
An empirical study of foreign direct investments of Malaysian multinationals: wholly-owned subsidiaries and international joint ventures

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Abstract: This article aims to provide an insight into the use of foreign direct investments of Malaysian multinationals as market entry modes. We developed a conceptual framework incorporating levels of control, competencies, and costs of foreign investments for market entry modes as wholly-owned subsidiaries and international joint ventures and tested our model with a survey of CEOs and managing directors at Malaysian multinational companies. Our findings suggest Malaysian multinationals are strongly influenced by their strategic motivations and their desire to exploit synergies in their choice of entry mode between wholly-owned subsidiaries and international joint ventures.

Keywords: foreign direct investments; FDIs; wholly-owned subsidiaries; international joint ventures; Malaysian multinational companies; market entry modes; Malaysia.

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1 Introduction

Malaysia's economy has grown at an enviable pace averaging growth of around 8% per annum mainly due to farsighted government policies and a hardworking, pragmatic people (Okposin et al., 1999; Economic Analytical Unit, 2005). In the past 25 years, Malaysia has developed rapidly from a commodity-based economy to one dominated by intermediate manufacturing. Manufacturing production accounted for almost one third of

2008 Malaysian output, up from around one quarter ten years earlier (CEIC, 2009; UNCTAD, 2010). The challenge, now for Malaysia, is to expand its external economy (Sim, 2006; MATRADE, 2009). The Malaysian government, in its internationalisation drive, has provided strong encouragement and guidance to local Malaysian firms in taking the first steps. Malaysia traditionally has received most of its capital in the form of foreign direct investment (FDI), in large part due to its open capital regime (Asian Development Bank, 2004; UNCTAD, 2010).

According to the FDI statistics provided by the Malaysia External Trade Development Corporation (MATRADE, 2009), total outward direct investment in 2009 stood at RM\$45.3 billion (\$15.10 billion) or about 37.6% of GNP, up from its previous level in 2008 of RM\$32.7 billion (\$10.9 billion) or about 33% of GNP. Malaysian firms have set up as many as 4,295 subsidiaries abroad. They continued to exhibit a marked preference for investments in Asia, possibly due to the strong growth prospects. At the end of 2009, more than half (57.7%) of Malaysia's direct investment abroad was located in Asia. Indonesia, China and India were the three most frequent destinations for Malaysian firms and had shares of 30%, 21% and 17.5%, respectively (MATRADE, 2009). Malaysia's FDI grew at a quick pace of 29.1% between 2003 and 2004 despite the financial crisis and the growth rate is expected to continue in the foreseeable future. At its peak in 1992, FDI accounted for 8.7% of GDP (UNCTAD, 2007). Clearly, this is an opportune time to study the Malaysian FDI process.

The purposes of this study are two-fold. First is to identify the key factors driving the choice of mode of entry (MOE) which is an important aspect of the FDI decision process (Wind and Pelmutter, 1977; Terpstra and Sarathy, 1991; Root, 1987; Hill et al., 1990; Puck et al., 2011) and second is to empirically test the importance of these factors based on data obtained from a sample of the top 1,000 Malaysian firms.

2 Literature review

A firm entering international markets has to consider four major issues, including products/services, markets, functions, and entry and development methods. Another salient point is inter-partner harmony to managing commitment and forbearance (Das and Kumar, 2009). Inter-partner harmony in strategic alliances denotes the mutual understanding that alliance members accomplish by managing commitment and forbearance in the context of their interdependence. Das and Kumar (2009) believe that alliances have an inbuilt resilience that makes the emergence of harmony a natural outcome, through the joint exercise of commitment and forbearance, even as conflict and opportunism persist as inevitable challenges. They suggested that the construct of inter-partner harmony in strategic alliances is worthy of attention for a more thorough understanding of alliance dynamics, complementing the currently limited conflict-based comprehension of alliances. However, the focus of this article is on entry and development methods. The choice of entry mode is regarded as a key issue in international business and has a significant impact on the venture's success overseas (Perlmutter and Heenan, 1986; Puck et al., 2009). The market servicing method will impact costs (transportation, manufacture and marketing) as well as revenues (through quality and adaptation to local demand conditions among other issues).

