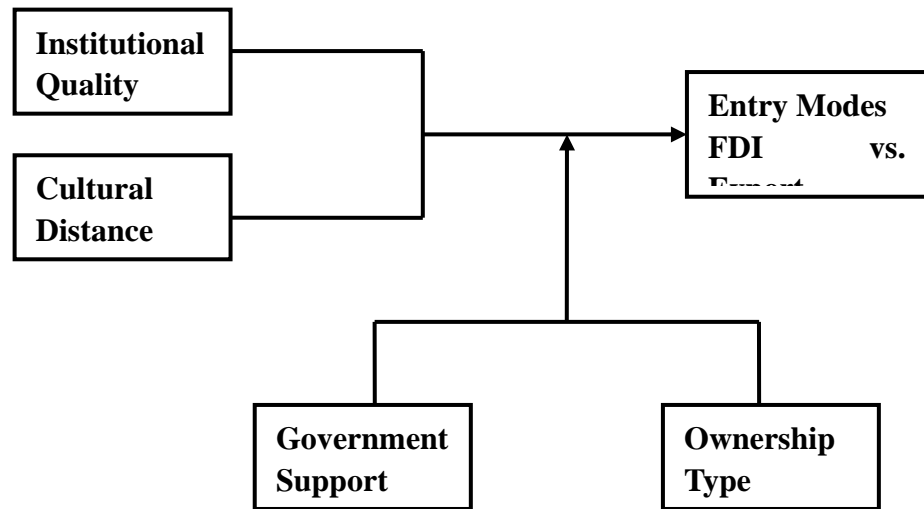


Figure 1

3.1.1 Institutional Quality

Borrmann et al. (2005) claimed that institutional quality results from the efficiency of the rules of economic interaction and the effectiveness of their enforcement. In any given country environment, the institutional arrangements would be “strong” if they support the voluntary exchanges underpinning an effective market (Meyer et al. 2001). Conversely, the institutions are “weak” if they fail to ensure effective market or even undermine the market (e.g., corrupt business practices). High quality institutions promote larger scale project and use more efficient technologies. It increases productivity, improves competitiveness, facilitates structural change and contributes to a better division of labour in the national and international context (Borrmann et al., 2005)

North (1990) suggested that institutional theory must be combined with transaction cost theory because institutions provide the structure in which

transactions occur. Thus, from the transaction cost perspective, the institutional quality of a target country influences foreign entrants' mode decisions by moderating the costs of alternative organizational forms. High institutional quality help to decrease various costs in international transaction processes, such as the cost of monitoring, managing and inspecting performance, which are often associated the equity-based modes of overseas investment. Hill, Hwang, and Kim (1990) argue that firms can incur lower transaction costs by utilizing lower ownership modes in host countries with greater political risk and uncertainty. When there is a low institutional quality, because the lack of information for the target country with great market risk and uncertainty, firms should avoid taking the equity modes in case of the high transaction cost, such as the monitoring cost and the enforcement cost. Overall, everything else being equal, strong institutional frameworks lowers the costs of doing business, albeit making the equity modes for attractive for EMMNCs. However, institutional environment has also received much attention in conceptual and empirical studies of entry mode choice. From the environment risk perspective, high institutional quality may decrease the perceived risk of the decision makers of firms.

Anderson and Gatignon (1986) argued that in more externally uncertain and volatile environments firms are better off utilizing low control ownership modes (e.g., joint ventures instead of wholly-owned subsidiaries) because of the increased flexibility provided to the firm. Based on the data from of 31 developing countries, Jun and Singh (1996) find that political risks significantly

affect entry modes of firms and that countries with higher political risks attract less FDI. Lower corruption and nationalization risks and better contract enforcement can lead to higher FDI inflows. Furthermore, environment stability decreases the perceived risks of investors (Gastanaga et al. 1998). Too much change in institutional arrangements creates chaos and may reduce the opportunity for organizational changes necessary to compete effectively in foreign markets, making equity-based modes more risky and costly. When a host country has low institutional quality, firms react to such volatility by avoiding ownership and attempt to retain flexibility and shift risk to outsiders. Therefore, compared with equity-based entry modes, the non-equity-based entry modes as export would be preferred in countries of low institutional quality, and vice versa.

Hypothesis 1: The higher institutional quality a host country has, the more favorable the equity modes (JV and WOS) are as opposed to the non-equity mode (export) in foreign market entry.

3.1.2 Cultural Distance

Cultural distance indicates the differences in cultural institutions between a home country and each target country (Kogut & Singh 1988). Cultural differences play a major role in increasing or decreasing managerial effectiveness in using firm-specific advantages at a foreign location (Hofstede 2001). However, there have been two opposing views about the effect of cultural distance on the entry modes choice. One stream of literature posits that greater cultural distance

between the home and the foreign market leads to a higher level of equity ownership in a firm's entry mode choice (Root, 1987; Davidson and McFeteridge, 1985; Tihanyi et al. 2005). This positive relationship between cultural distance and equity investment is based on the perspective of control and transaction cost. Because cultural distance leads to greater information asymmetry and thus increases the costs of information and monitoring, firms prefer equity entry modes for exerting greater control in order to minimize transaction costs. From transaction cost theory, internalization is preferred when the firms are likely to take advantage of limited knowledge and assets and when future transaction contingencies could not be specified because of uncertainty or complexity (Williamson, 1975; Beamish and Banks, 1987). Thus, when the cultural distance is large, firms tend to choose the equity mode to absorb the external uncertainties through centralization of decision making, provide a reduction in transaction costs, and protect the firm from opportunistic behavior in the target country.

Although control is an important consideration, entry mode choice in relationship to cultural distance can also be explained in the risk-reduction perspective. The other perspective argues conversely that there is a negative relationship between cultural distance and equity investment (Gatignon and Anderson 1988; Hill et al., 1990; Kim and Hwang, 1992; Nakos et al., 2002). This argument is based on the contingency approach, according to which a flexible organization will be better prepared to adapt to changing conditions (Lawrence and Lorsch, 1967). Under conditions of high cultural distance, firms

should restrict their resource commitment and thus reduce their risk exposure in these markets. In this case, MNCs may require greater flexibility, resulting in preferences for modes of entry with lower control such as export. Moreover, from Hennart and Larimo (1998), as the degree of cultural distance increases, the firm's acquisition of local knowledge through local experience becomes more difficult and costly. The foreign investor is more likely to form a JV with less equity investment rather than the WOS to acquire local assets and knowledge.

Given that firms from emerging markets often lack transaction-specific assets and technology advantages, we argue that the first theoretical perspective on minimizing the costs arising from cultural distance may not be applicable. First, firms lacking ownership advantages may not need more control to reduce the contractual risks as much as those with FSAs. Moreover, control is often based on the choice between JV and WOS, or between licensing and FDI. In this study, we focus on the choice between export and the equity entry modes. As a country of great cultural distance increases the transaction costs such as the information costs and monitoring costs, export should be preferred as it is less influenced by these factors. Thus, we propose that there is a negative relationship between cultural distance and equity investment.

Hypothesis 2: The lower cultural distances there is between the host country and home, the more favorable the equity modes (JV and WOS) are as opposed to the non-equity mode (export) in foreign market entry.

3.1.3 Home Government Support

Government support has been regarded as one of the influential institutional factors in studies of entry mode choices. Overall, a positive relationship has been found between government support and equity investment overseas (Hitt et al. 2004). Most of the studies, however, focused on the government policies and incentives in the host countries and have not paid sufficient attention to the role of the home country government. The important role of selective policies for attracting the inward FDI, such as fiscal incentives and lower tariffs, has been examined in some extant studies (Pan and Tse, 2000). As EMMNCs become more involved in overseas markets, however, home government bodies from these countries have provided various incentives and administrative mechanisms to encourage firms to move abroad for growth and expansion. Consequently, home government often plays a key role in outward FDI activities by providing favorable policies, financial support, and government connections in host countries. Yiu et al.(2007) pointed that in some emerging economies, firms have to seek for government approval when they plan to establish foreign ventures. For instance, Okuda (1994) found that the trade and FDI policies in Taiwan had changed in two decades and analyzed the important effect of home government support for the trade situation of Taiwan.

Over the past years, China has been regarded as the hotbed in attracting foreign investment. Nonetheless, by the rapid growth of FDI outflows, Chinese firms had invested a total of 100 billion abroad by 2010 (UNCTAD, 2010). In

China, the government has launched a "going out" campaign since 2003 to steer firms' outward movement in the pursuit of advanced technologies, R&D capabilities, or strategic assets such as brands and distribution channels. For example, in Guangdong Province of China, government even subsidizes companies in their visits to the developed countries to study the business practices and to enhance their R&D capabilities. Deng (2007) summarized that there are two significant and distinct features for Chinese outward FDI: the critical role of the Chinese government support and the increasing use of merges and acquisitions as a mode of entry. Institutional links are especially important in China, where there is deep involvement of the government in directing outward FDI (Cai, 1999). The motivation of the policymakers is not restricted to the sales of products but also pursuit of strategic asset and technical collaboration. Non-equity mode as export cannot satisfy the growth for EMMNCs to compete in global market. Overall, government support not only provides the incentives for firm's outward movement but also helps lower the perceived environmental risks and boost the confidence of firms in their overseas investment activities and in the pursuit of greater control in foreign market entry. Therefore, government support from the home country should have a positive effect on the equity-based entry modes:

Hypothesis 3: Firms with government support in the home country are more likely to adopt the equity modes (JV and WOS) as opposed to non-equity mode (export) when entering foreign markets.

