

**FDI OWNERSHIP DECISIONS:
NEW EMPIRICAL EVIDENCE FROM LARGE CHINESE FIRMS**

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Abstract

Foreign direct investment (FDI) ownership decision is one of the most researched topics in the international business literature. However, little is known about the extent to which this knowledge can be applied to emerging market multinational enterprises (MNEs). With institutional theory particularly suited to analyzing the international expansion of these companies, our paper uses this approach, along with the transaction cost and resource-based view perspectives, to analyze the determining factors of entry mode choice by large Chinese firms. From a sample of 95 outward FDI decisions, our results show that host country political risk and cultural distance do not affect FDI ownership decisions of Chinese MNEs. Firm size is negatively related with wholly-owned subsidiaries (WOSs), while technological intensity of the industry and firm performance are positively associated with WOSs.

1. Introduction

Entry mode choice is one of the most important decisions in the internationalization process, because of its implications for performance and its long-term consequences for the firm. Indeed, entry mode decisions have been ranked as the third most researched field in the international management literature (Werner, 2002). Predictors of entry mode choice or level of equity ownership include host country factors (such as restrictiveness or cultural distance), firm-specific factors (such as financial factors, experience or organizational capabilities), home country factors, transaction costs, and industry. Numerous empirical studies have addressed the entry mode decision and some recent papers provide a thorough review of entry mode research (Brouthers & Hennart, 2007; Canabal & White, 2008; Morschett, Schramm-Klein, & Swoboda, 2010; Zhao, Luo, & Suh, 2004).

For over half a century, internationalization has been associated with Western MNEs. However, internationalization of firms from emerging economies is on the rise (Demirbag, Tatoglu, & Glaister, 2009; Yang, Jiang, Kang, & Ke, 2009). Furthermore, it is undeniable that the world's economic centre of gravity is shifting to Asia-Pacific –and particularly to China. Over recent years, many Chinese companies have made major investments in other countries. As a result, and despite representing only 2.8% of the world's total, from 2005 to 2008, Chinese outward FDI multiplied by four (UNCTAD, 2009). It is also estimated that by the end of 2008 there were around 12,000 businesses with Chinese capital in 174 countries (MOFCOM, 2009).

The search for resources (particularly natural resources), markets (in many cases, trying to avoid export restrictions) or strategic assets (particularly advanced technology, managerial know-how or internationally recognized commercial brands) are the main reasons behind such spectacular growth of Chinese outward FDI (Deng, 2004; Hong & Sun, 2006; Wong & Chan, 2003; Wu & Sia, 2002). It is helped by the huge foreign currency reserves

accumulated from exports, the knowledge acquired by co-operating with foreign companies in China and, of course, by the Chinese government, which sees the international expansion of Chinese companies as a key element to ensuring the country's continued economic growth (Child & Rodrigues, 2005; Hong & Sun, 2006; Zhang & Van den Bulcke, 1996).

International business research has not been unaffected by this phenomenon. After an initial few years when eminently descriptive works predominated, recent studies have sought to explore further into certain specific topics, such as the factors that determine Chinese outward FDI (Buckley, Clegg, Cross, Liu, Voss, & Zheng, 2007; Child & Rodrigues, 2005; Deng, 2009; Luo & Tung, 2007; Rui & Yip, 2008), entry mode choice (Cui & Jiang, 2009a, 2009b, 2010; Xie, 2010) and the applicability of traditional theoretical frameworks (Boisot & Meyer, 2008; Dunning, 2006; Liu, Buck, & Shu, 2005; Mathews, 2006).

However, there are still certain gaps in the literature, and more work is needed to extend our knowledge of Chinese MNEs. In particular, we still know very little about the factors that influence key strategic decisions in the internationalization process, such as the choice of FDI entry modes. Furthermore, with very few exceptions (Cui & Jiang, 2009a; Xie, 2010), much of the research up to now has been based on a small number of specific cases, or on aggregate statistical data. More empirical studies are needed, therefore, using firm-level data based on wider samples that throw light on the factors affecting strategic decisions made by Chinese MNEs.

Therefore, the aim of this paper is to analyze the influence that various institutional, transaction, and firm-specific factors have on FDI ownership decision of Chinese MNEs. From a sample of the largest Chinese companies, we study how factors such as political risk, cultural distance, technological intensity, firm size, firm performance and firm experience affect this decision.