The MOE choice is also an important issue of international configuration (Porter, 1986) and consequently is an essential element in the process of global strategy formation (Hill et al., 1990; Kogut and Singh, 1988; Root 1987; Terpstra and Sarathy, 1991; Reuer and Ragozzino, 2006).

In addition, the importance of selecting the right MOE the first time has often been stressed in literature. Often there are no second chances (Davidson, 1982; Root, 1987; Prahalad and Ramaswamy, 2004). Wrong choices lead to lost market potential and, more importantly, loss of important committed resources such as management time, money, and other resources (Baum and Silverman, 2004).

Given special conditions of emerging markets such as relatively poorer, less educated consumers, inadequate market infrastructures and the cross cultural difference between western and developing countries, there is a need to study which creative collaborative arrangements will help to serve effectively and become successful in these markets (Culpan, 2009; Lee and Pennings, 2001). How can firms explore opportunities to develop alliances between firms to build businesses appealing to the people at 'the bottom of income pyramid' in less developed countries as popularised by Prahalad and Hammond (2002) and Hamel and Prahalad (1985). An emerging perspective is to manage alliances as a portfolio and to understand how individual alliances impact each other and the internal organisation (Bengi and Sibel, 2011; Parise and Casher, 2003)

In this paper, we will first identify and test the impact of different factors affecting the MOE choice when equity investments are involved in the Malaysian context. We will consider three primary market entry modes of FDI, namely, wholly owned subsidiaries (WOS), majority owned equity joint ventures (MAOJV), and minority owned equity joint ventures (MIOJV). In the case of WOS, the investor MNE has full equity stake in the foreign investment while in MAOJV, it has majority equity stake (51% or more) and in MIOJV, it has minority stake (49% or less). In other words, the degree of equity stake reflects these primary foreign market entry modes that would be our dependent variable as displayed in our conceptual model below. However, before we consider the various theories and their component factors, we briefly list and define the two modes of entry, which are of specific interest to the study:

- *WOS*: May be formed through acquisitions or Greenfield operations. WOS are operationally defined to be ventures with 95% to 100% equity held by the multinational parent.
- *Equity joint ventures*: Involve sharing of assets, risks and profits and participation in the ownership (i.e., equity) of a particular enterprise by more than one firm. Equity joint ventures are operationally defined to be ventures with 5% to 95% equity stake by the parent.

The three distinct international entry modes, wholly owned subsidiary, majority joint venturing, and minority joint venturing can be further characterised on the basis of existing literature by the following parameters or dimensions:

- *Level of control*: Control is defined as the ability to influence operational and strategic decisions of the foreign operation (Porter, 1986; Geringer and Herbert, 1989). WOS provide a higher level of control, however, joint venturing provides a lower level of control (Jung et al., 2008; Chang and Beamish, 2004; Shige et al., 2004).

- *Level of costs:* Costs include both transaction and agency costs incurred in setting up a foreign venture (Contractor and Lorange, 1988; Reuer and Ragozzino, 2006; Parise and Casher, 2003). Joint ventures (JVs) are characterised by relatively high transaction costs, due to the high risk of dissemination or leakage of proprietary information (Kim and Hwang, 1992). WOS can be characterised by their high agency costs, primarily due to locational unfamiliarity (Hill et al., 1990). The lower the costs for a particular MOE the more feasible is, the particular MOE.
- *Level of competence:* Competence is the mix of capabilities and resources possessed by a firm (Barney, 1991; Mahoney and Pandian, 1992). Joint venturing requires a high level of technological competence, while a wholly owned subsidiary in a foreign market requires international business competence, i.e., capabilities and resources to deal with uncertainties such as unknown markets, governments, and legislation. In case of deficiency, a firm can acquire the requisite local competence, at a transaction cost, by entering into a JV (Bell, 1996; Lee et al., 2001).