3.1.4 Ownership Type

For the internationalization in developed economies, the previous studies traditionally have not paid much attention to ownership issues (i.e., state-owned versus private firms). This is not surprising because private ownership tends to be the norm in the developed economies. However, as the studies have expanded to emerging economies (Hoskisson et al. 2000; Peng, 2000), ownership has become an increasingly important issue, generating a growing literature which examines the effects of ownership on internationalization from organizational perspectives (Zahra et al. 2000).

In emerging market economies, firms with different ownership arrangements vary greatly in (dis)advantages as a result of variation of institutional constraints across the types of enterprises (Zhou & van Witteloostuijn 2010). For instance, officially, as defined in Table 3, Chinese enterprises include state-owned enterprises (SOEs), collective owned enterprises (COEs), mixed enterprises (MEs), foreign owned enterprises (FOEs), joint ventures (JVs) and domestic private owned enterprises (POEs).

Table 3 Officially defined ownership types in China

Ownership Type Definition

SOE	State-owned enterprises. Enterprises owned by the central government. The government is responsible for appointing managers and the performances of firms.
COE	Collective-owned enterprises. Enterprises owned by local governments. For example, township and village enterprises are collective-owned enterprises.
ME	Mixed enterprises. Newly privatized enterprises in which government holds certain percentage of shares while the rest of the shares are held by private shareholders.
FOE	Wholly foreign-owned enterprises, including enterprises owned by overseas Chinese.
JV	Joint ventures, including joint ventures between foreign firms and Chinese SOEs, foreign firms and Chinese COEs, and foreign firms and domestic private firms.
POE	Domestic private-owned enterprises, including sole proprietorships and partnerships.

Source: Z. Wei et al., *Journal of Multinational Financial Management*. 12 (2002) p: 61-78

In our study, because of the blurring boundary between collectively owned, privately owned, and foreign-invested firms (including those from Hong Kong, Macao and Taiwan) in terms of the degree of privatization, we categorize these three ownership types as non-state owned, in contrast to state owned. In our study, we focus on the distinction between state-owned and non-state-owned firms. State-owned enterprises (SOEs) enjoy greater government support than private firms. Most SOEs rely on the state as their primary banker, supplier, and distributor, although vigorous measures are now being undertaken to push at least some of them to the market domain (Steinfeld, 1998). They are often the beneficiaries of government protection and less subject to market competition. In

contrast, non-state-owned firms do not have these advantages and operate more under the principles of market economy without the various resource endowments, thus are more risk averse and conservative. Moreover, SOEs are often much bigger firms and have a longer operating history. In fact, large SOEs account for a overwhelming majority of the total outward FDI from China. Up to 2006, the proportion of the outward FDI made by the SOEs is as high as 81%, and the top ten enterprises based on the overseas asset holdings are all SOEs. While benefiting the most from government support, SOEs also suffer from the bureaucratic mentality and a culture of dependency, soft budget constraint, as well as lack of management autonomy (Wilkinson et al. 2006). Meanwhile, they are expected to be more responsive to government agenda, including that of "going out," and often less concerned with the transaction costs in international business and the efficiency in capital utilization. Therefore, we hypothesize that:

Hypothesis 4: SOEs are more likely to adopt the equity modes (JV and WOS) than non-state-owned enterprises when entering foreign markets.

3.1.5 Interactive Effects of Institutional Factors

As we mentioned above, a firm will face dual risks when entering the foreign market. On one hand, there are contractual risks with high transaction cost for the firms with transaction-specific assets and ownership advantages when they become involved in international transactions. On the other hand, there are environmental risks when firms enter an unfamiliar market. However,

as a country without the transaction-specific assets and technology advantages, the environmental risks would be more important when making an entry mode decision. The attitude of firms towards the environmental risks and the corresponding mode they choose depend on their level of risk tolerance. Investor's risk tolerance in the previous literature refers to the maximum amount of investment risk someone is comfortable taking (Schaefer, 1978). Thus, the risk tolerance in our study would refer to the maximum amount of investment risk a firm is capable of taking.

We have already discussed the host country factors in perspective of institutional quality and culture distance, which are regarded as the measurement of the environment risk in the target country. Then we further argue the effect of host country factors on the entry modes decision is moderated by the home country factors through changing the risk tolerance level of firms. First, we argue that the home government support moderates the effect of host institutional factors on the entry modes of firms. Despite the high transaction costs and greater risks caused by low institutional quality and cultural distance, firms with greater home government support are likely to have a higher level of risk tolerance. These firms are to be "cushioned" when they "fall". In a way, collectivism acts as implicit mutual insurance against catastrophic losses. This is why members from strong social collectives will, quite accurately, perceive the hazards of risky options to be smaller (Weber & Hsee 1998). In China, the government is similar to a timely "helper" to the firms and hence boosts their

confidence in adopting the equity modes in foreign market entry. Therefore, facing the environment risks due to the host institutional factors, firms with greater home government support would have higher risk tolerance and are more likely to choose the aggressive mode of foreign market entry. These firms would be less prudent than they should be in taking on the environmental risks, because they believe that, if they fail, the government will bail them out of difficult situations.

Second, when facing the different level of environment risks in a target market, some Chinese firms would have high risk tolerance (more risk-seeking) and lead to moral hazard. Moral hazard is a pervasive feature of insurance and other forms of risk sharing. It arises when the provision of insurance increases the probability of the event being insured against, usually because it diminishes the incentives for the insured party to take preventive actions. Any insurance entails moral hazard when the behavior of the insured party can influence the probability of the event insured against and there is either asymmetric information or some other reason the insurer cannot respond fully (by adjusting terms or canceling coverage) to behavior that leads to an increase in the event's probability (Lane and Phillips, 2000). In our study, the insuring party would be the government who is sharing the risk of the Chinese firms. The reason that lead to this behavior and increase the probabilities of moral hazard would be information asymmetry, in that the government overweigh the ability of the firms and their investing strategies. Moreover, it is necessary for Chinese firms to

select partners with capabilities that are complementary to their technical and management experience deflection. At last, firms in China often lack autonomy to some extent and have to resign to the wills of government. Firms receiving government support are viewed to help the government to realize its goals. For example, during the 2008 Sichuan Earthquake, many private firms benefiting from the government enthusiastically donated money to alleviate the burden of government. Government would try its best to support the firms to achieve its own goals. Therefore, as there is support by the other party, the moral hazard is prone to happen. For example, the International Monetary Fund (IMF) has been criticized for its lending practices and having contributed to the spreading of financial crises in emerging markets. Because after the economic crisis, the official international support to assist emerging market countries facing external payments difficulties induces these countries and their private creditors to be less prudent than they should be in taking on risks (Mussa, 2004). In our study, Chinese firms would be also less prudent than they should be in taking on the environmental risks, because they believe that, if they fail, the government will help to bail them out of their difficulties. In other words, Chinese firms would have higher risk tolerance when entering the foreign market under the support of the government. Therefore, we argue that even though there are high environmental risks in a host country; Chinese firms would still choose some risky modes (equity modes) because of their high risk tolerance.

Last, in the drive toward internationalization, the home country

governments often act as the champion for these home-grown multinationals. They often serve the agent or promoter of these firms, for instance, by leading investment tours, building business and government connections, offering language training and cultural immersion programs, providing market research and other types of services. In other words, government support helps to mitigate the environment risks in the host countries and minimize the effect of cultural distance. Firms under the auspices and support of home government are often better received and treated in the host countries. Therefore, when there are great environmental risks in the host country, whether it is due to institutional quality or cultural distance, firms with greater support from the home government would be more ready to adopt the more risky equity modes of entry as compared with those without government support.

Hypothesis 5: The positive effect of institutional quality in the host country on the adoption of equity modes of entry is greater for firms with government support than those without such support.

Hypothesis 6: The negative effect of cultural distance on the adoption of equity modes of entry is smaller for firms with government support than those without such support.

Likewise, the ownership type of firms also moderates the effect of host institutional factors on the entry mode of firms. Firms with different types of ownership may vary in their resources and abilities to deal with environment uncertainties in foreign markets. As state-owned enterprises (SOEs) are often

larger firms, have more experiences, and are more resourceful, hence less concerned with environmental uncertainty in the overseas markets. Moreover, while SOEs also enjoy greater government support and preferential policies, they are also more responsive to government agenda on the internationalization of firms as compared with private firms. Thus, SOEs have greater ability to cope with the environment risks in overseas markets and are less subject to the institutional constraints in overseas markets. In contrast, private firms are often smaller and less resourceful in dealing environmental uncertainty in overseas markets. Meanwhile, since many private firms are stock-ownership companies and are responsible to multiple stakeholders, they are more concerned with risks associated with overseas investment, costs of equity investment, and challenges of operating across national boundaries. Thus, non-state-owned firms should be more subject to the institutional constraints in a host country characterized by low institutional quality and/or great cultural distance. Therefore, ownership type of firms can significantly moderate the influence of the host institutional factors on the entry mode of firms expanding overseas.

