Does Confucian Dynamism Complement the OLI Framework? A Study of Chinese Private Firms

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Abstract. This paper aims to enrich the Ownership-Location-Internalization (OLI) framework with a culture-related perspective in a study of internationalized Chinese private enterprise activities. Despite its widespread acceptance as a paradigm providing a comprehensive description on international entry mode choice, the OLI framework is based on rational decision-making. This suggests that it fails to provide a contextual viewpoint encapsulating culture-specific aspects into this investigation. This paper seeks to fill this gap through the simultaneous examination of the OLI framework advantages and Confucian dynamism, notably the most salient Chinese cultural variable. The current research draws upon evidence on 233 Chinese private manufacturing firms in order to illuminate their choice between equity and non-equity modes abroad. The findings suggest that ownership advantages including firm size, international experience and manufacturing advantages positively affect adoption of equity modes; in contrast to location and internalization advantages that do not have any influence. Moreover, Confucian dynamism of management of these firms has a negative effect on equity modes. Thus, the contribution of this study is that it effectively contextualizes the 'rational' OLI framework through the inclusion of Confucian dynamism in order to provide a more comprehensive account of international entry mode decisions of Chinese private enterprises.

Keywords. Confucian dynamism; OLI framework; international entry mode choice; Chinese private manufacturing firms

Introduction

A critical decision regarding foreign activities of the firm refers to its international entry mode choice (Anderson & Gatignon, 1986). Based on Dunning's (1980, 1988, 1993) work, the eclectic paradigm offers an integrated theoretical framework that has been employed to explain international entry mode decision. As one of the most widely accepted version of foreign direct investment theories (Andersen, 1993; Johanson & Vahlne, 1990), this paradigm suggests that the extent, form and location of foreign direct investment depend on three categories of advantages that a firm can possess; namely ownership (O), location (L) and internalisation (I) advantages.

The underlying logic behind the OLI framework is based on rational decision-making (Brouthers & Hennart, 2007), meaning that the systematic analysis of ownership, location and internalization factors inevitably determines the outcome of decision for the firm concerned (McNaughton, 2001). However, managerial perceptions concerning entry modes may also be influenced by decision-maker inherent cultural traits. Cultural norms, values and beliefs underlie managerial preferences regarding information interpretations, allocations of attention and management responses in making international decisions (Dimitratos et al., 2010; Tse et al., 1988). These preferences consequently affect international entry mode decision (Erramilli, 1996). Without the incorporation of cultural traits, the OLI framework remains untenably 'rational' (Morschett et al., 2010). It is acknowledged that cultural aspects of internationalized firms enrich transaction cost explanations of entry modes (Brouthers & Brouthers, 2000; Kogut & Singh, 1988; Padmanabhan & Cho, 1996; Shane, 1993). Nonetheless, the OLI framework apparently has not been employed along with other culture-related variables to examine to what degree these variables can effectively complement it in explaining international entry mode choice. Such an investigation is necessary as it may provide to the eclectic paradigm a more contextual perspective in order to ‘flesh-out’ the theme of international entry mode choice (Cantwell & Narula, 2001; Guisinger, 2001; Stoian & Filippaios, 2008).

On a related note, Hoskisson et al. (2000) posit that such a contextual perspective is essential in the study of emerging economy enterprise internationalization. China was the third largest economy worldwide in 2008 (World Bank, 2009) and a leading outward investor among emerging economies (Deng, 2009). Compared with numerous studies that examine internationalization of large Chinese state-owned or collectively controlled firms (Child & Rodrigues, 2005; Deng, 2009; Luo & Tung, 2007; Rui & Yip, 2008), international entry mode choice of Chinese private firms has been examined rather infrequently (Liu et al., 2008; Morck et al., 2008). Nevertheless, the private sector in China already has 50 per cent of value-added production (Zhao, 2009). Apart from this, private firms are the best candidates to examine the role of individual manager cultural characteristics inasmuch as management in these enterprises is an important driver to their internationalization (Dichtl et al., 1984; Reuber & Fisher, 1997; Wheeler et al., 2008). Consequently, the simultaneous investigation of the OLI framework with cultural traits of Chinese private enterprise management undertaken in this current study is likely to appropriately contextualize the eclectic paradigm for activities of these firms.

The Chinese culture is considered to be a unique cultural system that has significant differences with western cultures in terms of fundamental philosophical aspects such as attitudes toward one’s self, time and ethics (Ralston et al., 1997; Redding, 1980). In order to illuminate the entry mode decision of Chinese private firms, this present research incorporates a unique Chinese cultural trait, namely Confucian dynamism. This includes the elemental values of (a) personal steadiness and respect for tradition, (b) thrift, (c) persistence, and (d) ordering relationship and reciprocation (Hofstede & Bond, 1988). Confucianism has played a major role in shaping the Chinese culture, and

Confucian work values exert key influence on modern Chinese business culture and management practices (Ahmed & Li, 1996; Ralston et al., 1999). Given that Hoftsede's (1980, 1991) cultural dimensions evolved from Western management practices (Steenkamp, 2001), they can be deficient in the examination of Chinese management practices (Chinese Culture Connection, 1987; Javidan et al., 2006). Confucian dynamism has been applied to investigate differences of managerial values between Chinese and Western managers (Ralston et al., 1993, 1997); or, between different generations of Chinese managers (Ralston et al., 1999). However, it has not been implemented hitherto in Chinese enterprise international activities, which is what this study seeks to do. The fundamental cultural values of Confucian dynamism are likely to affect the international entry mode choice of Chinese private firms; and, effectively complement and contextualize the established usefulness of eclectic paradigm.

Therefore, the research objectives in this study are, to identify, first, how do individual OLI advantages of the eclectic paradigm influence international entry mode choice of Chinese private firms; and, second, following the incorporation of the OLI framework variables, how does Confucian dynamism influences international entry mode decision of these firms. In order to fulfill these objectives, this research provides empirical evidence from a large-scale study examining international activities of 233 Chinese private manufacturing firms.

This paper is structured as follows. In the second section, it reviews the literature and conceptual model behind the conduct of this study; and, develops related research hypotheses concerning the OLI framework and Confucian dynamism. The third section presents methodological aspects of the study. The results of the statistical analysis are presented and discussed in the fourth section. The concluding section examines the implications of the study along with its limitations and suggestions for further research.