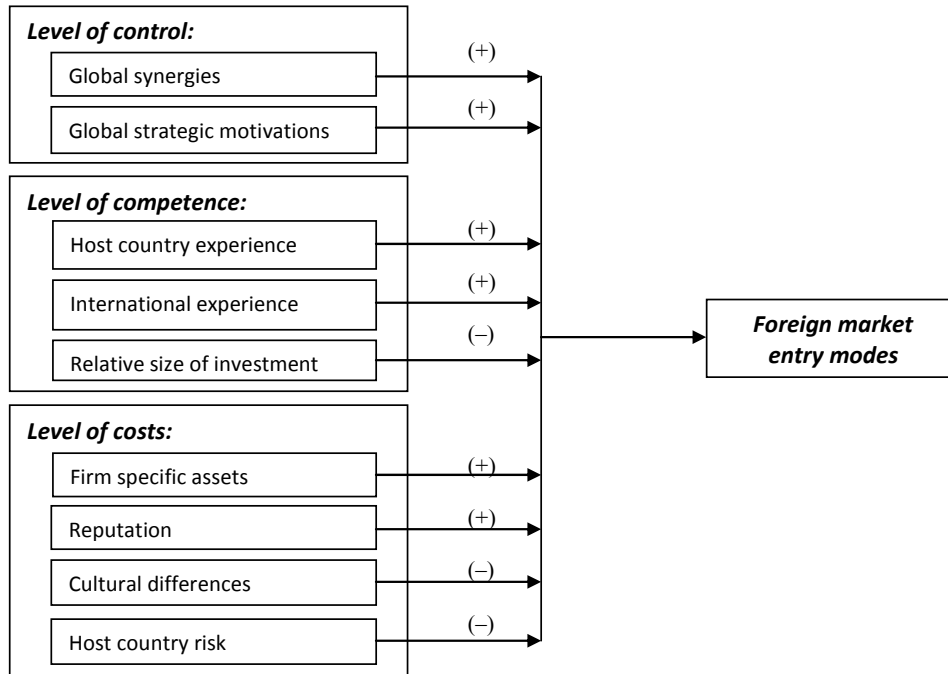
3 Conceptual framework and hypotheses

Two important studies by Hill et al. (1990) and Bell (1996) provide the starting points for building the conceptual framework of this study. We believe that using an eclectic approach is essential (Hill et al., 1990), since the real world is multidimensional and no single approach can capture all the factors that affect the choice of the appropriate MOE.

Hill et al. (1990) combined the elements of the strategic behaviour approach, transaction cost economics and internalisation theory. The strategic behaviour approach works at the level of choosing the appropriate set of activities in the value chain with the strategic goal of delivering better value and enhancing competitive advantage (Porter, 1986; Gomes-Casseres, 1989; Kim and Hwang, 1992; Madhok, 1994; Kogut and Singh, 1988; Root, 1987). Transaction cost economics focuses on the transactional variables, such as firm-specific assets and reputation effects, which determine the most cost efficient structure for governing individual transactions (Caves, 1982; Contractor and Lorange, 1988; Gatignon and Anderson, 1988). Internalisation theory adds the relevance of locational variables (Agarwal and Ramaswami, 1992; Gatignon and Anderson, 1988). This theory helps to determine point at which a firm should internalise the activities of the value chain so as to maximise the revenue earning power of its competencies such as technology, marketing skill, patent and trademarks (Gatignon and Anderson, 1988). Each of these approaches is complementary, and, together they enable a comprehensive understanding regarding the MOE choice.