Hypothesis 7: The positive effect of institutional quality in the host country on the adoption of equity modes of entry is greater for SOEs than non-state-owned firms.

Hypothesis 8: The negative effect of cultural distance on the adoption of equity modes of entry is greater for SOEs than non-state-owned firms.

3.2 Investment Type and Entry Mode Choice

3.2.1 Main effect of Investment Types

MNCs make different types of investment in foreign countries, and investment type influences the entry mode choice (Caves, 1971; Han, 2002; Mattoo, Olarreaga & Saggi, 2004). To explain the effect of investment type on entry mode choice, we would only focus on the equity mode choice between the internalizing activities (wholly owned subsidiaries) and the externalizing activities (joint ventures), leaving the mode of export aside. There are mainly three types of investment, likely R&D, market-seeking, as well as manufacturing. These three types are differentiated by R&D intensity, with R&D investment having the highest R&D intensity and sales divisions the lowest one. Many researchers have examined the relationship between R&D intensity and entry mode (Han, 2002). The major rationale for an entry strategy in the context of R&D intensity is whether or not the company should internalize the R&D activities based on risk analysis. MNCs increasingly have moved their R&D operations to absorb talent and ideas from overseas. But R&D activities face uncertainty and misappropriability hazards (Gambardella, 1995). MNCs with high technology products always prefer wholly owned subsidiaries to joint venture because they have no need for local partners to add local inputs and they fear the loss of quality, control, technological information, and monopoly profits which might occur if they form joint ventures with local business (Wells, 1973). Thus, companies tend to internalize their R&D activities to alleviate the uncertainty from the perspective of risk aversion. For example, in biotechnology

R&D investment, in-house R&D project can prohibit the team members from leaking know-how to competitors (Pisano, 1990). In contrast, if R&D project is carried at a different location, the risks of leakage would increase. Even if the contractual restrictions on transferring knowledge can be designed *ex ante*, it is hard to safeguard the R&D output, and enforcement is rather problematic. Consequently, as the misappropriability hazard would arise, MNCs prefer wholly owned subsidiaries when entering foreign markets in R&D operations. Although China has always been regarded as the “world factory” with a short history for the R&D investment abroad, there have been more and more R&D investment and products with high technologies in recent years, such as Lenovo’s R&D center in North Carolina in U.S.A.

In contrast, if the investment is low in R&D intensity, like market-seeking in host country, these risks would be much lower. The investment in market-seeking always has the undifferentiated products without technological advantage. Also from Vernon’s IPLC theory, the production is moved to the foreign markets when the products become mature enough. The investors may go abroad to seize the low price resources and explore the new market. Thus, compared with protecting the specific assets and essential technologies, the local information would be more important for those investors because it is not necessary to hold much more control rights. It is better for them to acquire the knowledge of local markets, the economic environment, political regulations, raw materials sources and distribution channels by forming joint ventures with local partners.

At last, for the manufacturing investment, even it belongs to the investment type which has low R&D intensity as well; there is a slight difference from the market-seeking investment type. Since China has always been regarded as the manufacturing country and the FDI inward attractive hot land, it has a long history for products manufacturing, such as in the mode of OEM. China has the advantage of cheap resources and lots of experience for operating manufacturing business. Even when facing a new foreign market, Chinese firms are more likely to choose the wholly-owned subsidiary rather than joint venture for two reasons. On one hand, Chinese firms can do the job well without forming joint ventures with local partners because of their abundant experience of taking manufacturing business. They more tend to hold whole control rights and increase the flexibility in the foreign market. On the other hand, even Chinese firms go to the less developed countries for searching the resources even cheaper than in China, the poor institutional quality in those countries would have smaller effects on the entry mode because they have the experience of operating in Third World countries and quite familiar with the ways to cope with the poor institutional quality countries.

Therefore, in perspective of assets protection, risk aversion and the experience of Chinese firms, we propose the investment type should have influence on the entry mode choice in that:

Hypothesis 9a: Firms making R&D investment prefer internalizing activities (wholly owned subsidiaries) to externalizing activities (joint ventures).

Hypothesis 9b: Firms making market-seeking investment prefer joint ventures to wholly owned subsidiaries.

Hypothesis 9c: Firms making manufacturing investment prefer wholly owned subsidiaries to joint ventures.

3.2.2 The Effect of Institutional Factors in a Certain Investment Type

The firm's location and control decisions are both determined by the interrelation between the cost of executing these value-adding activities in various locations, knowledge flow costs between these activities (Buckley & Carter, 2004; Kogut & Zander, 1993; Martin & Salomon, 2003) and the cost of product flows to the market. Buckley and Hashai (2005) claimed that the location decision is where to locate each value-adding activity so that the overall costs are minimized. Based on transaction cost theory, firms making R&D investment are holding some specific assets and prefer to locate the new products in their own country or the countries with technology advantages. Moreover, for many EMMNCs, overseas investment or internationalization is not the end, but the means to acquire strategic assets and proprietary knowledge, especially R&D capabilities. Since such capabilities cannot be developed within over a short period, EMMNCs often invest in overseas R&D operations to upgrade their technology and product capabilities (Child and Rodrigues, 2005; Deng, 2007). Thus, R&D opportunities are more often available in advanced economies than in LDCs. Followed by Vernon's IPLC theory, firms making market-seeking

investment abroad are holding the mature products. To be closer to a broad customer group and avoid the trade barriers, firms tend to establish marketing divisions in the advanced countries rather than LDCs to better serve those comparably “richer” foreign customers. As for the manufacturing investment, according to the product cycle framework, the relative importance of R&D and knowledge flow costs would decline over time; it’s generally believed that firms making manufacturing investment prefer to go to LDCs to acquire cheap nature or labor resources. Thus, based on Buckley’s framework, the relationship between investment types and location choice could be summarized in Table 4:

Table 4: Investment Type and Location Choice

Activities/Country	Marketing	Production	R&D
LDCs (resource-rich)	-	+	-
DC	+	-	+

However, we find the results for Chinese firms are not quite consistent with Buckley’s framework by using our data of 314 Chinese multinationals. As China is one of the largest newly industrialized economies, in our model, we classify the locations into Developed Countries, Newly Industrialized Economies and Less Developed Countries. Based on the results in Table 5, among Chinese firms that have set up OFDI operations in R&D in overseas markets, nearly half of them have done so in developed countries (48.4%). These results are consistent with the traditional arguments that Chinese firms have looked to the advanced economies as a major avenue for Chinese firms to acquire new technologies for production and products. Among Chinese firms that have set up OFDI operations

in market-seeking in overseas markets, majority of the firms have established this type of operation in developed countries (46.3%), but not significantly more than in newly industrialized economies and the less developed countries (24.1% and 29.6% respectively) (Table 6). As for the FDI projects in manufacturing established by Chinese firms overseas, also the majority of them are in economically developed nations (44.6%), significantly much more so than in newly industrialized economies and the less developed countries (22.8% and 32.6% respectively), indicating that Chinese firms also prefer to pursue the production opportunities in the economically more advanced markets which is quite inconsistent with Buckley's framework (Table 7).

Thus, to enrich the “economic school” in IB research and for better explanation of entry strategy for Chinese multinationals, we further argue that investment types are intertwined with institutions (Caves, 1971; Han, 2002; Mattoo et al., 2004). We expect some interactive effect between institutional factors and investment types in terms of their effects on entry modes.

For the home institutional factors, i.e. government support and ownership type, as we explained before, even though there are great environmental risks in the host country; firms with greater support from the home government would be more ready to adopt the more risky equity modes of entry as compared with those without government support. Even the Chinese enterprises with their own specific assets or advanced technologies are concerned with leaking technological information and thus resist forming joint ventures with local firms; this kind of fear and risk could be reduced by the home government support. The government support, once again, become the “big cushion” as a way of risk aversion when the firms face the potential risk of knowledge know-how loss. Moreover, because SOEs have greater ability to cope with the environment risks in overseas markets and are less subject to the institutional constraints in overseas markets. There is the same reason for the risk sharing by the state-owned enterprises.

R&D investment has long been considered as a very important stimulus for the economics development. Government would provide essential financial support and policies favorable for the R&D investment. In recent years, Chinese

government has made lots of preferential policies to encourage the firms' R&D investment abroad since the "go-global" strategy was issued. China has been trying to shake off the title of "world factory" and make some products with its own technologies. Some big multinationals, as Huawei, Haier and Lenovo, were supported to have built R&D centers in the foreign market a few years ago. More and more enterprises, especially for the SOEs, have begun to take R&D investment abroad by mergence and acquisitions or joint ventures with foreign local business, such as China Telecom. Therefore, we argue that firms making R&D investment abroad would be influenced by the home institutional factors, i.e. government support and ownership type in that:

Hypothesis 10: Firms making R&D investment with government support prefer externalizing activities (joint ventures) to internalizing activities (wholly owned subsidiaries) than those without such support.

