Chinese firms’ outward FDI entry mode choice: The role of ownership and network

Bai Tao¹, Jin Zhanming¹, Qi Xiaoguang²

¹School of Economics and Management, Tsinghua University, Beijing, China
baitao2010@gmail.com, jinzhm@sem.tsinghua.edu.cn
²Judge Business School, University of Cambridge, Cambridge, UK
xiaoguang.qi@cambridgejbs.net

Abstract. What determines the Chinese firms’ outward foreign direct investment (FDI) entry mode choice, and do they behave differently from the firms from developed countries? To answer this question, this exploratory study firstly summarizes the attributes of the FDI entry modes, including greenfield investment, acquisition, and joint venture. Further based on the different attributes of these three modes, we analyze how Chinese firms choose the entry mode from the role the ownership and network perspectives, which are the important characteristics of Chinese firms.

Keywords. entry mode, ownership, network

1 Introduction

Internationalization has been widely considered as the dominant tendency of our time (Mathews, 2006), and entry mode choice as one of the most critical decisions during the international expansion, one of the key strategic decisions during the firms’ development (Brouthers and Brouthers, 2001; Luo, 2001). There are theories widely applied to analyze the entry mode choice, including the transaction cost theory, resource based view, and institution based view, which have been considered as the tripod of international business. However, among these studies the empirical study results are still not consistent. For example, there is no clear consensus regarding the effect of cultural distance on entry mode choice (Brouthers and Brouthers, 2001; Tihanyi et al., 2005). Besides, more and more firms from developing countries have begun to invest in the international markets. Not like firms from developed countries gradually investing internationally, firms from developing countries prefer to choose more aggressively strategy – high risk (commitment), high level of control, and high speed. These ‘tripod’ theories developed within developed countries background are found difficult to explain this new trend of internationalization.

Facing the above research gap, this study will introduce the agent theory and network perspective into analyzing the entry mode choice of Chinese firms’ outward FDI. Coviello and Martin (1999) contended the network relationship influence initial market entry and mode of entry, and FDI is viewed as an effort by investors to forge linkages with foreign networks by establishing a presence in the foreign country under the network perspective (Chen and Chen, 1998). But to date there have been
few researches investigating the specific implications to the FDI entry mode choice from the network perspective. Researches on corporate governance within the context of firm internationalization are relatively sparse too (Tihanyi et al., 2005), and even the current limited researches are mainly about the interaction between internationalization and corporate governance across different countries (Musteen et al., 2010), so more researches are called for investigating the relationship between the entry mode and corporate governance. Then we will develop the framework under the corporate governance theory and network perspective to analyze the FDI entry mode choice of Chinese firms.

Specifically, this paper unfolds as follows. Firstly, we will integrate the current researches to summarize the characteristics of FDI entry modes, including the greenfield investment, acquisition, and joint venture; Then we will depict the specific traits of Chinese FDI; After these preparations, we develop the propositions about how Chinese firms choose different entry modes and integrate into the framework based on the corporate governance theory and network perspective; At last, we will discuss the conclusions and limitations of this paper.

2 Entry mode

Entry mode, as an institutional arrangement for organization and conducting international business transaction (Anderson, 1997) has been viewed of high strategic importance, which is greater part of top managers’ major decisions related to foreign market entry.

The main reason we chose these three entry modes (greenfield investment, joint venture, and acquisitions) in this study is that they are strategic alternatives along a continuum of control right modes, namely greenfield investment represent greater control at one end of the continuum, while joint venture represent less control at the other end, and in the middle of the spectrum is the acquisition, which is also the obvious difference between joint venture and acquisitions.

About the terminology definition, the acquisitions stand for the purchase of stock in an already existing company in an amount sufficient to confer control (Kogut and Singh, 1988), along which study, we draw the explicit boundary of acquisitions consist of a controlling equity share with the remaining shares dispersed across many investors. Joint venture is defined as the pooling of assets of two or more firms in a common and separate organization by two or more firms (Kogut and Singh, 1988; Chang and Rosenzweig, 2001), while Greenfield investments (or foreign start-ups) involve building an entirely new organization in a foreign country from scratch.