Literature Background, Model and Research Hypotheses

International entry modes include exporting, contractual modes, joint ventures and wholly-owned subsidiaries. There are two main theoretical streams that attempt to explain international entry modes, that is incremental frameworks and transaction cost theories (cf. Andersen, 1997). In the incremental frameworks, the Uppsala model suggests that the firm adopts modes of increasing resource commitments gradually after its initial development in its domestic market. The driving force in the internationalisation process of the firm is experiential market knowledge acquired through international activities (Johanson & Vahlne, 1977, 1990). Transaction cost theories view the international growth of the firm as an attempt to internalize markets for intermediate tangible (e.g. raw materials) and intangible (e.g. knowledge) inputs (Dess et al., 1995; Hennart, 1991a). These theories focus on the transaction as the basic unit of their analysis and approach the firm as a governance structure. Due to their tacit and information intensive nature, firm-specific advantages confer monopolistic advantages that may serve as incentives for internalization and high-control modes, such as subsidiaries (Buckley & Casson, 1976).

The equity vs. non-equity mode differentiation is one of mostly commonly examined classifications (Brouthers & Nakos, 2004; Nakos & Brouhers, 2002; Pinho, 2007) since it is consistent with Coase's (1937) distinction between hierarchies and markets as alternative governance mechanisms. Equity modes refer to full or partial ownerships of foreign investments that correspond to wholly-owned subsidiaries and joint ventures, respectively. Non-equity modes refer to licensing, franchising and exporting. Compared with non-equity modes, equity-based investments enable firms to exert full or partial control over foreign operations, and thus, are likely to generate higher levels of return at the cost of higher resource commitments and expected levels of risk (Anderson & Gatignon, 1986; Pan & Tse, 2000). In this study, the choice of the firm between equity and non-equity mode forms the dependent variable, as shown in the conceptual model of Figure 1.

Insert Figure 1 about here

The OLI framework synthesizes and advances insights of early research including those of the monopolistic advantage (Hymer, 1976), location of production (Vernon, 1966) and internalization (Buckley & Casson, 1976). In effect, when applying the eclectic paradigm, researchers examine the effect of firm-specific advantages as well as foreign environmental conditions and transaction cost factors on international entry mode choice (Brouthers et al., 1996; Brouthers & Hennart, 2007). Most of the independent variables of the model of the present research are the OLI advantages based on the eclectic paradigm. Ownership advantages refer to idiosyncratic firm-specific resources and capabilities that provide a competitive advantage to the firm (Brouthers et al., 1999; Nakos & Brouthers, 2002). In the present research, ownership advantages include firm size, international experience and manufacturing advantages. Location advantages concern the issue of the appropriate place for enterprise international activities (Demirbag et al., 2009). Location advantages in this study comprise environmental munificence and stability of the foreign country as these variables are normally used as indicators of market attractiveness (Brouthers et al., 1996; Root, 1987). Internalization advantages encompass the benefits obtained by the firm through its hierarchy rather than the market (Brouthers et al., 1999; Nakos & Brouthers, 2002). These benefits refer to avoidance of costs related to preparing and enforcing contracts; lessening dissipation risks pertaining to the firm's proprietary knowledge; reducing monitoring costs; and, controlling the quality of the product. In this research, internalization advantages are encapsulated in the contractual risk encountered in the foreign country.

National culture is the collective programming of the mind that distinguishes members of one human group from another (Hofstede, 1991). Cultural values can be viewed as problem-solving cognitions (Kluckhohn, 1951; Rokeach, 1972). Hofstede (1980, 1991) developed national cultural indices that are often used in cross-national studies. In the present research, cultural characteristics of management of Chinese private firms are captured through Confucian dynamism measured at the individual-respondent level (cf. Au, 2000), which constitutes the last independent variable of the conceptual model (Figure 1). Such an operationalization of Confucian dynamism at the individual level facilitates the investigation of intra-cultural variation, following the relevant approach of Jaw et al. (2007), Singelis (1994) and Triandis et al. (1985, 1995). In essence, the conceptual model of this study adopts a multi-perspective eclectic paradigm approach that can have a greater explanatory power compared with a single OLI framework perspective (Demirbag et al., 2009; Luo, 2001). The cultural trait of Confucian dynamism potentially enhances the OLI framework providing an appropriate contextual approach into Chinese private enterprise international activities (cf. Erdener & Shapiro, 2005).

Ownership advantages

Numerous ownership advantages are identified in studies of industrialized country internationalized firms. These typically include size of the firm, international experience, manufacturing advantages and the ability to differentiate its products (Agarwal & Ramaswami, 1992; Brouthers et al., 1999; Dunning, 1993; Nakos & Brouthers, 2002). Among these advantages, the ability to differentiate may not be appropriately applied to emerging economy private firms because they usually operate in terms of production efficiency rather than possession of proprietary advanced technologies (Shi et al., 2001; Tsai & Cheng, 2002). These firms seek international market opportunities based on production efficiency and quality control, which are developed in domestic intense competitive environments (Deng, 2004; Liu et al., 2008).

Firm size. Size of the firm reflects its asset strength (Agarwal and Ramaswami, 1992). There seems to be a positive relationship between firm size and adoption of equity modes in international activities. This is because a large size reflects relatively ample human, financial and production resources that enable the firm to meet the high cost requirements of equity modes (Ekeledo & Sivakumar, 2004; Nakos & Brouthers, 2002; Tan et al., 2001). Related to this is the fact that a large size can enable the firm to absorb easily the high start-up and operational cost of equity modes (Agarwal & Ramaswami, 1992). Furthermore, firms with high levels of resource availability may be in a position to effectively cope with competition and investment risks in the host country, which are linked to the use of equity modes (Dunning, 1988).