Hypothesis 11: SOEs making R&D investment prefer externalizing activities (joint ventures) to internalizing activities (wholly owned subsidiaries) than non-state-owned firms.

For the host institutional factors, previous studies have focused on host country's institutions and R&D investment (Han, 2002; Leahy & Naghavi, 2006; Naghavi & Leahy, 2008). The major rationale is that R&D intensive activities are sensitive to the mechanism of intellectual property protection (IPP). The mechanism of IPP plays an important role in the decision making of entry mode because company's competitive advantages increasingly come from

knowledge-based assets. As these assets can be copied by the competitors, firms rely on regulatory regimes to protect their knowledge-based assets and to maintain their competition advantage. However, not all countries have a strong IPP regime. In some countries piracy and infringement are rampant and the intellectual property can not be effectively protected. MNCs then protect their intellectual property by themselves, and also by internalizing R&D activities (Leahy & Naghavi, 2006; Maskus, 1998; Naghavi & Leahy, 2008). When the mechanism of IPP is strong, MNCs may be willing to adopt joint ventures for R&D activities. When such a regime is weak, the obvious choice is to take the WOS mode for R&D investment (Leahy & Naghavi, 2006; Naghavi & Leahy, 2008). The high institutional quality indicates a good investment environment, and thus a comparably strong IPP mechanism.

Furthermore, Liu (2009) claimed that the outward R&D investment for Chinese firms could be divided into three types which are Applied R&D Investment, Basic R&D investment and Learning R&D investment. Applied R&D Investment is the combination of existing technical resource of Chinese firms and the information in foreign local market. This kind of investment would not reinforce the core technology of Chinese firms, but localize the technology and improve the product competitiveness in the local market. Basic R&D investment is a way to improve firms' existing technology by exploiting foreign local basic technology and R&D resources which include local talent, low talent cost or the other low R&D cost. Learning R&D investment is to build R&D

center in the developed countries, learn and monitor the latest innovation information and trend. It's not necessary for those R&D center to do some R&D work, but search and collect the latest trend in related areas in advanced countries. China has a very short history of outward R&D investment and most of Chinese MNCs belong to the third group of R&D investment type. They are in the process of learning and gathering the latest R&D information in advanced countries. The high institutional quality and low cultural distance would decrease the marketing barrier and make them more easily to access to the true technological information in local market through the local partners. Thus when the investment environment is satisfactory i.e. the institutional quality is high and cultural distance is small between China and the target country, Chinese firms are more willing to form joint ventures with local entrepreneurs to learn and gathering the information when making the R&D investment. Therefore, we propose the host institutional factors would have influence on the firms making R&D investment in that:

Hypothesis 12: The higher institutional quality a host country has, the more favorable the externalizing modes (joint ventures) are as opposed to the internalizing modes (wholly owned subsidiaries) for the firms are making R&D investment.

Hypothesis 13: The lower cultural distances there is between the host country and home, the more favorable the externalizing modes (joint ventures) are as opposed to the internalizing modes (wholly owned subsidiaries) for the

firms are making R&D investment.

Dunning (1993) argued that enterprises making investment to seek market in the foreign market through FDI for a variety of reasons: to expand the existing domestic buyer-supplier relationships in host countries; to avoid being preempted by the rivals' entry into a particular host country; to produce products close to local markets; to lower transportation costs; and, to benefit from investment incentives. It is suggested that firms prefer to go to upstream countries (developed countries) to attract more high income customers for differentiated goods, and more likely to go to downstream countries (less developed countries) to attract low income customers for labor intensive goods (Makino, Lau and Yeh, 2002). In perspective transaction cost theory, we argue in the last part that firms should fear the risk of technology loss when taking the R&D investment in the foreign market. In this case, government support and state-owned type may share the perceived risk of firms and increase the risk-aversion of them. For the market-seeking investment, however, risk of technology loss would not be important to this kind of situation. As for the current situation of Chinese industry status and products development, most firms making outward market-seeking investment should have the labor intensive goods which are mature enough. Therefore, it is difficult to suggest the effect of home institutional factors (government support and ownership type) on the entry modes for the market-seeking investment.

For the host institutional factors, however, we argue that they should have

certain influence on the entry modes between joint ventures and wholly-owned subsidiaries. Firms exploring new market opportunities in a foreign country must tend to invest in countries where market potential is large than in countries with small market potential (Makino, Lau and Yeh, 2002). Lecraw (1991) also claimed that the rate of growth of domestic demand and changes in the tariff rate had a significant impact on market-seeking investment. When firms explore a new market abroad, the local economic and political environment should be the very important factors in consideration. Moreover, if Chinese firms need local information and local inputs, it's easier for them to access to the information and communicate with the local business if there is small cultural distance between China and the host country. Therefore, we propose that the host institutional factors would have influence on the entry modes between JV and WOS for the market-seeking investment in that:

Hypothesis 14: The higher institutional quality a host country has, the more favorable the externalizing modes (joint ventures) are as opposed to the internalizing modes (wholly owned subsidiaries) for the firms are making market-seeking investment.

Hypothesis 15: The lower cultural distances there is between the host country and home, the more favorable the externalizing modes (joint ventures) are as opposed to the internalizing modes (wholly owned subsidiaries) for the firms are making market-seeking investment.

For the last investment type, the manufacturing investment, we do not

consider the effects of home institutions for the same reason as the market-seeking investment. Most firms making outward manufacturing investment should have the labor intensive goods which are mature enough. Home institutional factors (government support and ownership type) may not have much effect on the entry modes for the manufacturing investment. As for the host institutions, as we explain before, Chinese firms have special advantage in manufacturing investment because of their long term experience for doing that. Most of manufacturing investments take place in the less developed countries for their cheap labor and nature resources. First, Chinese firms are familiar with the Third World conditions and do not need local partners to provide local information. Moreover, most of the products are mature enough without new technology, thus it is not necessary for Chinese firms to have joint venture with local firms for technology learning or collaboration. Thus, it is quite different from R&D and market-seeking investment type. Chinese firms when investing in manufacturing are more likely to choose wholly-owned subsidiary and hold the whole control rights to increase the flexibility in the foreign market. When the institutional quality is high and cultural distance is low, the only thing the firms need to do is to take advantage of the cheap resources and making mass production in a good environment. Therefore, we propose that when there is high institutional quality and low cultural distance, Chinese firms more likely to choose WOS than JV.

Hypothesis 16: The higher institutional quality a host country has, the more

favorable the internalizing modes (wholly owned subsidiaries) are as opposed to the externalizing modes (joint ventures) for the firms are making manufacturing investment.

Hypothesis 17: The lower cultural distances there is between the host country and home, the more favorable the internalizing modes (wholly owned subsidiaries) are as opposed to the externalizing modes (joint ventures) for the firms are making manufacturing investment.

CHAPTER 4. METHODOLOGY

The purpose of this part is to introduce the research methodologies used in this study. In this part, we present quantitative method. Quantitative research emphasizes the measurement and analysis of causal relationships between variables (Guba and Lincoln, 1994). The first part introduces the sample and questionnaire design. We conducted a questionnaire survey in mainland China in 2010. The second part introduces the measures for the variables.

4.1 The Survey and Questionnaire Design

The data on firms' foreign market entry mode and their home institutional factors are collected through a survey of mainland Chinese firms. A major multinational research company was commissioned to conduct the survey using its proprietary panel of executives from 1,500 Chinese companies that had some international businesses in 2010. These companies come from four major manufacturing sectors, i.e. food and beverages, textile and apparel, electric machinery and electronics, and transportation and other equipment. Firms from sectors in natural resources, finance, banking, and business services were excluded because their outward FDI often reflects government agenda rather than firm behavior.

The lack of generalizability may happen as a result of coverage bias, selection bias, and non-response bias. Thus, generalizability of resultant findings to represent the population it represents is taken into consideration in sample

design. Blair and Zinkhan (2006) suggest that, instead of attempting to justify the results by comparing non-respondents with the broader population on a few demographic variables, or by comparing early versus late respondents, researchers are encouraged to maximize response rates as much as possible through careful survey design. The best practices to maximize response rate involves (1) preparing attractive questionnaire and cover letter, (2) identifying proper respondents, (3) contacting with proper respondents to inform the coming survey, (4) following up, and finally, (5) if the respondent rate is still low, doing extra efforts to compare non-respondent sample with respondent sample, checking if any differences exists between these two samples on demographic aspects or key attributes (Blair & Zinkhan, 2006; Dillman, 2000).