Bell (1996) built on the above eclectic approach by adding the resource-based approach to the model. The resource based theory, focuses on the bundle of resources and capabilities which constitute the competencies of a firm and how a firm can utilise this bundle to gain competitive advantage (Madhok, 1994). Given its focus and level of analysis (i.e., the organisational unit), this approach is complementary to the other three. In the present study, the relevance of the resource-based theory is acknowledged and it is incorporated in the framework.

The four main approaches translate into three tiers of explanation of the MOE choice, which correspond to three characterisation parameters of MOE, namely, control, cost and competence (Figure 1). This framework is the basis for the formulation of the hypotheses.

Figure 1 Research model and expected influence

3.1 Strategic control variables

The level of control required over strategic and operational decision making is mainly influenced by the strategies followed by the multinational, as argued by the strategic behaviour approach. Higher global concentration of the industry, global strategic motivations of the firm and the pursuit of global synergies necessitate a policy of global strategic coordination which, in turn, results in a higher requirement for control by the multinational parent (Nguyen, 2009b).

- *Global synergies:* These arise when the inputs of a multinational are shared, or utilised jointly with complete digestion (or internalisation). The expanding MNC must be able to leverage the shared costs of R&D, marketing and manufacturing for global competitive advantage. If the cost reductions due to sharing, that is synergies, are substantial compared to the potential agency costs, then the MNC might choose to have higher control over the foreign operation as indicated by Jones and Hill (1988) and Harrigan (1985). This leads to the following:

Hypothesis 1 The higher the potential synergies between the new market operation and other sister business units, the higher the equity stake by the MNC parent.

- *Strategic motivations:* The debate between strategic intent versus strategic fit has implications for the choice of foreign entry mode. An entry mode might not be the most optimal in the current scenario, that is, it may not be the best strategic fit, but it

might match the global strategic motivations of the MNC thereby helping it in fulfilling its strategic intent. From deliberate attacks to lines of defence, these foreign operations might be used as pawns in the quest for supremacy and this strategic ambition results in a tendency to employ high control entry modes (Hamel and Prahalad, 1989). Hence the following hypothesis:

Hypothesis 2 MNCs exercising global strategic motivations prefers a higher equity stake.

3.2 Competence variables

A firm's particular market entry mode requires using its existing resources and capabilities – competence of the firm. Two different types of experience (firm-specific capabilities) and one resource (relative size), as suggested by resource based theory, will be considered.

- *International experience*: There is a learning curve in dealing with foreign norms and values, foreign legislation and other foreign requirements. With increasing international experience, a firm will move down this learning curve and will thus be able to reduce uncertainty and risk induced costs (Madhok, 1994). Such a firm is more likely to have a higher equity stake, as it does not need a partner firm to help it move down the learning curve. Many empirical studies have supported this conclusion (Agarwal and Ramaswarni, 1992; Benito, 1996). This leads to the following:

Hypothesis 3 The higher the international experience of the parent firm, the higher its equity stake in a new foreign venture.

- *Host country experience*: A similar argument applies to the host country experience of firms (Gomes-Casseres, 1989, 1990; Kim and Hwang, 1992). As firms move down the learning curve of operating successfully in a particular country, they become more confident of going alone in that country. Various studies confirm that firms experienced in operating in a particular host country are more likely to expand by means of a wholly owned subsidiary than via JV (Gomes-Casseres, 1989, 1990; Padmanbhan and Cho, 1994). Hence the following hypothesis:

Hypothesis 4 The higher the host country experiences of a MNC parent, the higher its equity stake in an overseas affiliate.

- *Relative size of investment*: If a foreign affiliate is large, the MNC parent might lack the financial and managerial resources to manage the affiliate on its own (Contractor and Lorange, 1988; Harrigan, 1985). In that case, the MNC would prefer to seek a local partner. Many medium-sized Malaysian firms entering international markets might lack the required resources and hence offer a higher equity stake to their partners. This leads to the following:

Hypothesis 5 The larger relative size of investment by the foreign affiliate leads to a lower equity stake by the parent firm.