With regard to Chinese private enterprises, firm size can additionally play an important role for international entry mode choice. Chinese private manufacturing firms usually operate in mature and labor-intensive industries, in which excess production capacity of their undifferentiated products exists (Zhao, 2009; Deng, 2004). These firms are latecomers in the international marketplace and generally lack intellectual property (Makino et al., 2002; Mathews, 2006). Substantial firm size is an indicator of economies of scale and cost advantages that the larger Chinese firm can achieve *vis-à-vis* its small competitors. These cost advantages can be safeguarded through equity-based modes in Chinese enterprise international activities. Therefore:

Hypothesis 1a: Other things being equal, size of Chinese private firms will be *positively related to adoption of equity modes in the host country.*

International experience. International experience is considered another important source of competitive advantage (Anderson & Gatignon, 1986; Kogut & Singh, 1988). International experience assists firms in overcoming barriers linked to cultural differences between the home and the host countries, which block information flows and market opportunity identification (Kogut & Singh, 1988). Thus, compared with firms with limited international experience, firms with extensive international experience tend to perceive fewer investment uncertainties and higher expected returns (Agarwal & Ramaswami, 1992). This suggests that extensive international experience may induce firms to use equity modes abroad (Johanson & Vahlne, 1977). Moreover, high levels of international experience are likely to be associated with significant know-how in control mechanisms to manage international activities and exploit ownership advantages (Hennart, 1991b; Nakos & Brouthers, 2002), an argument which further supports the adoption of equity modes abroad.

Evidence suggests that Chinese private enterprise international activities are strongly based on personal connections stemming from ethnic networks (Ellis, 2000). The longer their international activities, the more the social capital they are likely to possess (Zhao & Hsu, 2007). Chinese firms with considerable levels of social capital are likely to collect and process information that reduces perceived uncertainties and increases effectiveness of control in foreign activities (Batjargal & Liu, 2004; Peng & Luo, 2000). These considerations also argue in favor of a positive link between international experience and equity modes. Consequently:

Hypothesis 1b: Other things being equal, international experience of Chinese private firms will be positively related to adoption of equity modes in the host country.

Manufacturing advantages. Production efficiency and quality control may confer cost-based competitive benefits on emerging economy manufacturing firms. These benefits mainly stem from experiential processing technologies, product improvement and large-scale manufacturing competencies (Liu et al., 2008; Shi et al., 2001). In this study, these production-related competencies are included in enterprise ‘manufacturing advantages’. Since these can be tacit in nature and difficult to codify, it is preferable for the firm to transfer them abroad through its hierarchy rather than the market (Madhok, 1997).

Chinese private firms with significant manufacturing advantages usually have favorable market positions in the domestic market. In turn, this can provide them the leverage to cope with competition and meet the costs of equity investment abroad. This contention is in line with Tan et al.’s (2001) observation that firms with considerable manufacturing advantages are motivated to capitalize on their potential through increasing their level of involvement abroad. Hence:

Hypothesis 1c: Other things being equal, manufacturing advantages of Chinese private firms will be positively related to adoption of equity modes in the host country.

Location advantages

Munificence. A munificent environment is characterized by substantial market size, high growth potential and significant availability of critical resources (Castrogiovanni, 1991). Such an environmental context in the foreign country may provide foreign firms benefits in terms of pursuit of sizable market segments and access to cheaper factor costs (Dess & Beard, 1984; Goll & Rasheed, 1997; Nakos & Brouthers, 2002; Narula & Dunning, 2000). In this benign environment, equity modes that enable entrants to exert higher levels of controls and generate more returns can be a better option to foreign entrants over non-equity modes (Anderson & Gatignon, 1986). In contrast, when environmental conditions are hostile, firms struggle to severely compete for limited resources or market opportunities. In this hostile context, foreign entrants tend to employ non-equity modes to minimize their involvement and avoid potential future losses (Agarwal & Ramaswami, 1992; Nakos & Brouthers, 2002).

Production efficiency-based advantages of Chinese private firms rely on munificent host country endowments that may assist in the exploitation or augmentation of existing enterprise competencies (Child & Rodrigues, 2005; Makino et al., 2002). As their profit margins are generally low, Chinese private firms are not able to overcome easily barriers originating from hostile environmental conditions. If the environment of the host country is characterized by a shortage of resources and limited market size, Chinese firms are more likely to use non-equity modes so as to exploit the massive production capabilities in their homeland (Liu et al., 2008). Thus:

Hypothesis 2a: Other things being equal, environmental munificence of the host country will be positively related to adoption of equity modes by Chinese private firms in that country.

Stability. Stability entails that there are low levels of turbulence in the foreign environment in terms of changes in laws and regulations, exchange rate and economic policies. Such stability decreases the environmental threats to the survival and profitability of entrants into a foreign country (Nakos & Brouthers, 2002). In such a stable environment, the use of high resource commitment equity modes may be attractive because expected returns are predictable (Anderson & Gatignon, 1986; Nakos & Brouthers, 2002). On the contrary, volatility of the environment makes it complex to foreign firms to predict future contingencies (Williamson, 1985). This volatility may render foreign firms reluctant to undertake large-scale commitments through equity modes.

Brouthers et al. (2002) further suggest that manufacturing firms are more sensitive to investment risks arising from volatile conditions compared with service firms. This is because manufacturing firms are likely to commit relatively higher levels of resources and incur more switching costs when employing equity modes. This is an additional reason to presume that Chinese private manufacturing firms can choose a non-equity mode in a volatile environmental context. Therefore:

Hypothesis 2b: Other things being equal, environmental stability of the host country will be positively related to adoption of equity modes by Chinese private firms in that country.

Internalization advantages

Contractual risk tends to be high in imperfect markets whereby opportunistic behaviors are encountered. In these markets, foreign entrants are likely to find it difficult to prepare and enforce a contract since they are not able to predict all possible contingencies due to limited cognitive abilities (Agarwal & Ramaswami, 1992). When the costs of information searching, negotiation, and monitoring for a contract soar, the firm is more likely to attempt to avoid relevant transaction costs through lower administrative costs of an equity mode (Anderson & Gatignon, 1986). Furthermore, when perceiving high possibility of partner opportunistic behavior in the host country, foreign entrants tend to respond through employing equity modes in order to exert control and protect their proprietary knowledge (Agarwal & Ramaswami, 1992). Not only that but also foreign entrants tend to internalize their operations when they believe that local partners shirk their responsibilities regarding product quality (Zhao et al., 2004; Geyskens et al., 2006). Chinese private firms may also encounter significant levels of contractual risk arising from dissemination of proprietary know-how in their production processes (Shi et al., 2001). Consequently:

Hypothesis 3: Other things being equal, contractual risk in the host country will be positively related to adoption of equity modes by Chinese private firms in that country.