The rest of the paper is structured as follows. First, we present our theoretical framework and establish various hypotheses regarding the influence of the above-mentioned factors on FDI ownership decision. We then test these hypotheses with firm-level data from a sample of large Chinese companies listed on the Fortune Global 500. After a discussion of the results, we conclude by suggesting future research avenues on this topic.

2. Theoretical background and hypotheses

A large number of theories have been used to explain the entry mode choice decision. We build on three of the most commonly applied theories: institutional theory, internalization theory and the resource-based view (Brouthers & Hennart, 2007).

2.1. Institutional theory

Institutional factors have long been treated as background context and have been taken for granted by management scholars (Yang et al., 2009). However, institutions are more than just background conditions. In the past few years, the institutional perspective has become one of the most suitable theoretical frameworks for analyzing strategic decisions made by companies from emerging or transition economies. It is research on emerging economies that has pushed the institution-based view to the cutting-edge of strategy research, which is becoming the third leg in the strategy tripod (Peng, Wang, & Jiang, 2008). From this triple theoretical framework, strategic choices are determined not only by industry conditions and by firm's capabilities, they are also a reflection of the formal and informal forces that managers have to deal with in each institutional framework.

Institutional theory makes it possible to establish solid grounds to explain the internationalization of companies from emerging economies entering other emerging economies and the markets of more developed countries alike (Wright, Filatotchev, Hoskisson, & Peng, 2005). In the first case, it is more likely that they are seeking to exploit

their assets, which may be more easily applicable in an environment with similar institutional characteristics to those found in the country of origin. Indeed, when competing in these emerging countries, companies from emerging economies may have lower transaction and co-ordination costs than companies from developed economies do. On the other hand, companies from emerging economies tend to enter developed economies looking to explore assets in order to acquire new technological capabilities that will allow them to be more competitive on the global market.

Institutional differences are particularly important for MNEs operating in more than one institutional context (Meyer, Estrin, Bhaumik, & Peng, 2009). The formal and informal rules affect not only how a company chooses to enter an economy, but the very decision on whether or not to set up in a particular country as well as the entry mode. According to institutional theory, companies make their strategic choices based on interaction between institutions and the organization itself, and attempt to obtain institutional legitimacy in terms of the host country's rules and regulations (Cui & Jiang, 2010). Institutional factors alter the cost of doing business in one nation rather than another, which affects every aspect of the MNE's behavior (Henisz & Swaminathan, 2008): choosing the location, technology, capital or staff, as well as organizing the local subsidiary or investment sequence. From an institutional perspective, the choice of an entry mode is a result of the organization's responses to isomorphic pressures arising from both firm's external environment and internal organizational practices and routines (Ge & Ding, 2009).

Host country political risk is one of the most researched institutional factors in the entry mode literature. Political risk can be considered as an external influence that affects the company's operations, whether that means the possibility of expropriation or nationalization of the investment, or other government actions or changes in the political and social situation that could have a negative effect on economic activity (Kobrin, 1979; Simon, 1984).

The conventional wisdom suggests that higher political risk will be negatively associated with entry modes involving full ownership, this being the relationship that has traditionally received the greatest empirical support (Azofra & Martínez, 1999; Brouthers, 2002; Gatignon & Anderson, 1988; Kim & Hwang, 1992; Luo, 2001; Pak & Park, 2004). Faced with conditions of political instability and uncertainty, foreign enterprises will be reluctant to commit many resources through FDIs. In addition, when the political risk is high, the firm must find a flexible position that allows it to modify its decisions if environment conditions change, and even to leave the country without incurring substantial losses. For this reason, the firm will prefer non-ownership-based or low investment modes. Finally, to enter a high-risk country successfully, the firm may need the help of a local partner that can provide it with access to knowledge about the target country, thus sharing the risk.

However, arguments also exist which suggest an influence in the opposite direction. In a high-risk country, it would be advisable to avoid the possible opportunistic behaviour of a local partner (Aulakh & Kotabe, 1997). Moreover, under high-uncertainty conditions, full-ownership modes permit a faster adaptation than other entry modes needing an agreement between partners, such as joint ventures (Brouthers & Brouthers, 2003). Finally, entry mode choice is usually determined by a bargaining process between the foreign firm and the host country's authorities. When a high risk exists in the country, the number of alternatives available to the host country's government will be limited, since most foreign firms will take precautions before entering the market. Within this risk context, the foreign firm will be in a position to impose its preference for a high-control entry mode, the most desirable one in order to dominate the market in the long term (Taylor, Zou & Osland, 2000).