To minimize the effects of common method variance, the procedures suggested by Podsakoff, Mackenzie, and Lee (2003) are followed to design the questionnaire. Firstly, we carefully construct the items in English and then translate them into Chinese to make them as simple, specific and concise as possible. Comprehension problems caused by item complexity or ambiguity induce respondents to develop their own idiosyncratic meanings for items, which may result in common method bias (Podsakoff, MacKenzie, & Lee, 2003; Tourangeau, Rasinski, & D' Andrade, 1991). Item wording and terminology in Chinese were refined accordingly to ensure the validity and appropriateness of the measures in China context. Moreover, scale anchors for different constructs vary from one to another (Podsakoff, MacKenzie, & Lee, 2003). For some

constructs in our study (e.g. government support), the scale is consisting of 7-point Likert-type indicators, ranging from 0 “none” to 6 “much more”. However, some other constructs adopt different anchors for scales. For example, the scale of product standardization consists in 7-point Likert-type indicators, ranging from 1 “strongly disagree” to 7 “strongly agree”. At last, respondents were convinced in advance about the following messages. (1) The information collected is only for academic usage. (2) There is no right or wrong answer. What respondents need to do is to answer questionnaires as honestly as possible. (3) Respondent anonymity is protected.

The questionnaires were delivered to the top executives at these companies who were familiar with their international operations. After two weeks, follow-up phone calls and email reminders were to those panelists who have not responded. Finally, 314 completed questionnaires were collected, resulting in a response rate of 21%. At the end of the survey, research assistants placed phone calls to 10% of respondents randomly to verify their identity and responses to the survey. The data about the host country's national institutions are collected through PRS Group's International Country's Risk Guide (www.prsgroup.com), which provides measures of a country's institutional quality (Dikova et al. 2010). The political risk of PRS Group is measured by 12 items, i.e. government stability, socioeconomic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religious tension, law and order, ethnic tensions, democratic accountability, and bureaucracy quality.

4.2 Measures

4.2.1 Dependent Variable

We use the entry mode as dependent variable. In part one, we focus on non-equity modes (export) vs. equity modes (FDI, including WOS and JV). If a firm adopts FDI modes when entering a foreign market, it is denoted as 1, while the export mode is denoted as 0. A particular company in foreign market may have two alternatives: export or equity mode, we just use equity mode as the dependent variable. Since a particular subsidiary may choose both export and equity mode in one market during a certain time, we specified in the questionnaire that the firm should indicate its latest investment mode choice if it is in this case. In part two, we focus on high equity mode (wholly-owned subsidiary) vs. low equity mode (joint venture) for FDI. If a firm adopts wholly-owned subsidiary when entering a foreign market in a specific investment type, it is denoted as 1, while the joint venture mode is denoted as 0.

4.2.2 Government Support

Then, the host and home country institutional factors are the independent variables. Home government support and ownership type are the indicators of home institutional factors. Governmental support is measured by five indicators: (1) Chinese government drew up a series of policies encouraging us to explore overseas markets; (2) Chinese government helped negotiating with host country governments when we encountered problems in overseas markets; (3) Chinese

government helps us to realize our goal in the host country through developing close relationships with local governments; (4) Chinese government helps us find appropriate projects in overseas markets; (5) Chinese government puts in place relevant policies to help us obtain financing with favorable terms for our overseas expansion. These items are measured in 7-Likert scale with 1 denoting the lowest and 7 the highest with a point of neutrality in the middle. The five items then are analyzed through factor analysis and achieve good conceptual validity. The resulting factor score is used to represent home government support. As for ownership type, SOEs with the government as the sole or the largest owner are denoted by 1 while private firms of various types are coded as 0.

4.2.3 Ownership Type

Ownership type is measured using a single item. The respondents were asked to indicate the type of ownership of the firms, whether they are state-owned, collectively owned, privately owned, Hong Kong-, Macro- and Taiwan-invested, or foreign invested. We then grouped collectively owned, privately owned, Hong Kong-, Macro- and Taiwan-invested, and foreign invested ones into one category, non-state owned. We coded state-owned firms as 1 and non-state owned as 0.

4.2.4 Institutional Quality

The host institutional factors include institutional quality and cultural distance. Institutional quality is measured using the data from the PRS Group International Country Risk Guide (Dikova et al. 2010). This guide measures the

composite country risks for foreign businesses, including both economic and politic risks. For the 25 countries in our study, we use their average score of 74 as the boundary. Countries with a risk score higher than 74 are deemed to have a good institutional quality and vice versa.

4.2.5 Cultural Distance

Cultural distance is measured by Hofstede's five culture dimension scores: power distance, individualism, masculinity, uncertainty avoidance and long-term orientation (Hofstede 2001). Using these index scores can help avoid the problems of common method variance or retrospective evaluation of a national culture, which are often attributed to the same individuals answering questions about firm performance as well as those about national cultures. In this study, we use the multidimensional measure to arrive at the cultural distance between China and the other countries along Hofstede's five indices of cultural differences (Morosini et al. 1998):

$$CD_j = \sqrt{\sum_{i=1}^5 (I_{ij} - I_{ic})^2}$$

where CD_j denotes the cultural distance for the j th country, I_{ij} denotes Hofstede's culture score on i th cultural dimension in the j th country, and c in this case denotes the home country of China.

4.2.6 Control Variables

The control variables include industry category, firm age and firm size. We

include the dummy variables of three industries: 1) electric equipment and electronics, 2) food and beverages, and 3) textile and apparel (vs. others). Firm age is measured as the number of years since the beginning of its operations, while firm size is measured by the total number of employees.

CHAPTER 5. RESULTS

Among the respondent firms, 52% of them are state-owned enterprises (SOEs) while the rest of them are various types of private firms. Most of the firms come from manufacturing industries in electric and electronics (31.9%), machinery (14.6%), and textile and apparel (11.5%), with the remainder coming from other sectors. The number of employees among these firms ranges from 100 to more than 100,000, thus representing firms of various sizes. On average, these firms have 33.2% of total sales from export, 23.9% of total sales from overseas subsidiaries (excluding export), and 25.6% of their total assets from overseas divisions. These companies' international business operations cover 25 host countries in different parts of the world. Altogether, they include 2,373 export entry modes and 1,071 cases of equity-based investment. Among 2,373 export cases, 50.4% of them are SOEs, and among 1,071 FDI cases, 54.7% are SOEs (Table 5). Table 6 includes the descriptive statistics and correlations of the key variables. Table 7 indicates the categorical variables.

Table 5 Investment type for SOEs

Investment Type		SOE		Total
		Non-SOE	SOE	
Export	Count	1178	1195	2373
	% within SOE	49.6%	50.4%	100%
FDI	Count	485	586	1071
	% within SOE	45.3%	54.7%	100%
Total	Count	1663	1781	3444
	% within SOE	48%	52%	100%

Table 6 Descriptive Statistics and Correlations of Variables

	Mean	SD	1	2	3	4	5	6
1. Entry mode	.31	.46						
2. Govern support	4.27	1.01	.092**					
3. Ownership type	1.72	.79	-.025	-.101**				
4. Institutional quality	72.30	14.08	-.017	.000	.000			
5. Cultural distance	91.92	30.27	-.051**	.039**	-.024	.392**		
6. Firm size	3.69	1.19	-.002	.102	.139**	.000	.003	
7. Firm age	10.74	14.86	.023	.033**	-.282	.000	.200**	.337

Note: *: $p \leq 0.10$, **: $p \leq 0.05$ and ***: $p \leq 0.001$

Table 7 Categorical Variables Codings

		Frequency
Firm size	100–499 人	31
	500–999 人	207
	1000-4999 人	187
	5000-9999 人	39
	10000–49999 人	25
	50000–99999 人	11
	10 万人以上	13
	Industry	
	Food	96
	Textile&Apparel	113
	Machinery	140
	Transport&Comm u	26
	Electronic & Electric	138

5.1 Main Effects of Institutional Factors

Using binary logistic regression with equity modes denoted by 1 and export denoted by 0, we first test the main effects of the host and home institutional factors on firms' probability to adopt the equity-based entry modes (JVs and WOS). The results of the main effects of variables are shown under Model 1 of Table 8. For the host country institutional factors, institutional quality has a significant positive effect on the equity mode ($\beta=0.072$, $p\leq 0.001$). This suggests that the higher institutional quality in the host country, the more likely are firms to adopt the equity modes (FDI). As expected, cultural distance has a small and significant negative effect on the equity entry mode ($\beta= -0.010$ $p\leq 0.001$). Thus, the smaller cultural distance there is between China and the host countries, the

more likely are firms to adopt the equity mode. For the home institutional factors, government support has a significant positive impact on the choice of equity modes among Chinese multinationals ($\beta=0.650$, $p\leq 0.001$). Meanwhile, ownership type firms (i.e., SOEs) also has a significant positive effect on the equity mode of entry ($\beta=0.126$, $p\leq 0.1$). Thus, the SOEs are more likely to adopt the equity modes (FDI) than private firms.