There have been researches analyzing the entry mode characteristics but from different dimensions separately. For example: normative decision theory suggests that the choice of a foreign entry mode should be based on the trade-offs between risks and returns (Agarwal and Ramaswami, 1992), while Rhoades (2001) analyzed the international entry mode choice in terms of cost (resource commitment), control (level of ownership), and risk (related to the level of resource committed and the complexity of the environment entered). Similarly, Herrmann and Datta (2006) differs these three entry modes in four important ways, including control, risk exposure,
resource commitment, and the opportunity to access to the local partners’ knowledge.

Based on the extant literature, we summarized the eight different aspects of the entry modes. Entry mode choice decisions generally involve a compromise among these eight attributes. (1) Speed of getting up and running; (2) degree of control; (3) risk; (4) integration; (5) access to complementary capabilities; (6) access to intangible assets that often slow and difficult to build; (7) flexibility; (8) Learning opportunities. These three entry modes have distinct characteristics, theoretically, which will be chosen by the managers according to their different objectives (Meyer et al., 2009).

Table 1. The compromise attributes of entry modes

<table>
<thead>
<tr>
<th>Entry mode</th>
<th>Acquisitions</th>
<th>Joint ventures</th>
<th>Greenfield investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed</td>
<td>Medium</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Control</td>
<td>Medium-High</td>
<td>Low-Medium</td>
<td>High</td>
</tr>
<tr>
<td>Access to flow of</td>
<td>Low-medium</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>complementary capabilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Access to intangibles</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Risk</td>
<td>Low-medium</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Integration</td>
<td>Medium</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Flexibility</td>
<td>Medium-Low</td>
<td>High</td>
<td>High</td>
</tr>
<tr>
<td>Learning Opportunities</td>
<td>Medium</td>
<td>Low-Medium</td>
<td>High</td>
</tr>
</tbody>
</table>

Although acquisitions offer a speedy establishment or local presence in a foreign market, (Child and Rodrigues, 2005), they may be exposed with risks of overpayment, inability to fully assess the value of acquired assets, and post-acquisition integration failures because of cross-cultural differences (Chang and Rosenzwig, 2001; Dikova and Witteloostujin, 2007). Also through acquisitions, firms could acquire new intangible resources, like technological skills, eminent brand, and high-level management (Barkema and Vermeulen, 1998), which exactly are the important assets Chinese firms need.

Greenfield investments offer the greatest control to the investing firm, the higher degree of managerial autonomy and full control over local operations, yet often require the longest establishment period, and require the greatest contribution of know-how (Chang and Rosenzwig, 2001; Dikova and Witteloostujin, 2007), on the other hand higher investment and higher commitment with new plant also makes the greenfield a riskier entry mode, facing the uncertain legal and economic environments (Wooster, 2006). Greenfield investment is considered as a route that maximizes managerial control and the possibilities for global integration (Child and Rodrigues, 2005). Greenfield investors may find it harder to integrate into local business networks, which may be vital for business success, because networks are extensively used where formal institutions are weak (Peng and Luo, 2000).

When firms want to enter the foreign market quickly, joint ventures are preferred to choose to make full use of the local supply chain and distribution networks (Meyer and Estrin, 2001). As JVs are a way to draw on the resources of a local partner, hence
involve relatively lower investment and risk (Agarwal and Ramaswami, 1992; Chang and Rosenzwig, 2001). In addition, a very important characteristic of JVs is that the shared ownerships enable firms to tap into valuable resources of a local partner (Dikova and Witteloostuijn, 2007), which will provide a more effective channel for the transfer of tacit knowledge, not just in production and distribution but also in other areas where internationally competitive standards need to achieve (Inkpen, 1995; Simonin, 2004). Moreover, JVs provide the ways to share complementary but distinct knowledge, which would not be shared otherwise (Kogut and Singn, 1988). On the other hand, just because of this shared ownership, it’s at times hard for firms to coordinate with partners whose interests and goals may diverge. In conclusion, joint venture is the entry strategy that would be faster, more flexible, less risky and less costly than internal start-up (greenfield investment) and acquisitions (Pearce and Hatfield, 2002). The comparative analysis detail shows above.