Furthermore, Chinese MNEs show certain characteristics that challenge the conventional view that political risk is negatively related to full-ownership entry modes. Although many Chinese companies do not have asset advantages such as technology and

branding, they do have a transaction advantage: the ability to manage relationships within a complex environment such as China. This gives them an edge over MNEs from developed countries when it comes to investing in markets with these institutional characteristics (Malhotra & Zhu, 2009; Morck, Yeung, & Zhao, 2008). Similarity in the institutional environments of two countries may allow for the management to organize an internal market more effectively than in two countries with highly differentiated institutional environments (Henisz, 2003).

The very idiosyncrasy of China's own institutional framework may provide some additional arguments (Buckley et al., 2007). Because of imperfections in the Chinese capital market, the cost of capital is very low for state-owned Chinese companies. Furthermore, because they are conditioned by the institutional influences of the Chinese government, they may not be behaving purely as profit maximizers. Moreover, an important part of the Chinese outward FDI has been directed at countries with which China has close political and ideological ties, many of which have a high political risk. Indeed, previous research did not find a significant relationship between political risk and FDI decisions of Chinese firms (Buckley et al., 2007; Cui & Jiang, 2009a). As a result, we propose that:

Hypothesis 1: Host country political risk is not related to the likelihood that Chinese firms will choose WOS entry mode.

Cultural distance is another traditional factor in the literature on entry mode choice. Culture can be considered part of the environment's informal institutions, which underpin formal institutions (Peng et al., 2008). Some arguments support the view that greater cultural distance will be associated with the adoption of an entry mode that implies lower resources commitment. Cultural distance may generate additional costs related to information collection and disturb communication processes, which require a common ground in order to code and decode the information (Pak & Park, 2004). Consequently, being less familiar with

the target country makes integration more difficult and increases internalization costs, which is why the enterprise will prefer a lower resources commitment level (Randoy & Dibrell, 2002). On the other hand, it can be considered, as we previously pointed out in relation to political risk, that low ownership modes which improve the firm's flexibility to move away from the target market if it does not succeed in becoming acclimatized to an unfamiliar location (Kim & Hwang, 1992). Additionally, the greater cultural distance may force the firm to look for local support with the aim of facilitating product adaptation, sharing risks and avoiding mistakes (Azofra & Martínez, 1999; Chen & Hu, 2002), and also to acquire management skills on a local level and even to delegate culturally sensitive tasks (Contractor & Kundu, 1998; Hennart & Larimo, 1998; Pak & Park, 2004). Finally, when it comes to exploiting a competitive advantage, the firm must take into account the specific context knowledge, that is, the peculiar way to do business in a specific country. Thus, cultural distance hinders the applicability of the firm's own routines, which is why the firm may prefer entry modes based on collaboration with local agents (Madhok, 1997).

Therefore, all the above would lead us to expect an inverse relationship between cultural distance and WOS entry modes. Nonetheless, there are also arguments that question this hypothesis. Cultural distance may not only make it difficult to find an appropriate local partner, but also generate costs when transferring know-how to that partner. This is why the firm will probably prefer high-ownership entry modes (Contractor & Kundu, 1998). Moreover, the little familiarity with the host country's culture and with local managers gives investors incentives to choose WOSs so that subsidiaries can be more efficiently controlled (Chen & Hu, 2002). Therefore, a positive relationship between cultural distance and full-ownership could be also expected.

As a result, the predicted effect of cultural distance on entry mode choice is ambiguous (Morschett et al., 2010). Indeed, Tihanyi, Griffith and Russell (2005), after a

meta-analysis from 66 independent samples, failed to provide statistical evidence of significant relationships between cultural distance and entry mode choice. Hence, their conclusion is that cultural distance is not directly related to entry mode choice. In the case of Chinese firms, the empirical evidence is not conclusive either. Although Cui and Jiang (2009a, 2009b, 2010) reported a negative relationship between cultural distance and WOS, Xie (2010) found that cultural distance had no significant effect on the choice between WOS and JV. All these contradictory arguments lead us to the following hypothesis:

Hypothesis 2: Cultural distance is not related to the likelihood that Chinese firms will choose WOS entry mode.

2.2. Internalization theory

Internalization theory, building on transaction cost economics, suggests that high ownership is more likely when the transaction involves products and processes with high proprietary content that may suffer from potential free-riding problems. These assets are difficult to transfer in an imperfect market. The high transaction costs of transferring proprietary assets incurred by companies lead them to internalize markets (Anderson & Gatignon, 1986; Buckley & Casson, 1976; 1998; Hill & Kim, 1988; Rugman, 1981).