3.3 Variables pertaining to costs

The cost of executing a particular MOE is an important consideration in the choice of entry mode. The following factors contributing to the level of costs are considered: Firm specific assets, reputation, cultural differences and host country risk.

- *Firm specific assets*: When a firm transfers firm specific know-how, such as proprietary technological or marketing know-how, or specific skills regarding quality control, it will be concerned about dissipation of this know-how to its venture partner. Hence, if there is risk of opportunistic behaviour, the firm will prefer to incur higher agency costs and acquire a higher equity stake rather than incur transaction costs due to possible opportunistic behaviour by a partner. Gatignon and Anderson (1988) and Padmanabhan and Cho (1994) found that high R&D intensity, an accepted measure of firm-specific assets, leads to preference for a wholly owned subsidiary. Hence the following hypothesis:

Hypothesis 6 The transfer of firm specific assets to the foreign venture leads to a higher equity stake by the multinational parent.

- *Reputation*: Firms often invest heavily to develop a good reputation. Opportunistic partners might get a free ride on the brand name and reputation of multinational firms (Brickley and Dark, 1987). A Malaysian Telecom collaborator providing poor service levels would dilute Malaysian Telecom's (TM) reputation in other markets. Therefore, dilution of reputation due to opportunistic behaviour of a local partner and the resultant dissipation of previous investments in reputation can be considered as a major transaction cost (Bell 1996; Uday 2008). In such situations, high control entry modes might prove to be the most appropriate governance structures as demonstrated empirically by Gatignon and Anderson (1988) and Stopford and Wells (1972). This leads to the following:

Hypothesis 7 The stronger the reputation of an MNC parent, the higher its equity stake in the foreign venture.

- *Cultural differences*: Cultural differences between the home country and the host country might entail many difficulties for firms that are contemplating foreign entry. These difficulties might include the following: miscomprehension of local worker practices and values and marketing blunders, among others. In order to avoid the difficulties due to cultural divergence, firms might prefer to quickly move down the learning curve by establishing JVs with local firms (Gatignon and Anderson 1988; Kogut and Singh 1988). Empirical research supports the use of JVs in culturally distant countries (Agarwal, 1994; Agarwal and Ramaswami, 1992; Benito, 1996; Davidson, 1982; Gatignon and Anderson, 1988; Kogut and Singh, 1988). The impact of cultural distance is studied using the following hypothesis:

Hypothesis 8 The higher the cultural distance between the home country and the host country, the lower the equity stake by the MNC parent.

- *Host country risk*: The riskiness of the host country is believed to be a significant determinant of the foreign entry mode choice. When a host country's political, legal, cultural or economic environment is uncertain and unpredictable, MNCs would avoid large commitments, and such investments might restrict their strategic flexibility (Gatignon and Anderson, 1988; Harrigan, 1985; Kim and Hwang, 1992).

Mixed results were obtained in empirical studies. A number of studies have confirmed that high-control entry modes are not very likely in the case of risky host countries (Benito, 1996; Gatignon and Anderson, 1988; Kim and Hwang, 1992), whereas in other studies the opposite was found (Agarwal, 1994; Agarwal and Ramaswami, 1992). Given the famous 'kiasu' (intense dislike for losing or risk-averseness) mentality prevailing in Malaysia [Economic Analytical Unit, (2005), Monash International; Rodan, 2004], we expect that a higher country risk will induce Malaysian MNCs to choose lower equity stakes.

Hypothesis 9 The higher the host country risk, the lower the equity stake held by the multinational parent.