3 Trend and characteristics of Chinese

The editors of Academy of Management Journal (AMJ) summarized the international management research in AMJ, and found that almost one-third of the 269 international studies between 1970 and 2004 involved collecting data from North America, ranking first, and then followed Japan, the United Kingdom, and the Netherlands (From the editors, 2005). So there are limited researches about Chinese firms’ internationalization, within the entry mode research field even researches related with China, it is considered as the host country (for example, Tse et al., 1997; Isobe et al., 2000; Pan and Tse, 2000). To our knowledge, there have been some case and theory studies about Chinese firms’ internationalization, but obviously not enough, little is known about how Chinese firms actually make their first steps in outward FDI, namely, the choice of FDI entry mode (Cui and Jiang, 2009). We firstly describe the overall pattern of Chinese firms’ OFDI, then summarize the differences between Chinese firms’ OFDI and firms from developed countries.

3.1 Trend

Figure 1 depicted the Chinese firms’ outward FDI development path from year 1979 to 2011. As we can see from the data, the amount of Chinese firms’ FDI reached 2.7 billion dollars in 1990s from the scratch in 1970s and ‘80s. 1990 is the first very important point of Chinese OFDI development history, which means the rapid development for the first time (Lecraw, 1993; Tolentino, 1993). During this period Chinese firms were ‘pulled’ to invest abroad to access more market and technology (Yeung, 1999). After joining WTO, Chinese OFDI had been growing rapidly and continuously to reach 26.51 billion dollars in 2007, and doubled to 55.91 billion dollars in 2008. Though the global economy slows down because of the sovereign debt crisis and the turbulence in Middle East and North Africa, Chinese OFDI maintains growth after 2008.
Fig. 1. Chinese FDI developing trend. (source: 2011 Statistical Bulletin of China's outward foreign direct investment; unit: billion USD)

3.2 Location

When Chinese firms initially invest abroad, they mainly focus in establishing subsidiaries in the major ports and cities, like New York, Hong Kong, and London. With the developing of Chinese economy, the destinations of Chinese OFDI extended to more developed countries like America, Canada and Australia from originally confined in HK & Macau and other developing countries. Till now Chinese firms’ OFDI have been through 177 countries and regions, occupying 72% of the global countries in total. But from the figure 2 & 3 showing, geographically the locations of Chinese OFDI are more concentrated. Specifically, either in terms of OFDI stock or the number of foreign subsidiaries, Asia is the most important destination. Besides the geographical reason, the similar culture and the ethnic network also attract Chinese firms’ investment (Sikorski and Menkhoff, 2000).
3.3 Ownership

Since China’s reform and opening up, the government made the policy, in which public ownership plays the leading role and diverse forms of ownership develop side by side. And the 16th National Congress report points out: “help and encourage relatively competitive enterprises with various forms of ownership to invest to run enterprises abroad”, which really stimulate the passion of different kinds of firms investing abroad. From table 2, we can see, not like before the state owned enterprises occupying the leading role in OFDI, but various types of firms starting to participate into this international business.