Market transactions involving technological know-how imply costs (specifying the agreement conditions, the likelihood of disclosing key knowledge, the difficulty to codify such knowledge, etc.) which may constitute a clear incentive for FDI (Teece, 1986). Such entry mode proves more efficient when transferring tacit or non-codifiable knowledge enjoying little legal protection (Hennart, 1989). Furthermore, to safeguard specific assets from potential opportunism problems, firms may use high control governance structures, such as WOSs (Tahir & Larimo, 2004).

Kumar (1984) argued that firms operating in sectors with a high technological intensity may be expected to use entry modes allowing them a more efficient control of all

the tasks to be carried out in the host country. Similarly, Chen and Hu (2002) observed that WOSs were more likely than contractual joint ventures when the foreign firm belonged to a high-technology industry. Regarding Chinese firms, Cui and Jiang (2009b) showed that, in certain industries, they possess high-value proprietary know-how, which can incur transaction costs when investing overseas. These transaction costs are related to the specificity of the know-how and the potential risk of partner opportunism, which are contingent on the industry and product characteristics of the Chinese firm. Thus, we propose:

Hypothesis 3: The technological intensity of the industry is positively related to the likelihood that Chinese firms will choose WOS entry mode.

2.3. Resource-based view

The resource-based view suggests that firms develop unique resources that they can exploit in emerging markets or use foreign markets as a source for acquiring or developing new resource-advantages (Brouthers & Hennart, 2007). The resource-based view is compatible with traditional MNE theory. In fact, Dunning (1988) suggests that ownership factors relate to the MNE's ability to compete in foreign markets and that these advantages derive from unique country, industry, and firm-specific variables. Thus, ownership advantages are similar conceptually to firm-specific resources, in that they are the unique internal factors that generate competitive advantages (Fladmoe-Lindquist & Tallman, 1994).

One of the most influential ownership advantages is firm size. Larger firms may be in a better position to successfully compete with host country firms, especially in host countries, and absorb the high costs and risks in international operations (Pangarkar & Yuan, 2009). Besides, greater size implies greater availability of financial and managerial resources, which makes it easier to set up WOSs (Tallman & Fladmoe-Lindquist, 2002). In keeping with this, empirical research supports that firm size correlates positively with high-commitment entry modes (Agarwal & Ramaswami, 1992; Brouthers, Brouthers, & Werner, 2003; Campa &

Guillén, 1999; Rialp, Axinn, & Thach, 2002; Stopford & Wells, 1972; Trevino & Grosse, 2002; Yu, 1990). In the case of Chinese firms, Cui and Jiang (2009a) found that firm size had a positive impact on the choice of WOS entry mode, although Xie (2010) did not find any relationship. However, given the above-mentioned arguments, we propose that:

Hypothesis 4: Firm size is positively related to the likelihood that Chinese firms will choose WOS entry mode.

A second potential ownership advantage of the firm may result from its performance, which traditionally has been considered as a dependent variable (analysis of entry mode and its impact on performance). However, Claver and Quer (2005) and Trevino and Grosse (2002) used it as an independent variable, considering that it is one way to proxy the financial resources and other firm tangible assets. These authors show that profitability is positively associated with high-commitment entry modes. Extending the resource-based view to the international arena, profitability may be interpreted as an *ex post facto* measure of sustained competitive advantage; that is, the firm must have been competitive to generate profits, and the greater the profitability, the greater its competitive advantage. Another interpretation views profits as a measure of the wealth of the firm; a firm with more accumulated profits will be better able to support overseas expansion through FDI. To our knowledge, no previous studies have examined this relationship in Chinese firms. This leads us to expect that:

Hypothesis 5: Firm performance is positively related to the likelihood that Chinese firms will choose WOS entry mode.

Experience-based knowledge plays an outstanding role in the internationalization process (Eriksson, Johanson, Majkgard, & Sharma, 1997). Indeed, this is one of the basic tenets of the Uppsala Model (Johanson & Wiedersheim-Paul, 1975; Johanson & Vahlne, 1977, 1990). This approach underlines that, as firms progressively gain experience, they tend to decide on

more committed strategies. If the firm has already been involved in FDIs in several countries, the firm will have accumulated capabilities and know-how concerning such a mode of entry, which may be used in other destinations, and even allow the firm to bypass intermediate stages (Welch & Luostarinen, 1988).