Confucian dynamism

Initially identified by Chinese Value Survey (Chinese Culture Connection, 1987), Confucian dynamism reflects Confucian work ethics rooted in Confucius's teachings. According to Hofstede and Bond (1988), it embraces (a) personal steadiness and respect for tradition, (b) thrift, (c) persistence, and (d) ordering relationship and reciprocation. It may also affect the sense of shame and 'face protection' of a person. These values are indispensable elements of the Chinese culture (Ahmed & Li, 1996; Fang, 2003; Ghauri & Fang, 2001; Jacobs et al., 1995). Scholars (Farh et al., 2007; Jaw et al., 2007) have operationalized Confucian dynamism to capture intra-cultural variations at the individual level. Confucian dynamism at the individual level refers to the degree to which an individual endorses the work ethics prescribed by Confucianism. As it is discussed in the following paragraphs, the aforementioned elemental values of Confucian dynamism may affect individual factors associated with international entry mode choice such as risk avoidance, resource commitment, anxiety for short-term returns and control.

*Personal steadiness and respect for tradition, and risk avoidance***.** In a Confucian society, personal steadiness ('wenzhong') is an important personal virtue. If a person has personal steadiness, she is considered to be prudent, reliable and trustworthy (Fang, 2003). Additionally, a person with 'whenzhong' espouses serious attitudes regarding obligations toward work, family and society (Ahmed & Li, 1996). However, according to the Chinese moderation principle ('zhongyong'), a man with too much 'wenzhong' is characterized as a routinist who shows lower tolerance to ambiguity and absence of passion (Fang, 2003). Similarly, Hofstede and Bond (1998) claim that high levels of personal steadiness can discourage individual entrepreneurial spirit in terms of risk-seeking, taking initiatives and being open to change.

Moreover, respect for tradition is derived from ancestor worship (Chatterjee, 2001) that is an extension of 'wunlun', notably one of the basic relationships of Confucianism. According to the study of Schwartz and Sagiv (1995), the value of respect for tradition emphasizes that people honor customs, ideas and practices of the traditional Chinese culture. Respect for tradition can be viewed to be the opposite of openness to change since Schwartz (1994) suggests that the nature of this value is to maintain the social *status quo* and provide certainty to life. Hence, respect for tradition indicates a posture in keeping stability and harmony, shying away from uncertainty.

In connection to international entry mode choice, decision-makers with strong values of personal steadiness and respect for tradition assign weight to situational stability, accountability and predictability (Fang, 2003). The need for stability of these decision-makers is likely to discourage their willingness to bear more operational risks associated with equity-based modes abroad. Besides, decision-makers with too much 'wenzhong' tend to assume a paternal perspective toward their families and firms. They are willing to fulfill their role obligations and undertake responsibilities allied to provision of care to their family members and employees (Wah, 2001). When making decisions, these managers take into account that the potential errors that they make can jeopardize the benefits of family members and employees of their firms (Ahmed & Li, 1996; Chatterjee, 2001).

Such a strong belief for commitment to group norms diminishes the individual stance for risk-taking and leads to a prudent attitude toward investment risks (Hofstede & Bond, 1998; Yeung & Tung, 1996). Thus, the option of equity modes, which is associated with higher risk, has a significant possibility to harm the group members and may not be preferred. Not only that but also managers distinguished by a high extent of respect for tradition stress formality and stability of business operations, which decrease tolerance toward uncertainties brought by significant changes (Oh, 1992). Because little modification needs to be made to existing domestic operations of Chinese private firms, these managers are likely to choose non-equity activities characterized by fewer complexities than those of equity ones. In general, there appears to be an inverse relationship between personal steadiness and respect for tradition, on the one hand, and risk avoidance, on the other.

Thrift and resource commitment. The value of thrift is a work virtue of Confucian dynamism (Chinese Culture Connection, 1987) and it encourages frugality in doing things. In the business context, a frugal person uses limited resources to pursue productivity and profitability, which is an assertion indicative of a preference for a cost-conscious approach in conducting business (Browaeys & Price, 2008).

In relation to the international entry mode decision, a manager with a strong thrift orientation can be cautious in committing a sizable level of resources abroad. Equity modes, which require a higher level of resource spending than non-equity ones, may not be a favorable option to Chinese decision-makers distinguished by a strong thrift value. In addition, most Chinese private firms do not possess superior intellectual properties but their main competitive strategy is chiefly based on cost control (Morck et al., 2008). This is likely to reinforce their thrift orientation and preference for non-equity modes when making international entry mode decisions. Consequently, there seems to be an inverse relationship between thrift and resource commitment.

Persistence and anxiety for short-term returns. Hofstede and Bond (1988) suggest that the value of persistence encourages an incessant commitment to achieve one's goals.

Researchers (Hofstede & Bond, 1988; Jaw et al., 2007; Wah, 2001) view that the value of persistence stressed in the Chinese Confucian society focuses on long-term rather than short-term gains. Accordingly, in the business context, the persistence value predominantly underlines future market positions rather than immediate returns (Browaeys & Price, 2008).

Almost all internationalized Chinese private firms started their international market entries after the launch of the ‘open door’ policy in 1978. China was in 2008 the second largest exporter with the value of its exports reaching $1,428.55 bn, yet its outward FDI flows reached only $55.91 bn (MOFCOM, 2009). This suggests that Chinese private firms are largely still at the early stages of Uppsala’s stage model whereby non-equity modes prevail (Johanson & Vahlne, 1977, 1990). Viewed in this light, the value of persistence stresses the patience of Chinese private firms to improve their international disadvantageous positions through continuous efforts in the long-run (Browaeys & Price, 2008). Persistence accentuates their willingness to increase returns gradually along with nurturing of enterprise competencies. Decision-makers with a strong value of persistence are likely to avoid short-term gains and choose a step-by-step pattern of expansion in order to gain higher levels of returns from international activities incrementally (Turpin, 1992). In doing so, less profitable non-equity modes are likely to be prioritized instead of more dynamic expansions through equity-based activities in the future. Overall, there appears to be an inverse relationship between persistence and anxiety for short-term returns.