Table 2. 2011 Investors classification by registration type

<table>
<thead>
<tr>
<th>Registration type</th>
<th>Number</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited liability company</td>
<td>8136</td>
<td>60.4</td>
</tr>
<tr>
<td>State owned enterprises</td>
<td>1495</td>
<td>11.1</td>
</tr>
<tr>
<td>Private enterprises</td>
<td>1120</td>
<td>8.3</td>
</tr>
<tr>
<td>Company limited by shares</td>
<td>1036</td>
<td>7.7</td>
</tr>
<tr>
<td>Cooperative stock enterprises</td>
<td>535</td>
<td>4</td>
</tr>
<tr>
<td>Foreign invested enterprises</td>
<td>480</td>
<td>3.6</td>
</tr>
<tr>
<td>Enterprises with investment from Hong Kong Macao and Taiwan</td>
<td>320</td>
<td>2.4</td>
</tr>
<tr>
<td>Collectively-owned enterprise</td>
<td>130</td>
<td>1</td>
</tr>
<tr>
<td>Individual enterprises</td>
<td>110</td>
<td>0.8</td>
</tr>
<tr>
<td>Others</td>
<td>100</td>
<td>0.7</td>
</tr>
<tr>
<td>In total</td>
<td>13462</td>
<td>100</td>
</tr>
</tbody>
</table>
3.4 Differences between Chinese firms’ OFDI and firms from developed countries

Especially within the context of firms in China, the core research issue in Chinese business is related to the roles played by the state-owned enterprise (SOE) ownership since the advent of communism (Ralston, et al., 2006). As one of the most important emerging economies, China presents a distinctive and highly dynamic institutional environment (Meyer et al., 2009; Peng et al., 2008), and remains a political economy despite the development of a market system (Child and Tse, 2001), which intrigued the scholars to pay more attention to these differences from developed economies. But very few researches analyze the relationship between Chinese firms’ ownership and entry mode choice.

From the developing trend of Chinese OFDI, we can tell the speed of Chinese firms’ internationalization is accelerated (Mathews, 2006), since they try to catch up the firms from developed countries. And compared with the firms from developed countries in the international markets, Chinese firms not only need to face the ‘liabilities of foreignness’, they also confront the disadvantages from ‘liabilities of newness’ (Guillen and Garcia-Canal, 2009), which made Chinese firms’ international entry mode choice different firms from developed countries.

4 Framework of entry mode choice

4.1 Ownership

As we summarized in the literature review, extant entry mode researches grounded in several main theories, like transaction cost analysis (Brouthers and Hennart, 2007; Zhao et al., 2004), resource-based view (Barney, 1991), institution-based view (Brouthers, 2002; Davis et al., 2000; Oliver, 1997), and integrated model, including Dunning’s eclectic framework (Dunning, 1988, 1993) and multilevel framework involved firm, industry, and country specific factors (Pan and Tse, 2000). The premise of these theoretical approaches is that the entry mode choices made by the ideal best decision based on these theories considering the compromise attributes of different entry modes. However, in the real business world, foreign entry mode decisions are always complex, facing incomplete information and considerable uncertainty, moreover the decision-makers always own their own different self-interest, goals and preference, so may choose the different entry mode even facing the same situation (Musteen et al., 2010). From this perspective, since different types of owners have different self-interest, risk preference and decision-making horizons, the entry mode choice must be influenced by the firm’s ownership structure (Wright et al., 2005; Hoskisson et al., 2002).

From the agent-theory perspective, most extant researchers analyzed the entry mode preference of the manager form the risk dimension. Some studies stated that managers have shorter time horizons. The equity ownership amount means most of their wealth, and the firm managers would have to take the cost (risk) of failure, in which the possibility exists that they will choose a entry mode with less risky strategy even
though there still are other strategies available might on average have higher financial payoff, so they will be more risk-averse (Filatotchev et al., 2007; Pan et al., 1999; Woodcock et al., 1994). However, Fama and Jensen (1983) suggested that because of the limited financial stake between the manager and the firm, the agency problems are more likely to happen, which means that they prefer to apply some risky strategy. So there are still no consistent opinions about the risk preference on the entry mode choice of managers.

However, as we said before, the entry modes are the multi-dimensions’ phenomenon, which means that we need to consider from more perspectives about the concept of entry modes. Apart from the risk dimension, the ‘control’ is also the very important normal aspect the managers will analyze. For the public firms, since the managers have relative less power to the firm, they would not consider the degree of control to the subsidiaries as their important objectives. Besides, the managers in Chinese firms always engaged in the day-to-day running of the company, so mostly they have been absorbed by these things leading to have limited time and capacity to monitor the overseas venture (Filatotchev et al., 2007). Plus the foreign market situation is not where they are familiar with, so facing the potential dangers, they will avoid choosing high commitment entry mode, which needs more control and integration to put in. In a word, for public firms, managers prefer to choose the less risk, less control and integrated ability needed entry mode while entering into the foreign market.