Table 8 Results of Logistic Regressions on the Choice of Equity Entry Modes

Variables/Models	Model 1	Model 2
Control Variables		
Firm size(1)	-0.763**	-0.756**
Firm size(2)	0.104	0.105
Firm size(3)	-0.131	-0.130
Firm size(4)	0.024	0.024
Firm size(5)	-0.214	-0.213
Firm size(6)	1.304***	1.300***
Industry (1)	0.151	0.148
Industry (2)	0.094	0.092
Industry (3)	-0.569***	-0.569***
Industry (4)	0.007	0.005
Firm age	0.002	0.002
Host institutional factors		
Institutional quality (IQ)	0.072***	0.392**
Cultural distance (CD)	-0.010***	-0.587***
Home institutional factors		
Government support (GS)	0.650***	0.249
Ownership type (OT: SOE)	0.126*	-0.022
Interactions		
IQ*GS		0.481**
CD*GS		0.053
IQ*OT		0.305*
CD*OT		-0.167

Note: *: $p \leq 0.10$, **: $p \leq 0.05$ and ***: $p \leq 0.001$

5.2 Moderating Effects of Home Institutional Factors

To examine the interactive effects among variables, we first conducted the collinearity diagnostics. The collinearity analysis shows that the variance inflation factor (VIF) values of variables range between 1.013 and 1.445, thus far below the critical value of 10, and show no problems with multi-collinearity among these variables. According to the results of model 2 in Table 8, the main effects of government support and ownership type are no longer significant once

the interactions of institutional factors are included. Thus, hypothesis 3 & 4 are no longer supported. This is perhaps because government support and ownership type alone do not have a significant influence on the entry modes choice. However, the main effects of institutional quality, cultural distance remain significant, thus furnishing support of hypotheses 1 and 2 (Table 8).

Furthermore, from model 2 and the interaction plots (Figure2, 3, 4, 5), home government support has a significant interaction with host institutional quality in its effect the equity entry mode (β for IQ*GS = 0.481). Thus, the positive effect of institutional quality on the probability to adopt the equity modes is greater for firms with strong home government support than those lacking such support, thus H5 is supported. But the interaction effect between cultural distance and government support is not significant. This indicates that home government support can not significantly mitigate the negative effect of cultural distance on firms' probability to adopt the equity modes in foreign market entry. In other words, despite there is strong home government support, the cultural distance between China and the host country remains a barrier for firms adopting the equity modes (FDI), H6 is not supported (Figure3). This maybe because that China is a country with deep cultural background, the cultural difference is a very important factor when choosing entry modes for Chinese firms. The cultural distance is always a barrier for equity modes choice even the government would share the firms' risk.

Moreover, the interaction between institutional quality and ownership type is

also significant (β for $IQ*OT = .305$), supporting H7 and suggesting that SOEs tend to adopt the equity mode of entry when expanding in countries with a high level of institutional quality. However, the interaction between cultural distance and ownership type are not significant, thus H8 is not supported (Figure 5). This may be due to the fact that there is no significant difference between SOEs and private firms in the effect of cultural distance on the entry mode decisions or cultural distance affects their entry mode decisions in a similar way.

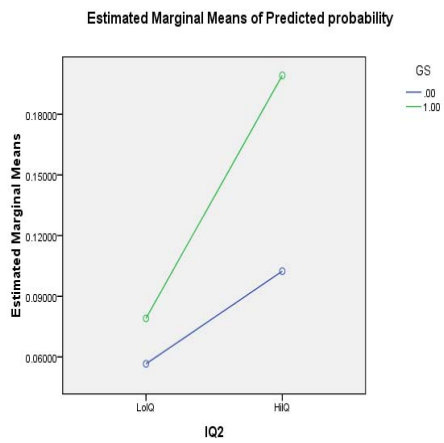


Figure 2

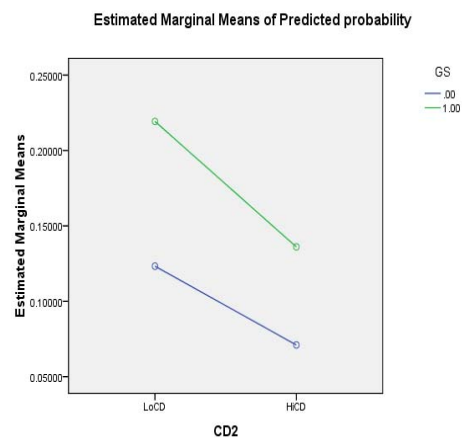


Figure 3

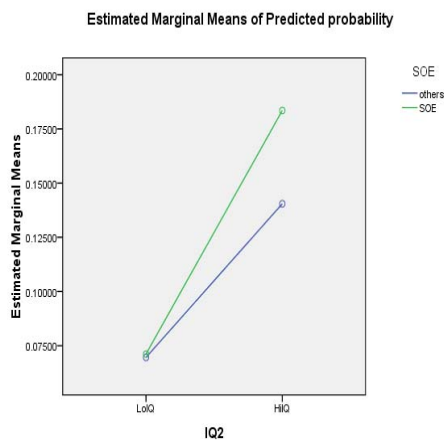


Figure 4

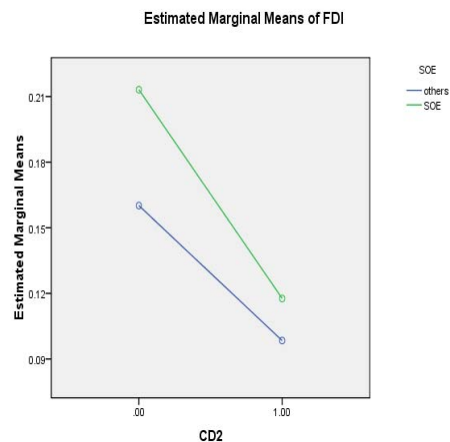


Figure 5

5.3 Main Effects of Investment Type

Using binary logistic regression with wholly-owned subsidiary denoted by 1 and joint venture denoted by 0, we first test the main effects of investment type (R&D investment, market-seeking investment and manufacturing investment) on firms' probability to adopt the wholly-owned subsidiary mode. The results of the main effects of variables are shown under the first model in Table 9. For the R&D investment type, it has a significant positive effect on the WOS mode ($\beta=0.481$, $p\leq 0.05$). This suggests that firms making R&D investment are more likely to adopt the WOS mode. As expected, manufacturing investment also has a significant positive effect on the WOS mode ($\beta=0.893$, $p\leq 0.001$). Thus, firms making manufacturing investment are more likely to adopt WOS mode as well. However, for the market-seeking investment, there is no significant effect on the choice of JV mode, but has the right direction. H9a and H9c are supported but H9b is not.

Table 9 Results of Logistic Regressions on the Choice of WOS (Main Effects)

Variables/Models	R&D Investment
Control Variables	
Firm size(1)	-0.181
Firm size(2)	-0.552
Firm size(3)	-0.360
Firm size(4)	-0.113
Firm size(5)	-0.664
Firm size(6)	0.115
Industry (1)	0.009
Industry (2)	0.177
Industry (3)	-0.320
Industry (4)	0.416**
Firm age	-0.005
Investment Type	
R&D (RD)	0.481**
Market-seeking (MS)	-0.106
Manufacturing (MF)	0.893***

Note: *: $p \leq 0.10$, **: $p \leq 0.05$ and ***: $p \leq 0.001$

Table 10 Results of Logistic Regressions on the Choice of WOS (R&D Investment)

Variables/Models	R&D Investment
Control Variables	
Firm size(1)	0.314
Firm size(2)	-0.228
Firm size(3)	0.327
Firm size(4)	-0.304
Firm size(5)	1.982**
Firm size(6)	1.207
Industry (1)	0.034
Industry (2)	-0.538*
Industry (3)	-0.382
Industry (4)	-0.536
Firm age	0.009
Host institutional factors	
Institutional quality (IQ)	-0.063**
Cultural distance (CD)	0.002
Home institutional factors	
Government support (GS)	0.080
Ownership type (OT: SOE)	-0.995***

Note: *: $p \leq 0.10$, **: $p \leq 0.05$ and ***: $p \leq 0.001$

Table 11 Results of Logistic Regressions on the Choice of WOS (Market-seeking and Manufacturing)

Variables/Models	Market-seeking Investment	Manufacturing Investment
Control Variables		
Firm size(1)	0.529	-0.782 *
Firm size(2)	0.578	-0.907**
Firm size(3)	1.541**	-0.427
Firm size(4)	1.034*	-0.867
Firm size(5)	1.587	-0.192
Firm size(6)	1.293*	0.112
Industry (1)	-0.388	-0.089
Industry (2)	-0.423	0.063
Industry (3)	-0.254	-0.568**
Industry (4)	-0.755	-0.483
Firm age	-0.003	-0.002
Host institutional factors		
Institutional quality (IQ)	-0.059***	0.028 *
Cultural distance (CD)	0.001	0.005 *
Home institutional factors		
Government Support (GS)	0.895**	0.201
Ownership Type (OT: SOE)	-0.766***	-0.127