Ordering relationship and reciprocation, and control. Confucianism claims that a hierarchical relationship is essential to maintain the good order or harmony for the family, organization and society (Chew & Lim, 1995). Nonetheless, it also underscores reciprocal obligations to preserve the ordering relationships between social members

(Kao & Sek-Hong, 1995). The emphasis of reciprocation differentiates this value from the concept of hierarchy in western societies, which principally calls attention to duties of the subordinate member (Zaheer & Venkatraman, 1995).

Extant international entry mode literature suggests that the emphasis on unequal relationships in a group or society reflects a lack of trust between its members (Makino & Neupert, 2000; Shane, 1993). In turn, this can generate a need to control through equity modes in order to tackle potential behavioral opportunism. Nevertheless, relational governance scholars (Hill, 1995; Kao & Sek-Hong, 1995) posit that reciprocal obligations and expectations are sustained through unspecified trust ('xin') and mutual commitments between group members. Overall, it seems that the simultaneous importance on both the ordering relationship and reciprocation poses dual pressures on its control and trust propensities, a claim that has ambiguous effects on the choice between equity and non-equity modes abroad.

This choice is further seemingly contingent on the existence of reliable interpersonal relationships between parities. This is because valuable reciprocation and trust that exists between Chinese business people is often based on kinship and close friendships (Kao & Sek-Hong, 1995). Individuals who are outside this network can rarely acquire the trust of the business owner easily as 'they have not attached any meaningful role obligations through past interaction' (Chatterjee, 2001: 24). Chinese decision-makers with a strong preference for ordering relationship tend to internalize operations abroad and preserve required control through family members or trustworthy friends (Wah, 2001).

In a nutshell, ordering relationship and reciprocation have a contingent impact on the level of control, and so, an unclear effect on the choice of equity modes. In spite of this, the other values of Confucian dynamism are likely to influence equity mode adoption negatively. This may be the case since there exist inverse associations between personal steadiness and respect for tradition, on the one hand, and risk avoidance, on the other; thrift and resource commitment; and, persistence and anxiety for short-term returns. Hence:

Hypothesis 4: Other things being equal, Confucian dynamism of Chinese private firms will be negatively related to adoption of equity modes in the host country.

Methodology

Data collection and sample

A mail survey was carried out through a structured questionnaire whose items were based on previously developed scales and examined on their face validity by four academics. Following some modifications to improve its comprehensibility and clarity, the questionnaire was further pre-tested by seven Chinese managers. Investigated firms were located in the regions of Yangtze Delta, namely Shanghai and the Zhejiang province; as well as in the capital of China, namely Beijing. The selection of these regions is due to the fact that these are the most open to international business exposure areas in China. Analytically, these regions account for around 30 per cent of Chinese outward foreign direct investment stock, 40 per cent of outward foreign firms and 30 per cent of export value stock (MOFCOM, 2008). In addition, managers in these coastal and capital areas have many opportunities to interact with international customers and competitors (Ralston et al., 1999).

The current survey was conducted with the assistance of an independent contractor, which was able to access the members of the Chinese Council for Promotion of International Trade (CCPIT). This organization represents over 70,000 Chinese firms involved in foreign market activities through equity and non-equity modes. The employment of a contractor remedies the rather low survey response rates in China

(Davies & Walters, 2004; Hoskisson et al., 2000) and has been followed in prior studies also (Davies & Walters, 2004; Luo, 2001). The contractor had a close connection with CCPIT, and so, was able to gain support of its regional branches.

This research was conducted in two waves. In the first wave, questionnaires were sent to 550 CCPIT members, which had international activities, were privately-owned and manufacturing firms. The second wave was dispatched four weeks following the first mailing to firms that had not responded yet. Reminder telephone calls also took place between the two mailings. The survey targeted the owner, CEO or other high-level manager of the firm who was responsible for its international activities. This person was identified through phone calls prior to the mailings, in which rapport was built and the purpose of this study was explained. In total, 267 firms replied to the questionnaire, a figure that corresponds to a high response rate of 49 per cent. Among returned questionnaires, 233 were deemed to be usable and are employed in the analysis of the present research.

In order to ensure reliability of collected data follow-up phone calls were made to a second key informant in all 233 responding firms in order to check the frequency of equity (or non-equity) modes as well as the numbers of employees and years of operations. In total, 210 (or 90 per cent of the responding) firms provided this information. The bivariate correlation statistics showed high consistency in the data obtained from the two respondents in each firm (*phi* = 0.98 for entry modes, Pearson r = 0.89 for number of employees and Pearson r = 0.93 for years of operations). Furthermore, one-sample t-tests were conducted contrasting the frequency of the use of equity modes and years of international activities between the firms of this research and those reported in a recent study (Shen, 2007) that investigated Chinese private enterprise internationalization. There were no statistically significant differences between the means in these two studies. In addition, there were no statistically significant results with regard to the number of employees and years of international activities between firms located in the two regions, on the one hand, and between early and late respondents, on the other.

Measurement

Dependent variable. The dependent variable was the mode used by Chinese private firms for their most important previous international entry in any foreign country. Informants were asked to assess the overall importance of this international entry through three aspects, notably the importance of this entry to the firm; the magnitude of the impact from consequences of the entry; and, the seriousness of delaying the entry (Dean and Sharfman, 1993). This set of questions sought to ensure the strategic weight of this international mode choice (cf. Hambrick & Mason, 1984). The mode of entry was coded '1' for equity entries, notably wholly-owned subsidiaries and joint ventures; and, '0' for non-equity entries, notably exporting, franchising, and licensing contracts.

Independent variables. Ownership advantages were captured through firm size, international experience and manufacturing advantages. Firm size was measured through the number of full-time employees since private firms are willing to provide this figure more easily compared with other financial indicators (Elbanna & Child, 2007; Nakos & Brouthers, 2002). International experience was measured through the number of years of international activities before the entry under investigation, which is an approach consistent with that in prior studies (Nakos & Brouthers, 2002; Osborne, 1996). Manufacturing advantages (Cronbach α= 0.70) were measured through two seven-point Likert items addressing the extent (1= not at all, 7= very much) compared with direct competitors of production efficiency; and, of the ability for product development and improvement capability (drawn from Tsai and Cheng, 2002).