The managers of public firms also pay much more attention on the strategic dimensions of the entry modes. Firstly, the speed of investing is very important. That’s because the managers have to show the achievements they have made timely. And there is much pressure on the managers from the shareholders that they need to make good performance immediately to show their abilities. That means when their equity ownership in the firm is limited, the managers pay more attention on the fast effect strategy. From the opposite, when the managers hold a significant proportion of a firm’s stock, they are more likely to focus on and emphasize investments that maximize long-term shareholder value (Datta et al., 2009). As we discussed before, for Chinese firms the international FDI is the important path to get the knowledge and capabilities. For managers of the public firms, though this dimension is not the priority, this is better for Chinese firms’ development.

**Proposition 1a:** The larger the public ownership of Chinese firms, the more likely they will choose joint venture over Greenfield investment or an acquisition.

Compared with public firms, many state-owned firms enjoy access to state assets and intellectual property at a discount, and also the firms can achieve financial and resource support (Williamson and Zeng, 2007). Warner et al. (2004) contend that the firms in China supported by state’s sponsorship and funding support are always entering and penetrating a host country through the frequent acquisitions. Because of this supporting, the state-owned firms have high risk tolerance.

Moreover, in China every listed firm’s board has a parallel authority structure – the firm’s Party Committee – headed by its Party Secretary. Real power and important decisions are through the party channels, leaving the board and formal corporate top executives scant real authority (Morck et al., 2008). With the increasing of the percentage of the state-owned share, the attention will be put by the government and
the Communist Party of China. So the state-owned firms put more attention in the control of the overall situation. Besides, normal firms always consider a decision from the economic view, however state-owned enterprises have to incorporate the aims of building national image, access to the key resources, enhance national pride and so on. Researchers have documented that there is natural tendency to seek national pride in investment decisions among the developing countries (Hope et al., 2010). There are always accompanying the huge media frenzy, political interference, and nationalistic talk during some of the bids originating from the developing countries. Compared with the other firms, the state-owned firms will start the new company in overseas to build Chinese brand. So the state-owned firms prefer to acquire higher control and integration in the FDI, and also need to build the ‘flagship firm’ in the international markets to convey the image of China. But the state-owned companies will consider decisions in the long time, not like the managers in firms more likely to pursue short effect.

**Proposition 1b:** The larger the state-ownership of Chinese firms, the more likely they will choose greenfield investment or an acquisition over a joint venture.

### 4.2 Network

With the modern business environment becoming more and more competitive, networks have played increasingly important role for firms to seek opportunities to secure information and access knowledge (Zaheer et al., 2000). Internationalization occurs as a result of multilateral externalization through business and social networks rather than through internalization (Malhotra et al., 2003), which would influence the initial market entry and entry mode choice (Coviello and Martin, 1999).

Institutional research suggests that network linkages are important to many firms in Asian newly industrialized economies and other emerging markets (Filatotchev et al., 2007). Especially for Chinese firms, China has the distinctive cultural and institutional legacy, including the tendency to rely on close personal relationships in business transacting (Chen and Chen, 2004), so when considering the international strategy, Chinese firms’ decision must be influenced if there are the networks between self and companies in host country. The network always could be divided into two directions, namely foreign firms seeking relationship with Chinese firms in China, also called ‘passive’ inward internationalization for Chinese firms; and existing local relationship, invested ‘actively’ in advance.

**Inward internationalization.** Facing the successful multinationals, Chinese companies as the latecomers confront a number of important handicaps, including limited marketing capability, weak distribution and brands, a paucity of proprietary technology, limited breadth of capabilities, and lack of management depth, which will usually put the end to the internationalization goal of Chinese firms. However, the globalization characterized as ‘the world is flat’ weakened these barriers and has also opened the new gateways and brought the new opportunities for the Chinese firms (Williamson and Zeng, 2007).