Furthermore, firms with more FDIs also possess a higher level of accumulated distinctive competencies, which allow them to overcome what Zaheer (1995) called "the liability of foreignness", i.e. the additional costs incurred by firms operating in foreign markets. Various empirical studies have identified a positive relationship between the scope of a firm's international operation (number of FDIs in different countries) and high-commitment entry modes (Contractor & Kundu, 1998; Randoy & Dibrell, 2002). Focusing on Chinese firms, Xie (2010) also reported a positive influence of firm international experience on the choice of WOS over JV. Thus, we propose that:

Hypothesis 6: Firm international experience is positively related to the likelihood that Chinese firms will choose WOS entry mode.

3. Method

3.1. Data collection

The sample for this study is made up of all the outward FDIs made from 2002 to 2008 by the mainland Chinese companies listed on the 2008 Fortune Global 500 (Fortune, 2008). The year 2002 was chosen because it was when Chinese companies first started to conduct important international operations. This followed a major boost in 2001 when China joined the World Trade Organization (WTO), and particularly when the Chinese government announced its "go out" policy, which aimed to boost the international competitiveness of Chinese companies by reducing the obstacles to outward FDI. Since then, the Chinese government has continued to provide incentives for the process, as it considers that forming

large MNEs will help China to become a key player in the global economy. Helping Chinese companies get onto the Fortune Global 500 list has thus become an objective in itself (Hong & Sun, 2006). In 2008, 26 mainland Chinese companies featured on this list. China's list was headed by Sinopec, ranked 16th, followed by State Grid, ranked 24th, and China National Petroleum Corporation (CNPC), at number 25.

The data on each FDI were obtained from news items published on the website of China Daily (www.chinadaily.com.cn), the largest English-language newspaper in China. Having searched all news items covering international operations by each of the 26 companies between January 2002 and December 2008, we obtained 95 FDI ownership decisions, these being the sample for our study.

The company that made most FDIs during this period was CNPC, with 15 FDIs, followed by Sinopec and Bank of China (9), Lenovo (7), China National Offshore Oil Corporation (CNOOC), and China Telecom (6). The main host countries in the sample were Indonesia and the US (8 FDIs), Russia (7), Australia (5), Canada, and the UK (4).

3.2. Dependent variable

The dependent variable in this study represents the dichotomous choice of FDI entry mode between a WOS (including both greenfield and full acquisition) and a joint venture (JV). We adopt Brouthers and Hennart (2007) position that JVs are joint hierarchies and that they include both shared greenfields and partial acquisitions.

3.3. Independent variables

Based on Buckley et al. (2007), host country political risk was proxied by the political risk rating of the International Country Risk Guide (PRS, 2009). This rating assigns risk points to a pre-set group of factors, termed political risk components. In every case the lower the risk point total, the higher the risk, and the higher the risk point total the lower the risk. In order to take into account institutional differences, we calculated a political risk distance by

subtracting the target market risk value from the home market value (Brouthers, Brouthers, & Werner, 2008).

Cultural distance was measured by the Kogut and Singh (1988) index, based on Hofstede's cultural dimension scores (Hofstede, 1980). This index has been extensively used in previous literature on entry mode choice (Chen & Hu, 2002; Contractor & Kundu, 1998; Hennart & Larimo, 1998; Luo, 2001; Pak & Park, 2004).

We proxied the technological intensity of the industry by classifying the industries of the companies into various technology levels (Chen & Hu, 2002; Chen, Hu & Hu, 2002; Claver & Quer, 2005; Dikova & Van Witteloostuijn, 2007; Hu & Chen, 1993; Pangarkar & Yuan, 2009; Tahir & Larimo, 2004). We used the OECD proposal (2001) which, based on the International Standard Industrial Classification (ISIC-revision 3) establishes four categories in manufacturing sectors and two categories in service sectors. Thus, we classified the sectors in our sample into three categories: (1) low technology manufacturing sectors and services not based on know-how; (2) medium-low and medium-high technology manufacturing sectors; (3) high technology manufacturing sectors and knowledge-based services.

Firm size was measured by total sales (Campa & Guillén, 1999; Contractor & Kundu, 1998; Pangarkar & Yuan, 2009; Randoy & Dibrell, 2002; Tahir & Larimo, 2004). We used an objective measurement of firm performance (Claver & Quer, 2005; Trevino & Grosse, 2002), such as return on assets (ROA). International experience was proxied by the number of FDIs the firm had carried out in other countries (Randoy & Dibrell 2002; Tahir & Larimo, 2004). We used a log transformation of all these variables regarding size, performance and international experience.