4 Methodology

4.1 Data collection

Many previous empirical studies on foreign entry mode choices have used secondary data for testing hypotheses (Davidson and McFetridge, 1985; Gatignon and Anderson, 1988; Agarwal, 1994; Cho and Padmanabhan, 1995; Shane, 1993). Although using existing secondary data is fairly popular, survey data have been acknowledged to be a promising alternative (Agarwal and Ramaswami, 1992; Kim and Hwang, 1992; Larimo, 1993). Secondary data have the drawback that they do not contain direct information on underlying motives. A survey offers the opportunity to gain insight into the perceptions of decision-makers and the factors that influence their decisions (Punch, 1998).

The present study acknowledges the importance of measuring perception in decision making. As both objective data and subjective judgments influence foreign entry mode choice, the view of the decision-maker is given paramount importance in the present study.

We adopt a cross-sectional approach to understand the impact of different variables on the choice of entry mode. Specifically, we use a survey targeted at top managers in Malaysian multinationals. The questionnaire is constructed using the Likert scale. The aim was to keep the questionnaire as simple as possible with a focus on questions with limited response categories rather than on open-ended questions.

4.2 Variables

The dependent variable in this study is the foreign market entry modes and it will be measured in terms of equity stake. We believe that firms proactively choose specific equity stakes (e.g., 25% rather than 30%) in a new venture and this warrants the use of a continuous variable (Agarwal and Ramaswami, 1992; Aswicahyono and Hill, 1995). If we had used a categorical variable, we would be throwing away useful information. For instance, the range of equity ownership for minority ventures ranges from 6% to 49%. By classifying these two extremes in the same category, we might overlook some key differences. Furthermore, the use of a continuous variable allows us to use more rigorous parametric regression techniques versus non-parametric techniques (for example, Cho and Padmanabhan, 1995; Davidson and McFetridge, 1985; Gatignon and Anderson, 1988) that might have to be used for categorical dependent variables. The continuous

equity stake variable, however, is censored – it can only assume values between 0 and 100. Hence, instead of using OLS regression analysis, we use the TOBIT analysis.

In the conceptual framework section, three groups of variables were argued to be important in entry mode decisions: strategic control variables, variables pertaining to costs and competence. These variables are operationalised by measuring, psychometrically, the response of decision makers to specific questions in a particular MOE situation they had faced (Kim and Hwang, 1992; Nguyen, 2009a).

4.3 *Sample*

We used the following two databases: the 1,000 largest manufacturing firms in Malaysia and a list of the 200 most promising firms identified by the Ministry of International Trade and Industry (MITI), Malaysia, for regionalisation support and future MNC status. The target sample was thus constructed from the above two lists. After elimination of duplicate entries, we arrived at a final list of 1,100 firms.

The questionnaires were sent to senior level management, mostly CEOs and managing directors, based on the belief that these people would be knowledgeable about their international business divisions and would be involved in the foreign market entry decision-making process in their firms. The respondents were asked to think of a recent MOE decision, made after 2003 in their firm and give their insights regarding the decision making process. To improve the response rate, a follow-up questionnaire was sent a month after the original distribution date.

We received 103 questionnaires giving a response rate of about 8%. Although it seems a low rate of return of responses, but it reflects usual conditions of similar study about investment in Malaysia (Ragayah, 1999; Chia, 1996). However, after adjusting a total number of manufacturing firms with overseas investments, based on macroeconomic data released by the Malaysian Department of Statistics, the response rate reaches a reasonable level (17%).

To check for non-response bias, we compared our sample in the context of 600 firms (with overseas investment) with respect to two firm related factors namely type of industry and firm size. *T* tests showed that the industry type distribution and the firm size distribution of the firms in the sample was similar to that of the distribution in the frame; the null hypothesis that the group means are equal could not be rejected ($p = 0.94$ and $p = 0.96$). The mean of the year 2007 sales of the responding firms is RM60 million and the non-responding firms average sales are RM52 million.

On the basis of both tests, we conclude that the sample is representative of the population. Of the 103 questionnaires, 20 were deemed unusable due to incomplete responses. Thus, we arrived at a final tally of 83 usable responses.