In China, the Inward FDI preceded the outward FDI, and inward FDI has been used as ways for Chinese firms to prepare to become multinational corporations in the competitive global market by the Chinese government, as early as 1978 (the
beginning of Chinese economic reform) (Yang et al., 2009). Since 1979, inbound FDI has been legally permitted in China. In just 25 years, FDI inflow rose from US $ 2.43 billion per year in the early 1980s to US $ 153.47 billion in 2004, and China became one of the world’s largest FDI recipients since 2002 (The US China Business Council, 2005). Since then the long-term contracts or partnership with foreign companies through inward internationalization has become the important means for Chinese firms to learn about international knowledge and experience as a preparation for internationalization (Child and Rodrigues, 2005).

The usual inward internationalization paths are OEM (original equipment manufacturing), ODM (original design manufacturing) or OBM (original brand manufacturing), licensing of foreign technology, outsourcing, modular products and services, which can stimulate Chinese firms’ (emerging market firms) outward internationalization efforts (Luo and Tung, 2007). More specifically, OEM, ODM or OBM arrangements provide Chinese firms the opportunities to preserve the own identity, achieve economies of scale, and gain an international reputation while other paths involve Chinese firms into the closer network with the foreign multinationals, offering the highly effective mechanism for the tacit knowledge transfer (Luo and Tung, 2007). Below we will analyze the general spillovers from the inward internationalization.

The first one is the demonstration effect, in which domestic firms, could increase their own productivity by observing these firms’ technologies and management practices and imitate them in their operations through exposure to foreign firms’ activities (Zhang et al., 2010; Blöstrom and Kokko, 1998). According to this logic, the inward internationalization could provide Chinese firms’ the chances of the cooperation with foreign multinationals which will be the source of the operational, organizational transfer of the competencies and knowledge about how to deal with ‘outward’ internationalization (Child and Rodrigues, 2005).

The second one is the accumulated financial and operational assets. Young et al. (1996) also documented that during the inward internationalization, local companies could accumulate considerable financial and operational assets, upgraded technological and process management skills, and developed unique capabilities and learning experiences.

The third one is the employee turnover. When employees from foreign firms take jobs in domestic firms, or the foreign firms need to hire domestic firms’ employees, the domestic firms also could get to know the details about the foreign firms’ technologies and management practices through the employees turnover, then create positive spillover effects (Zhang et al., 2010).

The fourth one is the learning effect. Chinese firms can strengthen their international experience and competencies through learning from multinational enterprises involved in this inward internationalization relationship (Child and Yan, 2001; Guthrie, 2005), which encourage the firms to commit resources to foreign markets, manage the risks of expansion and cope with the liability of foreignness (Guillen and Garcia-Canal, 2009). Many Chinese firms have learned and appreciated the American way of doing business through their U.S. partners, which have been operating in China for years. This may assist Chinese firms to adapt themselves to the United States economy and American business operation. So this international preparation
including the experience and competencies will reduce the potential risk they perceived, improve their own integration and control ability, making the firms prefer to choose more commitment and risky entry mode.

Besides, the competition brought by the foreign companies and the network also could help domestic firms to increase the competitiveness. The increased competition that accompanies inward FDI can force domestic firms to increase their productivity by updating manufacturing technologies and adopting advanced management practices to meet this competitive challenge (Blöstrom and Kokko, 1998); Over the two decades, foreign multinationals also helped local partners intensify foreign capital and international contacts and networks through various partnerships (Yang et al., 2009).

Galanz, used to be a town and village enterprise based in Shunde, Guangdong Province interpreted the path from OEM (inward internationalization) to successful outward internationalization. After years of OEM suppliers for many different international brands, Galanz accumulated the technology, management philosophy, international experience, brand reputation and etc, laying the solid foundation for the future development (www.galanz.com/news, September, 16, 2009), so when they entered in foreign market, they prefer to choose more commitment, more risky but relative more control and integration demanded. Galanz invested US $ 20 million to start up an R&D centre in Seattle, opened a brand new development centre in Seoul in 2006 (www.galanz.com/news, September, 16, 2009).