3.4. Control variables

By using data from the UN Statistics Division (2009), we considered a control variable regarding host-market size (proxied by host-country GDP). We used log transformation to normalize the distribution of this measure (Buckley et al., 2007). Finally, we included a dummy variable regarding the objective of each outward FDI decision: 1 if resource-seeking, and 0 otherwise.

4. Results and discussion

To test the above hypotheses we conducted a binary logistic regression. It is a statistical model that makes it possible to estimate the effect of an increment of each independent variable on how likely the dependent variable (entry mode) is to take value 1 (WOS) as opposed to value 0 (JV).

Table 1 reports descriptive statistics and bivariate correlations, while table 2 shows the regression analysis results. As can be seen, we used two models. Model 1 performs the regression of the dependent variable on the control variables. Model 2 also includes independent variables relating to the hypotheses.

Table 1
Descriptive statistics and correlations

	Mean	SD.	VIF	1	2	3	4	5	6	7	8
1. Host market size	5.50	0.91	1.92								
2. Resource-seeking objective	0.53	0.50	2.02	-0.53							
3. Political risk	3.58	12.81	2.60	0.53	-0.41						
4. Cultural distance	1.89	1.18	2.26	0.59	-0.25	0.67					
5. Industry technological intensity	2.35	0.56	1.93	0.19	-0.51	0.19	0.03				
6. Firm size	4.62	0.35	2.11	-0.27	0.37	-0.30	-0.11	-0.21			
7. Performance	0.54	0.33	1.93	-0.09	0.42	-0.20	-0.01	-0.63	-0.03		
8. International experience	0.75	0.30	1.90	-0.10	0.33	-0.10	-0.04	-0.04	0.53	0.16	
9. FDI entry mode (dependent variable)	0.33	0.47	---	0.28	-0.45	0.43	0.33	0.41	-0.44	-0.05	-0.09

Correlations above /0.21/ are significant with $p < 0.05$

Correlations above /0.27/ are significant with $p < 0.01$

Significance levels are based on two-tailed test

Table 2

Binary logistic regression results

Variables	Model 1	Model 2
Host market size (control)	0.07 (0.06)	-0.19 (0.56)
Resource-seeking objective (control)	-2.00** (0.49)	-2.01* (0.93)
Political risk (H1)		0.06 (0.04)
Cultural distance (H2)		0.55 (0.41)
Industry technological intensity (H3)		2.47* (0.98)
Firm size (H4)		-2.02* (0.89)
Performance (H5)		4.03* (1.71)
International experience (H6)		1.48 (1.47)
Overall chi-square	26.68***	54.69***
Overall % correct	74.4%	85.9%
-2 Log likelihood	86.99	53.44
Nagelkerke R^2	0.37	0.67

Notes:

The dependent variable is WOS (=1) or JV (=0)

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Standard errors in parentheses

The regression equation in Model 1 is statistically significant (Chi-Square = 26.68, $p < 0.001$), which suggests that control variables explain entry mode choice. More precisely, the resource-seeking objective has a negative impact on the choice of a WOS ($\beta = -2.00$, $p < 0.01$). This effect is maintained when the explanatory variables are included (Model 2). The regression equation in Model 2 is also statistically significant (Chi-Square = 54.69, $p < 0.001$), and the independent variables explain 85.9% of the entry modes selected.

Hypothesis 1, which established that political risk was not related with WOS entry mode, is supported. This goes against some findings of previous studies on MNEs from other countries –particularly developed countries- which reported a negative relationship. Thus, our finding contradicts this conventional influence of political risk on entry mode choice. Empirical evidence exists in line with our result, suggesting that the risks of the host country do not affect Chinese MNEs in a conventional way. Cui & Jiang (2009a) found that country risk did not have a significant impact on FDI entry mode of Chinese firms, whereas Buckley et al. (2007) did not confirm that Chinese outward FDI was negatively associated with high levels of political risk in the host country.

Furthermore, many of the Chinese FDIs included in our sample belong to regulated industries such as oil and gas, banking, telecommunications or utilities. Overall, these regulated industries share three characteristics (Henisz, 2003): the central role of government as either a provider or a monitor; the need for foreign capital, which forces host country governments to open the sector to private participation; and institutional idiosyncrasies that hamper credit assessment by international financial institutions and investors' ability to hedge their exposure using financial instruments. These conditions create the potential for MNEs to generate rents through the management of their relationships with the government.