Location advantages were captured through environmental munificence and stability of the host country in which the entry took place. Environmental munificence (Cronbach α= 0.71) was measured through three seven-point Likert items addressing the extent (1= not at all, 7= very much) of easiness of survival in this foreign market; richness in opportunities in this environment; and, dominance by the firm in this foreign environment (drawn from Khandwalla, 1977). Environmental stability (Cronbach α= 0.83) was measured through three seven-point Likert items addressing the extent (1= not at all, 7= very much) of general stability of political, social, and economic conditions of the host country; safety of converting and repatriating the income of the firm; and, security of the assets of the firm due to possible host government actions such as expropriation (drawn from Brouthers and Brouthers, 2003).

Internalization advantages were captured through the contractual risk that the firm potentially encountered in the host country in which entry occurred. Contractual risk (Cronbach α= 0.77) was measured through three seven-point Likert items addressing the extent (1= not at all, 7= very much) of the cost in preparing and enforcing a contract; the risk of dissipation of proprietary know-how; and; the cost of controlling and monitoring the quality of the product (drawn from Agarwal and Ramaswami, 1992).

Confucian dynamism was captured through (a) personal steadiness and respect for tradition, (b) thrift, (c) persistence, and (d) ordering relationship and reciprocation. Confucian dynamism (Cronbach α= 0.75) was measured through seven seven-point Likert items addressing the extent of agreement (1= strongly disagree, 7= strongly agree) on whether self-control and organizational commitment are important characteristics of an employee; employment in a reputable and successful firm is very significant; first impression to others is very important; conventional methods are still functional nowadays; thrift and diligence are very important; devotion is not to ask for immediate compensation; and, work with people who are easy to cooperate with is very significant (drawn from Farh et al. (2007); and, Jaw et al. (2007)).

Three control variables were employed in this research. The first was psychic distance that referred to perceived social, economic and legal differences between the home and the foreign countries entered. These may affect international entry mode decisions (Hennart & Larimo, 1998; Kogut & Singh, 1988). Psychic distance (Cronbach α= 0.75) was measured through five seven-point Likert items addressing the extent (1= not at all, 7= very much) of dissimilarities between the two countries in terms of language; established business practices; economic environment; communication infrastructure; and, legal system (drawn from Klein and Roth, 1990).

The other two control variables included the mostly frequently used mode by the firm in the international marketplace in the past; and, the most frequently used mode by its direct competitors in this specific foreign market in the past. The inclusion of the most frequently employed mode by the firm is dictated by the resource-based view (Barney, 1991; Collis, 1991) that supports the notion of path dependency. This means that prior experience and familiarization with a specific international mode is likely to be indicative of the entry mode choice in subsequent mode choices also (Bogner et al., 1996). The inclusion of the most frequently employed mode by the firm's direct competitors in the foreign market under consideration is dictated by the institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This suggests that firms can model their international entry mode decisions on those of their rivals to acquire legitimacy (Lu, 2002; Yiu & Makino, 2002). These modes of entry were coded '1' for equity and '0' for non-equity modes.

Analysis, Results and Discussion

Statistical analysis

As the dependent variable of this research is the dichotomous choice of equity vs. non-equity mode, binary logistic regression was undertaken to test the hypotheses. This technique does not require normal distribution of explanatory variables and may also accommodate nonlinear effects (Janzen & Stern, 1998; Hair et al., 1995). Additionally, due to the variation in the measurement of the individual scales and the number of items per construct, all ratio and Likert-type independent and control variables were converted to standardized z-scores prior to the statistical analysis (cf. Brouthers and Brouthers, 2003).

Common method variance bias does not seem to be a problem in this study because of four reasons. First, the dependent variable of this study refers to an actual decision that was made rather than a perception (Brouthers & Brouthers, 2003). Second, employed modes of entry were checked by a second key informant in 90 per cent of the firms and provided verification of the dependent variable data. Third, following the suggestions by Podsakoff et al. (2003), the independent and dependent variables were placed in different parts of the questionnaire; and, measured through different response scales (nominal for the dependent variable; ratio or Likert for the independent variables). Fourth, the Harman's single-factor test one-factor test suggested by Podsakoff and Organ (1986) was employed in order to further examine the possible existence of common method variance. If only one factor emerged from all variables of interest or one factor accounted for the majority of covariance in these variables, it may have raised concerns for common method variance. However, these test results showed that four factors were extracted from our variables and the largest factor only accounted for 26 per cent of the total variance.

Results and discussion

The descriptive statistics and Pearson correlations for the variables of the study are presented in Table 1. Among 233 responding firms, 170 firms used non-equity while 63 equity modes. There are some strong correlation patterns between the variables, yet no correlation coefficient is higher than 0.44. This suggests that collinearity does not pose a threat to the results reported in this research. Furthermore, the estimation of variance inflation factors for the regression variables results in values close to 1, which are significantly lower than the accepted cut-off value of 10. This provides additional support to the argument that collinearity does not constitute a problem in this analysis (Neter et al., 1996).

Insert Table 1 about here

The results of the binary logistic regression models appear in Table 2. Three regression models were run. Model 1 examines the effects of the three control variables on international entry mode choice. The OLI framework variables and Confucian dynamism were subsequently added to form Models 2 and Model 3, respectively. The overall model fit results of all three models are strong and statistically significant, which is a result that attests to the overall robustness of these models. Moreover, the overall model fit was considerably increased from Model 1 (χ^2= 47.67) to Model 3 (χ^2= 87.39). The addition of the OLI framework variables and Confucian dynamism further resulted in a significant improvement over the former model's explanatory power since each $\Delta\chi^2$ provides statistically significant results. Over 80 per cent of the entry mode choices of Chinese private firms were correctly predicted in the full model.

Insert Table 2 about here

OLI framework. The results suggest that firm size, international experience and manufacturing advantages are significantly and positively related to the use of equity modes in both Models 2 and 3, providing supporting evidence to Hypotheses 1a, 1b and 1c. Thus, investigated ownership advantages have a positive effect on the adoption of equity-based modes. This evidence corroborates the importance of ownership advantages in the international entry mode choice of Chinese private manufacturing enterprises, which is a finding that confirms those of previous studies (Shi et al., 2001; Sim & Pandian, 2003). These firm-specific advantages can provide physical and experiential bases to them to cope with competition abroad (Liu et al., 2008; Shi et al., 2001).