BAW (Beijing Automobile Works Co. LTD) purchasing the Saab (Svenska Aerophan Aktiebolaget) on 14th December, 2009, surprised the worldwide, and drew the attention. BAW is a historical carmaker in China, who made the first can in China totally independently, but it did not develop very well next years. Since the ‘outward policy’ supported by Chinese government, BAW cooperated with Hyundai and DaimlerChrysler in China, which provided the opportunities for BAW to learn and grow. This also encouraged BAW to purchase the Saab. (www.baw.com/news, ‘Is it the independent making cars for BAW remodeling Saab?’)

**Proposition 2a:** The longer the Chinese firms involved in the inward internationalization, the more likely they will choose Greenfield investment or an acquisition over a joint venture.

**Proposition 3a:** The positive relationship between the state-owned ownership and the Greenfield investment and acquisition in China is the stronger for firms with longer inward internationalization length and stronger local network strength.

**Outward local network.** The opposite direction of the ‘inward’ internationalization is the active internationalization, means that existing local network before firms’ entry. Firms are exposed on the greater risk, and more control and integration ability demanding, while entering into the new foreign market, especially more distant markets, geographically and culturally (Filatotchev et al., 2007). But this perceived risk may be mitigated by existing local network, and firms also could improve their control and integration ability to local firms, since they can know more about local firms and get a lot of benefits from the local network, such as the provision of relevant information on local business opportunities, access to key local contacts, knowledge and information in a particular destination, experience in dealing with
local officials and the management of local labor (Child and Rodrigues, 2005; Filatotchev et al., 2007). As Chen (2004) argued, Chinese firms tend to rely on close relationships in business transacting, so the local network effect will be more obvious for Chinese firms. The specific-location network does bring much more information about the local environment, policy and local firms, and reduce the possibility of potential opportunistic behavior. All these effects will encourage Chinese firms to choose more risky entry mode while deciding to enter the foreign market.

Proposition 2b: The stronger the location-specific network the Chinese firms involved in, the more likely they will choose Greenfield or an acquisition over a joint venture.

Proposition 3b: The positive between the public ownership and the joint venture in China is weaker with longer inward internationalization length or stronger local network strength.

Fig. 4. Entry mode choice framework

5 Discussion and limitation

Chinese firms’ outward FDI has attracted more and more attention across the world. In order to explain how Chinese firms choose the entry mode, we firstly summarized the 8 characteristics of three different OFDI entry modes; then based on the national data, we depicted the trend and characteristics of Chinese OFDI to find the differences between Chinese firms’ OFDI and firms from developed countries; After all these preparation, we analyzed the mechanism of Chinese firms’ OFDI entry mode choice from ownership and network perspectives, further integrated both views into a framework.

Academically, facing the gap that current empirical research results based on the
'tripod’ theories are inconsistent, this study introduced new perspectives, agent theory and network perspective to analyze firms’ entry mode choice, which would help us know more aspects of the entry modes. And recently more and more firms from developing countries have begun to invest in the international markets, this study also shed lights on why and how they conduct investments abroad. Practically, our research provide a guide for firms from developing countries, which are considered as the latecomer and less competitive in the international markets how to succeed in investing abroad. Firms should choose their matched entry mode based on their ownership situation, and make full of their network, including inward FDI and outward FDI to prepare well for the next investment. Our study suffers from some limitations noted, which also are future research implications. Obviously, this study only covers one time point, instead of using a longitudinal approach. Based on Uppsala theory, with the experience accumulating firms’ international strategy will change. So Future research could expand our research design and study these international processes in a longitudinal perspective. Also future research could develop our paper by exploring the motivation, and location choice of firms’ FDI, since it has been proved that the core strategies of FDIs, including motivations, location choice, and entry mode are related. So analyzing these core strategies together will help us know the mechanism of firms’ international investment better.

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newly industrialised economies in emerging markets: corporate


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