Recent research on the international expansion of firms in regulated industries challenges the notion that countries with high levels of policy instability are unattractive to foreign firms (García-Canal & Guillén, 2008). While the foreign firm would prefer a constrained executive branch during the operational phase of the investment, that is, a government or regulator that cannot easily change the rules of the game, at the time of entry the foreign firm would prefer to deal with a politically unconstrained executive branch in the host country so as to obtain preferential treatment. In such institutional environments, firms may develop broader meta-level routines both to identify the institutional idiosyncrasies and to lobby or influence the actors who can best prevent an adverse policy change or promote a favorable policy change (Henisz, 2003). Therefore, the Chinese firm would be in a better position to impose its preference for a WOS, if it considers it the most appropriate entry mode in order to control foreign operations.

The regression results show that cultural distance is not related to the likelihood that Chinese firms will choose WOS entry mode, thus supporting Hypothesis 2. This result is in line with the findings of Xie (2010). However, it goes against observations made by Cui and Jiang (2009a, 2009b, 2010) who found, albeit with another measurement, that cultural barriers had a negative impact on a Chinese firm's choice of WOS entry mode. When

developing this hypothesis, we offered arguments regarding both a positive and a negative influence of cultural distance on the choice of a WOS. In addition, it must be pointed out that the influence of cultural distance may depend on the Chinese firm's objectives. While investments that sought markets might well have been initially aimed at countries in which this distance was smaller, investments that seek know-how have been mainly aimed at developed countries in North America and Europe, which are culturally more distant (Young, Huang, & McDermott, 1996). Also, many Chinese companies do not seem to shy away from cultural distance, perhaps aided by the alliances they have made in China with MNEs from developed countries (Luo & Tung, 2007).

We find support for Hypothesis 3, as the positive relationship between the technological intensity of the industry and the likelihood of a WOS entry mode is significant ($\beta = 2.47$, $p < 0.05$). Thus, following the conventional wisdom of the internalization theory, Chinese firms belonging to high-technology industries seem to use high control entry modes in order to avoid opportunism problems. This finding is in line with the case study of Cui and Jiang (2009b), who propose that the level of asset specificity and the possibility of partner opportunism are positively related to the likelihood that the Chinese firm will choose WOS entry mode.

Contrary to expectation, our results show that firm size does have a significant negative impact on WOS ($\beta = -2.02$, $p < 0.05$). Thus, Hypothesis 4 is rejected. This contradicts the result of Cui and Jiang (2009a) who found that firm size showed a positive impact on the choice of WOS entry mode by Chinese firms. However, there is also empirical evidence suggesting that firm size has no effect on the choice between WOS and JV by Chinese firms (Xie, 2010). It should be pointed out that there are also some arguments suggesting that size, as a strategic factor, is not necessarily correlated to the propensity to use high-ownership entry modes (Contractor & Kundu, 1998). This supports the conclusion of

Gatignon and Anderson (1988) that "higher control modes are less likely for large foreign operations". This argument is based on the idea that the size of global operations in many industries will force even large firms to accept partners to share in the large total investment and large coverage of a global network. In other words, the path to becoming a global player could require Chinese firms to accept a lot of partners and use shared-ownership entry modes.

The positive influence of firm performance is significant ($\beta = 4.03$, $p < 0.05$). Therefore, Hypothesis 5 is supported. As stated above, building on the resource-based view, firm performance could be considered a proxy for financial and other tangible resources. Our result suggests that more profitable Chinese firms, proxied by ROA, are in better conditions to assume higher levels of resource commitment in their entry mode decisions.

The positive effect of firm international experience on WOS entry mode is not significant, which does not support Hypothesis 6. Types of international experience may provide some explanation for this result (Yu, 1990). Investment in some countries may be less conditioned by the general international experience acquired by the Chinese firm, than by the specific experience regarding the host country. However, lack of data prevented us from including country-specific experience in our model. In addition, Chinese companies, compared to their Western counterparts, could not require to go abroad to gain experience, since many of them gain international experience at home. Forming JVs with foreign firms, entering into a partnership with them through original equipment manufacturing or licensing their technology, is a route chosen by many Chinese companies (Child & Rodrigues, 2005). This kind of inbound internationalization is one of the distinctive characteristics of the internationalization process of Chinese firms, providing them with competencies and knowledge relevant to eventual outbound internationalization. Inbound internationalization is attractive for local firms, because learning from their foreign partners contributes to increase their competitiveness (Wan & Hoskisson, 2003).