The results further show that environmental munificence and stability are not significant associated with entry modes, and so, Hypotheses 2a and 2b are not supported. The apparent unimportance of location advantages in international entry mode selection is surprising. This is because one would expect that these Chinese private firms, which are rather small players in the global marketplace, would have provided significant emphasis to host country environmental conditions when deciding on entry modes. Nonetheless, it may be that these firms are used to operate effectively in an unstructured and vague domestic environment (Erdener & Shapiro, 2005; Li et al., 2008). Consequently, they can pay minimal levels of attention to environmental conditions of either the domestic or the international market when they decide on their forms of engagement abroad.

In addition, the results do not show any statistically significant link between contractual risk and entry modes. Hypothesis 3 does not receive empirical support, and so, internalization advantages seemingly do not affect the international entry mode decision. This unanticipated finding is likely to be explained by the argument that emerging economy firms usually do not possess proprietary assets allied to integration of activities abroad and safeguard of firm-specific knowledge (Cui & Jiang, 2009;

Demirbag et al., 2009; Shi et al., 2001). In the context of the evidence of the present study it may be that Chinese private firms do not consider that their manufacturing advantages have such a high asset specificity that justifies protection through employment of an equity mode.

Confucian dynamism. Confucian dynamism is significantly and negatively related to the equity mode choice, which is a finding that supports Hypothesis 4. To the best of our knowledge, this is the first empirical study suggesting such an effect. Confucian dynamism is seemingly the most important cultural trait variable for Chinese activities (Ahmed & Li, 1996; Oh, 1992; Ralston et al., 1993, 1997, 1999), which comprises personal steadiness and respect for tradition, thrift, persistence, and ordering relationship and reciprocation. Confucian dynamism is chiefly α conservatism-oriented cultural trait (Jaw et al., 2007) that negatively influences Chinese private enterprise equity mode choice through seemingly an attitude favoring risk avoidance, frugality of resource commitment and patience for returns (Fang, 2003; Hofstede & Bond, 1988).

This finding concerning Confucian dynamism is in line with the contention that entry mode choice can be affected by national cultural characteristics (Kogut & Singh, 1988; Makino & Neupert, 2000; Shane, 1993). The evidence from this current research adds to this line of thinking in the context of Chinese enterprise internationalization because it is apparently the first to apply the salient cultural variable of Confucian dynamism to entry mode study. Since Confucian dynamism was measured at the individual-respondent level, this research takes into account intra-cultural variation. In doing so, this approach remedies the unrealistic assumption of homogeneity of managerial cultural attitudes within a particular country (McSweeney, 2002; Shenkar, 2001). The practice of the present examination contrasts that of most studies that investigated the impact of cross-cultural variations employing Hofstede's (1980, 1991) national cultural indices.

In relation to control variables, the coefficient of psychic distance is not significant. This is likely to be attributed to the fact that the majority of most important foreign entries of Chinese private firms occurred in countries of the Asia-Pacific region, in which low psychic distance may be present. On the contrary, the coefficients of the most frequently used mode by the firm in the past and of the most frequently used mode by major rivals are significant and positive. The former result substantiates the rationale of the resource-based view supporting the notion that prior familiarization with a given international mode is likely to be indicative of the entry mode selection by the firm in ensuing mode choices (Bogner et al., 1996). The latter result verifies the line of reasoning of the institutional theory that firms may model their international entry mode decisions on those of their competitors (Lu, 2002; Yiu & Makino, 2002).

Conclusions

Implications

In relation to implications for research, the evidence of this study suggests that Confucian dynamism effectively complements the OLI framework in explaining international entry mode choice. Consistent with the upper-echelon perspective (Hambrick & Mason, 1984), this research provides evidence that the outcome of this strategic decision can be partially predicted by managerial cultural values. Viewed in this light, the findings indicate that a fully rational decision accounting for a detailed analysis of ownership, location and internalization factors only partly predicts international entry mode choice (cf. Cyert et al., 1956; Simon, 1955). Consequently, the incorporation of the national culture perspective into the OLI framework is warranted. This reinforces the viewpoint that the adoption of multi-theoretical perspectives is essential in predicting successfully international entry mode choices (Demirbag et al., 2009; Shi et al., 2001).

A related implication for research is that the evidence further suggests that among the OLI framework components only ownership advantages effectively explain international entry mode choice. Location and internalization advantages fail to predict this decision, yet this can be a finding specific to the current state of internationalization of Chinese private manufacturing firms. International entry mode choice of these firms may be illuminated through a Confucian dynamism enhanced Ownership (rather than OLI) advantage framework. The unique Chinese cultural trait of Confucian dynamism has not been investigated up till now in the few studies examining international activities of Chinese private firms. The entry mode literature that incorporated cultural aspects exclusively concentrated on cultural traits derived from western societies and disregarded the considerable predictive power of the Confucian dynamism cultural variable. Based on the findings of the current study, it appears that the inclusion of this inherent Chinese cultural variable can contextualize the international entry mode decision; and, enrich the literature on entry mode choices of Chinese private firms that apparently constitute an increasingly sizable body of enterprises in the international marketplace.

In relation to implications for management, the evidence of this research indicates that Chinese private firms have a reliable model for deciding on international entry modes. Managers who wish to employ equity modes are advised to attain a substantial enterprise size, foster international experience and nurture manufacturing advantages of their firms. In addition, they better administer international activities through persons who are distinguished by low levels of Confucian dynamism.

Limitations and future research directions

The present study faces some limitations that are likely to guide further research. We discuss four of these future research avenues. Firstly, the most important Chinese cultural trait, notably Confucian dynamism was introduced in this study to investigate its effect on international entry mode choice. However, the inclusion of other cultural and economic values may further improve the understanding of Chinese enterprise international activities. For instance, Leung (2008) posits that scholars can pay attention to the interplay between contemporary social forces such as materialism and traditional Chinese beliefs in order to understand management economic behaviors.