Note: *: $p \leq 0.10$, **: $p \leq 0.05$ and ***: $p \leq 0.001$

5.4 Effects of Institutional Factors in a Certain Investment Type

To examine the interactive effects among variables, we first conducted the collinearity diagnostics. The collinearity analysis shows that the variance inflation factors (VIF) values of variables range between 1.018 and 1.155, thus far below the critical value of 10, and show no problems with multi-collinearity among these variables. For the location choice in a certain investment type using the data of Chinese multinationals, we find the results (Table 12-14) are not quite consistent with Buckley's location framework in table 4:

Table 12 OFDI in R&D by Country Type from Chinese Multinationals

Country Type		OFDI in R&D		
		no	yes	Total
Developed Countries	Count	262	207	469
	% within OFDI in R&D	44.9%	48.4%	46.4%
Newly Industrialized Economies	Count	133	112	245
	% within OFDI in R&D	22.8%	26.2%	24.2%
Less Developed Countries	Count	188	109	297
	% within OFDI in R&D	32.2%	25.5%	29.4%
Total	Count	583	428	1011
Chi-square sig. < 0.1	% within OFDI in R&D	100.0%	100.0%	100.0%

Table 13 OFDI in Marketing by Country Type from Chinese

Multinationals

Country Type		OFDI in Marketing		
		no	yes	Total
Developed Countries	Count	217	252	469
	% within OFDI in Marketing	45.1%	46.3%	45.8%
Newly Industrialized Economies	Count	115	131	246
	% within OFDI in Marketing	23.9%	24.1%	24.0%
Less Developed Countries	Count	149	161	310
	% within OFDI in Marketing	31.0%	29.6%	30.2%
Total	Count	481	544	1025
Chi-square sig. 0.884	% within OFDI in Marketing	100.0%	100.0%	100.0%

Table 14 OFDI in Production by Country Type from Chinese Multinationals

Country Type		OFDI in Production		
		no	yes	Total
Developed Countries	Count	242	229	471
	% within OFDI in Production	48.0%	44.6%	46.3%
Newly Industrialized Economies	Count	129	117	246
	% within OFDI in Production	25.6%	22.8%	24.2%
Less Developed Countries	Count	133	167	300
	% within OFDI in Production	26.4%	32.6%	29.5%
Total	Count	504	513	1017
Chi-square sig. < 0.1	% within OFDI in Production	100.0%	100.0%	100.0%

For the R&D investment type, according to the results in Table 10, ownership type significantly has effect on the WOS entry mode choice for firms making R&D investment ($\beta = -0.995$). Thus, the negative effect shows that the probability to adopt the joint venture mode is greater for firms making R&D investment for SOEs than private firms, thus H11 is supported. But it's not significant for the interaction effect between R&D investment type and government support. This indicates that there is no tendency for firms making R&D investment to adopt the joint venture mode in foreign market, even though the government could share the risk with them. It may be caused by technology collaboration, information approaching or other factors. H10 is not supported. Moreover, the interaction between institutional quality and R&D investment type is significant ($\beta = -0.063$), supporting H12 and suggesting that firms making R&D investment tend to adopt the joint venture mode of entry when expanding in countries with a high level of institutional quality. However, the interaction

between cultural distance and R&D investment type is not significant, thus H13 is not supported. Cultural distance is still a barrier for the modes choice in R&D investment.

For the market-seeking investment type, also according to the results in Table 11, we only focus on the interaction effect between host institutional factors and the market-seeking type on the WOS mode choice, the interaction between institutional quality and market-seeking investment type is significant ($\beta=-0.059$), supporting H14 and suggesting that firms making market-seeking investment tend to adopt the joint venture mode of entry when expanding in countries with a high level of institutional quality as well as firms making R&D investment. However, the interaction between cultural distance and market-seeking investment type remains not significant, thus H15 is not supported.

At last, for the manufacturing investment (Table 11), as expected, the interaction between institutional quality and manufacturing investment type is significant ($\beta=0.028$), supporting H16. The positive relationship suggest that firms making manufacturing investment tend to adopt the wholly-owned subsidiary mode of entry when expanding in countries with a high level of institutional quality. However, the effect of cultural distance has the opposite direction as expected, H17 is not supported.

The results of all the Hypotheses are summarized in Table 15:

Table 15: The Results of Hypotheses Testing

Hypothesis	Result
H1 (IQ)	Supported
H2 (CD)	Supported
H3 (GS)	Not Supported
H4 (OT)	Not Supported
H5 (IQ*GS)	Supported
H6 (CD*GS)	Not Supported
H7 (IQ*OT)	Supported
H8 (CD*OT)	Not Supported
H9a (RD)	Supported
H9b (MA)	Not Supported
H9c (MF)	Supported
H10 (RD*GS)	Not Supported
H11 (RD*OT)	Supported
H12 (RD*IQ)	Supported
H13 (RD*CD)	Not Supported
H14 (MA*IQ)	Supported
H15 (MA*CD)	Not Supported
H16 (MF*IQ)	Supported
H17 (MF*CD)	Not Supported

CHAPTER 6. DISCUSSION

6.1 Findings and Conclusions

In perspective of some traditional theories, as transaction cost theory, we found that it's difficult to explain some strategy choice of internationalization for Chinese MNCs. In China, aside from the host country environment, home country institutional factors such as government support and ownership type are critical factors in the outward movement of Chinese multinationals. State-owned enterprises from these countries are more inclined to take challenges of investing directly in unfamiliar institutional environment than private firms. Government support and their ownership type offer SOEs significant advantages in their overseas expansion. The effect of government support is even greater when firms enter countries with high institutional quality and greater cultural distance. Thus, different from multinationals from advanced economies, the home country institutions may play an important role in the internationalization of EMMNCs and moderate the effects of host country institutional factors on the entry modes of firms. Governments from emerging market economies can strategically support firms' expansion in certain country markets when they pursue important opportunities or assets overseas. More importantly, the results of our study suggest that the home government support and ownership type alone do not affect the entry mode of firms in a significant way. Government support at home by itself and the state-owned status alone would not propel firms to engage in

foreign direct investment, but only interact with the host institutional factors. Therefore, we emphasize the role of home institutional factors in affecting firms' perceptions and tolerance of risks.

Moreover, cultural distance remains a significant barrier for EMMNCs to invest directly in foreign markets, which is true for both SOEs and private firms from the emerging market of China. SOEs are more likely to adopt the equity mode than private firms, especially when expanding in countries of high institutional quality. But with home government support, firms are more likely to adopt the equity or FDI mode in markets of high institutional quality and great cultural distance. Meanwhile, ownership type alone do not affect the entry mode of firms in a significant way.

At last, in addition to the institutional factors, the investment type also have significant influence on the equity mode choice between WOS and JV. Firms making R&D investment are more likely to choose the high equity mode (WOS) to protect the specific asset. This is quite consistent with the transaction cost theory. Particularly, the institutional factors also have influence on the entry modes in a certain investment type (R&D, Market-seeking and Manufacturing). The effect of institutional factors on equity modes would vary by the investment types. However, the host institutional factors are more import than the home institutional factors, especially for market-seeking and manufacturing investment types.

Thus, different from multinationals from advanced economies, the home

country institutions may play an important role in the internationalization of EMMNCs. These findings on the effect of home country institutional factors on the outward entry modes choice shed some new light on entry mode choice of firms from less developed countries and call for more empirical studies of outward internationalization of EMMNCs.

6.2 Implications

The present study contributes to both theoretical and practical implications on the internationalization of firms. Theoretically, this research provides several important contributions to our understanding of institutional factors and investment types with respect to entry modes. First, we look on the impacts of institutions on internationalization from a rapidly developing country's view, which is different from the previous studies that focus on developed countries, and different from some studies also focusing on developing countries (Bruton, Ahlstrom & Puky, 2009). Unlike other developing countries, China is a rapidly developing country and most of China's firms have finished the first stage of internationalization, i.e. inward internationalization and are beginning to implement outward internationalization. This is suitable to central government's policies as can be seen in many significant meetings held by China's central government and Chinese Communist Party. So government support is an important index measuring the institutional differences among firms of various entry modes. Second, we examine the effects of dual institutions on entry modes, which are often neglected by the previous studies. Interestingly, home country's

institutions and the host country's institutions appear to influence foreign subsidiaries in opposite directions, which confirm the institutional theory of two institutional mechanisms: isomorphism and distinctiveness (DiMaggio & Powell, 1983; Hannan & Freeman, 1977). Finally, our research shows that for developing countries like China, decision making of R&D investment and market-seeking investment also have interaction effect with the institutional factors.

Practically, the findings of this study have meaningful implications for government on public policy making and for firms on strategy development and their internationalization endeavors. The Chinese Government has long realized that outward internationalization is important to inward FDI. To some extent, this study provides support the government policy of going out", in that government can play a critical role in promoting outward activities and internationalization. By developing more promotion for outward activities to satisfy the technology and market needs of Chinese firms. It may be necessary for the upper level management of Chinese firms to think more strategically and effectively about the role of outward activities in the internationalization process.