Next, we briefly discuss the significant control variable. The resource-seeking objective reveals a negative impact on the choice of WOS entry mode ($\beta = -2.01$, $p < 0.05$). The search for resources, particularly natural resources, has been one of the traditional objectives of Chinese outward FDI. Depending on what the objective is for Chinese companies, the institutional factors linked to each location may play a very different role. For example, institutional restrictions that may arise when a Chinese company makes an FDI to access a resource considered strategic for the host country may not be applied when FDI is made in that same country for the purpose of accessing its market. For this reason, although the sole ownership would give the Chinese investing firm unrestricted access to resources, host country government restrictions may prevent them from using a WOS.

5. Conclusion

Compared to inward FDI in emerging markets, outward FDI from these emerging economies is a relatively new area of international business research. Despite the recent rise of Chinese outward FDI and the extensive research on entry mode choice, FDI ownership decision of Chinese firms remains an under-explored topic. The aim of this study was to fill this gap by analyzing some institutional, transaction and firm-specific factors affecting that decision.

Our paper contributes to the literature on entry mode choice in several ways. To our knowledge, along with the papers of Cui and Jiang (2009a, 2009b, 2010) and Xie (2010), this is one of the first attempts to analyze the determinants of FDI mode choice of Chinese firms. Thus, building on the institution, transaction, and resource-based views, our paper suggests that there are both similarities and differences between Chinese MNEs and traditional MNEs from developed countries.

From a transaction cost perspective, our results highlight the importance of the technological intensity of the industry as a determining factor of Chinese firms' choice of

WOS entry modes. High transaction costs of transferring technological know-how is the traditional argument for such relationship. Another conventional finding comes from the resource-based view, since we find that firm performance may provide the Chinese firm with the financial resources needed to set up a WOS.

However, other findings from our paper seem to go against the conventional logic that has been observed in entry mode decisions made by MNEs from other, particularly Western, countries. A high political risk in the host country, do not act as disincentive for Chinese MNEs to choose WOSs instead of JVs. Furthermore, we do not find evidence that cultural distance is an important institutional barrier for Chinese companies. In addition, from a resource-based perspective, firm size shows an unexpected negative impact on WOS, while firm international experience seems not to affect FDI entry mode choice of Chinese firms.

Our findings also have several implications for practitioners. This paper provides Chinese managers with a framework to make decisions on FDI ownership choice. Although traditional host country institutional obstacles for Western MNEs seem not to influence that choice in the case of Chinese firms, managers must be aware that their choice could be constrained both by industry's technological intensity and by the availability of financial resources. Furthermore, they need to realize that the objective of the FDI also matters.

This research, though, is not without limitations. First, our sample only covers the largest Chinese firms. This limits the generalizability of our findings to the whole population of Chinese MNEs. Second, regarding the measurement of cultural distance, we used only the Kogut and Singh (1988) index, based on Hofstede's dimensions, which is not without limitations (Dow & Karunaratna, 2006; Shenkar, 2001). The use of alternative measures might produce different results. Moreover, our empirical research is based on secondary data, a fact that influences the measurement of the variables. This prevented us from including

managerial perceptions as well as other variables that might affect entry mode decisions, such as firm marketing capabilities or its host-country specific experience.

These limitations suggest avenues for future research. First, future studies could achieve a more in-depth understanding of FDI ownership choices of Chinese firms by detailed surveys on managerial decision-making processes, including perceptions on institutional, transaction and firm-specific factors. Future work can also examine the interrelationship between entry mode choice (full vs shared ownership) and establishment mode (greenfield vs acquisition), analyzing whether they are sequential or simultaneous decisions. It might also be interesting to analyze the influence of the different FDI ownership modes on the performance of Chinese firms, depending on whether the choice conforms or not to the theoretical models. In such case, the performance variable would be considered as dependent.

Finally, future research may also wish to focus on the interaction between target country institutional features and resources, including moderating effects (Brouthers et al., 2008; Meyer et al., 2009). As some resource-based advantages are context specific, differences in nations' institutional environments may influence the applicability of such advantages. Thus, including other firm-specific resources not considered here and adding the moderating influence of national institutional environment to the resource-based view could help to better explain entry mode choice of Chinese MNEs.

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