Secondly, prior literature suggests that Chinese private firms tend to rely on network ties to perform international activities (Ellis, 2000; Erdener & Shapiro, 2005; Zhao & Hsu, 2007). Little is known on how network relationships influence Chinese private enterprise entry mode choice in foreign markets, which is a gap that the current research did not attempt to address. This network aspect is likely to interfere with aspects of the Confucian dynamism variable because it seems that these ties diminish the tendency for control through trust and promote resource commitment through the decline of perceived uncertainty (Zaheer & Venkatraman, 1995). Besides, the incorporation of network considerations is consistent with a more recent reformulation of the OLI framework to include relational advantages also (Dunning, 2001) and can be attempted in future studies of international entry mode choices of Chinese private firms.

Thirdly, another limitation is associated with the sample selection of this research. In this study, internationalized private manufacturing firms located in the regions of Yangtze Delta and the capital of China were examined. Although this was done since these areas presumably host the most internationalized Chinese private firms, the generalization of findings of the present research should be made with caution. Future studies can involve also firms from other regions of China and service sectors to explore the generalizability of the suggested enhanced Ownership advantage framework.

Fourthly, because of its retrospective nature, this research may suffer from recall bias (Huber & Power, 1985). Although this problem was perhaps somewhat alleviated since the most important entry was sought, still the fact that the study did not take place at the time choices were made can challenge the validity of collected data. Further research may employ techniques such as experimental design and simulation to attempt to overcome this limitation (Brouthers & Hennart, 2007).

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Figure 1. A Confucian dynamism enhanced OLI framework of Chinese private firm entry mode choice

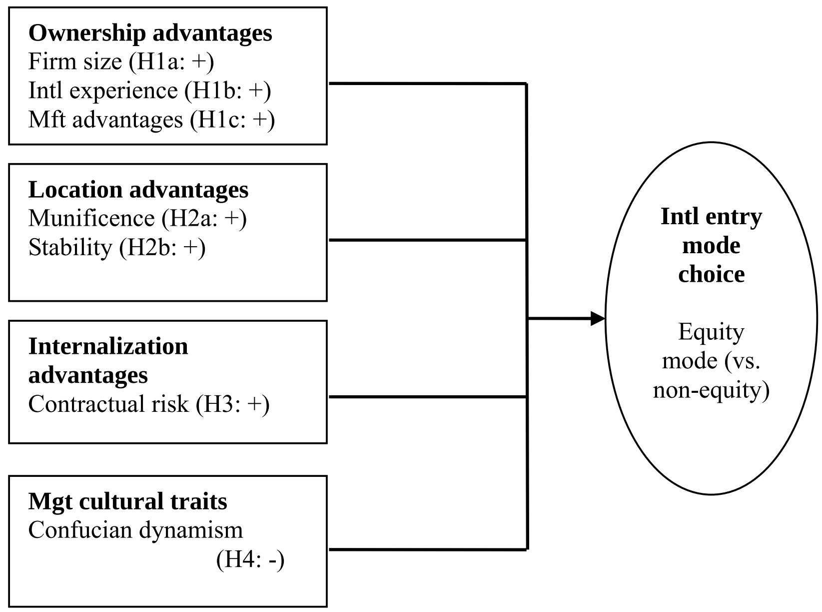

Table 1. Descriptive statistics, correlations and collinearity statistics

Variable	1	2	3	4	5	6	7	8	9	10	11	Collinearity Statistics	
Mean	4.62	0.25	0.21	328.50	2.73	5.06	3.60	4.02	4.26	5.03	0.27		
Standard Deviation	0.90	0.44	0.41	1027.77	3.09	1.00	1.06	1.33	1.15	0.94	0.45	Tolerance	VIF[a]
1. Psychic distance												0.81	1.24
2. Most frequently used mode in the past	.03											0.79	1.27
3. Most frequently used mode by major rivals	-.03	.42***										0.80	1.25
4. Firm size	.12	.10	.07									0.96	1.04
5. International experience	.02	.14*	.01	.02								0.92	1.09
6. Manufacturing advantages	.20**	.09	.02	.06	.19**							0.77	1.30
7. Munificence	-.24***	.07	.05	.03	-.15*	-.22***						0.77	1.30
8. Stability	-.22***	-.01	.04	-4.81E-03	-.04	.03	.31***					0.81	1.23
9. Contractual risk	.39***	-.08	-.15*	.04	.06	.26***	-.38***	-.34***				0.69	1.44
10. Confucian dynamism	.16*	.10	.12	-.07	-.02	.31***	-.12	.12	.06			0.84	1.19
11. Equity mode	.02	.44***	.32***	.22***	.29***	.20**	.04	-.05	.05	-.06			

n= 233; correlation coefficients and collinearity statistics were based on standardized values except for the dichotomous variables
[a] variance inflation factor
* $p < .05$ (two-tailed)
** $p < .01$ (two-tailed)
*** $p < .001$ (two-tailed)

Table 2. Binary logistic regression results

	Model 1	Model 2	Model 3
Controls			
Constant	-1.82***	-1.93***	-2.07***
	(.22)	(.25)	(.27)
Psychic distance	.03	-.14	-.08
	(.17)	(.21)	(.22)
Mode in the past	1.84***	1.74***	1.90***
	(.36)	(.41)	(.43)
Mode of major rivals	.89*	1.07*	1.20**
	(.39)	(.43)	(.44)
Firm size		.74*	0.64*
		(.32)	(.31)
International experience		.85**	.82**
		(.28)	(.28)
Manufacturing advantages		.46*	.63**
		(.21)	(.22)
Munificence		.32	.32
		(.22)	(.23)
Stability		-.21	-.14
		(.20)	(.21)
Contractual risk		.28	.28
		(.23)	(.24)
Confucian dynamism			-.51*
			(.23)
Model χ^2	47.67***	82.01***	87.39***
d.f.	3	9	10
$\Delta\chi^2$ to Model 1		34.34***	5.38*
Nagelkerke R^2	.27	.43	.46
Percentage of correct classification	77.2%	78.9%	81.5%

n= 233; dependent variable: 1= equity mode; standard errors in parentheses

* $p < .05$
** $p < .01$
*** $p < .001$