6.3. Limitations and Future Studies

This research considers how dual institutions influence the entry mode decisions in light of investment types from the perspective of developing country firms. Although we focus on China's MNCs, we can offer some insight into the effect of home country institutional factors under similar conditions, shed some new light on entry mode choice of firms from less developed countries, and call

for more empirical studies of outward internationalization of EMMNCs. Meanwhile, there are some unavoidable limitations for this study. First, it is limited to the data from only one home country and may not be apply to firms from other emerging market economies. The sampled firms are relatively small in comparison with large state-owned enterprises (SOEs). In China, small- and medium-sized enterprises (SMEs) receive less support from the central government and are also less subject to the influence of government agenda. The relatively small size of the sampled firms may affect the significance of the results. Moreover, we did not take institutional changes into consideration. Since EMMNCs have long operated in complex institutional environments, institutions changes may affect their internationalization efforts as time passes by.

Future research can include firms from other emerging market economies, test these hypotheses in other country environments, and provide more convincing evidence on the effect of home institutional factors on the entry modes choice of multinationals from less developed economies. It is also necessary to compare the motivations and internationalization patterns of SMEs with those of SOEs. Future studies should adopt a longitudinal approach and explore the impact of changing institutions at home on the internationalization of firms from emerging market countries. The effects of these home and host institutional factors on the management strategies and performance of these EMMNCs in overseas markets of different institutional environments also warrant systematic investigation.

Appendix A

Related Questions in the Questionnaire

Section 1 General Information

1. Your Company Name: _____

2. Company Location: Province: _____ City: _____

3. Your
Position/Title: _____

*Please check the level of management position you are in:

1) Top Level

2) Middle Level

4. Number of years you have worked at this company: _____ years.

5. Telephone: _____

(Please be assured that you will not be contacted again for more questions. Your phone number is requested to confirm a very small number of randomly selected participants ONLY.)

Instruction for Completing the Questionnaire

Please read the questions carefully and follow the instructions when answering the questions. We define “outward activities” as “firms start with no regular export activities, begin to export via agents, and then establish their own foreign sales subsidiaries, and finally move to

production by investing in foreign market.

Section 2 General Information about Your Company

Please note that the following “company” means the parent firm. It doesn’t matter if you don’t work in the parent firm because what I need is the related information you provide.

1. What is the legal character of your company? Please check only one answer.

- | | |
|---|------------------------------|
| 1. State-Owned Enterprises | 7. Other Other |
| Collective-Owned Enterprises | |
| 2. Collective Enterprise Enterprises | 8. Wholly State-Owned |
| 3. Joint-Equity Enterprises in other forms | 9. Limited Liability Company |
| 4. Joint State-State Enterprise shares | 10. Company Limited by |
| 5. Collective Joint Ownership Enterprises | 11. Privately-Owned |
| 6. Joint State-Collective Ownership Enterprises | 12. Other Domestic-Funded |
| Enterprises | |

2. How many full-time employees does your company totally have now?

_____ Employees

- 1) 1—99 2) 100—499 3) 500—999 4) 1000-4999 5) 5000-9999 6)
10000—49999 7) 50000—99999 8) more than 100000

3. When was your company started?

_____ Year

4. Which industry is your company's primary business activity? Please circle only one answer.

1. Mining and Forestry
2. Manufacture of foods
3. Beverage Manufacturing
4. Tobacco processing
5. Textiles
6. Clothing and Other Fibred Products
7. Leather, Fur, and Feather (Down) Products
8. Wood Processing and Bamboo, Rattan, and Straw Products
9. Furniture manufacturing
10. Paper manufacturing and Paper Products
11. Educational and Sports Products Manufacturing
12. Oil Processing and coking
13. Chemical Raw Material and Chemical Products
14. Medicine Manufacturing
15. Chemical Fibres Manufacturing
16. Rubber Products
17. Plastic Products
18. Non-metal Mineral Products
19. Ferrous Metals Smelting & Rolling Processing
20. Metal Products
21. General Machinery Manufacturing
22. Special Equipment Manufacturing
23. Transportation Equipment Manufacturing
24. Electrical Machinery and Equipment
25. Electronic and Communication Equipment
26. Instruments, Meters, Educational and Office Equipment
27. Othe _____

5. So far, what kinds of outward activities does your company have? Please check all the answers that apply to your company.

- A. Exporting.
- B. Franchising.
- C. Licensing.
- D. Establishing the oversea sales department
- E. Joint Venture in oversea markets.
- F. Wholly owned foreign investment. (Merge and Acquisition) .
- G. Wholly owned foreign investment. (Greenfield).

H. Setting up oversea manufacturing or operation.

6. Compared to other companies in the same industry, to what extent, your company has engaged in “outward activities”? Please evaluate using a 7-point scale.

Please note:	1=Much Less	2=Less	3=A little Less	4=Same	5=A Little More	6=More	7=Much More			
6.1 Exporting.				1	2	3	4	5	6	7
6.2 Franchising.				1	2	3	4	5	6	7
6.3 Licensing.				1	2	3	4	5	6	7
6.4 Establishing the oversea sales				1	2	3	4	5	6	7
6.5 Joint Venture in oversea markets.				1	2	3	4	5	6	7
6.6 Wholly owned foreign investment. (Merge)				1	2	3	4	5	6	7
6.7 Wholly owned foreign investment. (Greenfield)				1	2	3	4	5	6	7
6.8 Setting up oversea manufacturing or operation.				1	2	3	4	5	6	7
6.9 Compared with top competitors, we have				1	2	3	4	5	6	7

7. until 2009, in which country or district your company has taken “outward activities”? Please tick all the answers that apply to your company.

Entry Modes Countries		Export		Contracting			FDI							
		Direct Export	Establishing the Oversea Sales Department	Manufacturing Contract	Technology Contract	Sales Contract	modes				Money Amount (Ten Thousand Dollar)			
							Wholly Owned Subsidiary	Joint Venture	Merge And Acquisition	Oversea manufacturing	0 - 99	100 - 999	1000 - 9999	More than One hundred million
1 Asian	1.1 Japan													
	1.2 Korea													
	1.3 Hong Kong													
	1.4 Singapore													
	1.5 Vietnam													
	1.6 India													
	1.7 Thailand													
	1.8 Others													
2 Africa	2.1 South Africa													
	2.2 Sudan													
	2.3 Guinea													
	2.4 Nigeria													
	2.5 Madagascar													
	2.6 Others													
3 Europe	3.1 Britain													
	3.2 Germany													
	3.3 France													
	3.4 Russia													
	3.5 Holland													
	3.6 Others													

4 North America	4.1 U.S.													
	4.2 Canada													
5 Oceania	5.1 Australia													
	5.2 New Zealand													
	5.3 Others													
6 Latin America	6.1 Mexico													
	6.2 Brazil													
	6.3 Argentina													
	6.4 the Bahamas													
	6.5 Cayman Islands													
	6.6 Others													

8. Please indicate your level of agreement/disagreement on the following statement using a 7-point scale.

Please note:	1=Absolutely Disagreement	2=Strongly Disagreement	3=Somewhat Disagreement	4=Neutral	5=Absolutely Agreement	6=Strongly Agreement	7=Somewhat Agreement			
11.1	Chinese government policies to encourage our company to develop		made	1	2	3	4	5	6	7
11.2	When our company met the entry barriers made by host country, Chinese government would help us to		Chinese government kept close relation with host countries to help our company to	1	2	3	4	5	6	7
11.3	Chinese government helped our company		Chinese government provided favorable loan policy to our company to	1	2	3	4	5	6	7
11.4										
11.5										

9. What percentage does the foreign sales account for the total sales? (Based on the latest annual report)

_____ %

10. What percentage do the foreign assets account for the total assets? (Based on the latest annual report)

_____ %

11. How many countries where your company has subsidiaries? (Based on the latest annual report)

12. How many foreign countries does your company operate?

13. What percentage do the overseas subsidiaries account for the total subsidiaries? (Based on the latest annual report)

_____ %

14. How many oversea manufacturing or operations does your company have among the oversea subsidiaries?

_____%

15. How many average years of international experience do top managers in your company have?

(Please note: TM is defined as the top two tiers of executives, including all chairmen, presidents, CEOs, and the first level of vice presidents of its equivalent (Wiersema & Bantel, 1992). International Experience is defined as the average number of years the TM members have spent abroad on assignment and/or in higher education, or in an international division (Sambharya, 1996)

_____ **Years (Please Note: The number could be a approximate number)**

16. What percentage does the sales from all overseas subsidiaries account for the total sales? (Based on the latest annual report)

_____%

17. What percentage does the productions from overseas manufacturing account for the total productions? (Based on the latest annual report)

_____%

18. How much turn over do your company (including all subsidiaries) have? (Based on the latest annual report)

_____ **RMB**

19. How many assets does your company (including all subsidiaries) have? (Based on the latest annual report)

_____ **RMB**

Thank you very much for participating in the study!

If you wish to receive a copy of the research report, please kindly leave your mailing or email address. It will be used only for sending you the report!

Your name: Street Add:

City/Province: Zip Code:

Email:

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