4.4 *Statistical techniques*

Briefly, the statistical techniques used for data analysis are as follows:

- *Nunnally's iterative approach*: In the case of multiple item constructs, a Cronbach's coefficient alpha is calculated to develop indicators that represent the domain of each variable construct. Following Nunnally (1978) and Churchill (1979), items representing a construct are iteratively changed, until the items associated with each construct are reduced to a reliable set (i.e., Cronbach's coefficient Beta greater than

0.6). A score for each construct is derived using a unit-weighting scheme as recommended by Einhorn and Hogarth (1975).

- *TOBIT analysis*: This is used to statistically test the significance of coefficients of predictor variables. The TSP package, version 5.0 was used for all TOBIT tests.

5 Results and discussion

As we expected, 56 of the evaluated subsidiaries (67%) were located in Asia. Singapore (31%) and China (21%) were the most frequent destinations. With the inclusion of Hong Kong, China's share increases to 28%. Other destinations include Vietnam, Taiwan, Indonesia and the USA as shown in Table 1.

This shows that Malaysian MNCs are responding to the opportunities provided by the opening up of potentially vast markets like China and at the same time consolidating and expanding in neighbouring countries like Singapore and Indonesia. Possibly, Malaysian firms are responding to the calls by the government in this regard (Najib, 2006). Of the 83 foreign affiliates, 60 were JVs and 23 were WOS. Respondents covered no licensing arrangements. The JVs could be further classified on the basis of equity stake (50%) into minority (29) and majority JVs (31). For the whole sample, the average equity stake is 63% and the standard deviation is 30% (Table 2).

Table 1 Malaysia FDI-type and destination

Country	MOE			Total
	Minority JVs	Majority JVs	WOS	
Australia	1	1	-	2
Brunei	-	1	-	1
Canada	-	1	-	1
China	10	7	2	19
Hong Kong	-	3	3	6
India	-	1	-	1
Indonesia	1	3	-	4
Japan	-	-	1	1
Singapore	8	7	12	27
Myanmar	-	1	-	1
New Zealand	1	-	-	1
Papua New Guinea	1	-	-	1
Philippines	2	-	-	2
Taiwan	1	-	2	3
Thailand	2	3	-	5
UK	-	-	2	2
US	1	1	1	3
Vietnam	1	1	-	2
Total	30	30	23	83

Table 2 Descriptive statistics

	<i>Minority JVs</i>		<i>Majority JVs</i>		<i>WOS</i>		<i>Overall sample</i>	
	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>	<i>Mean</i>	<i>SD</i>
MOE (equity stake – %)	31.20	12.00	68.00	13.00	100	0	63.00	17.60
Firm specific assets	2.8	0.98	3.95	0.75	5.07	0.75	3.85	1.23
Country risk	3.77	0.75	3.06	1.19	2.13	0.78	3.06	1.12
Cultural differences	4.37	1.52	3.10	1.58	2.74	1.54	3.46	1.68
Host country experience	2.03	1.19	3.17	1.82	4.09	1.47	3.01	1.71
International experience	3.97	1.43	4.73	1.41	4.74	1.76	4.46	1.55
Relative size	3.87	1.78	2.67	1.58	2.39	1.37	3.02	1.71
Reputation	3.30	1.02	4.61	1.20	4.47	1.27	4.10	1.29
Strategic motivations	3.34	0.57	4.34	0.76	5.07	0.75	4.18	0.98
Synergy	3.04	0.62	4.42	1.08	5.09	0.79	4.11	1.20

5.1 Cronbach's alpha criterion

Table 3 shows the multiple item measures which were tested for reliability by calculating Cronbach's coefficient, alpha. Four of the nine research constructs were measured using single items, thus requiring no Cronbach alpha test for multi-item reliability. According to Kim and Hwang (1992), a score of 0.6 was the cut-off point set for coefficient alpha. An iterative procedure was followed in which indicators with a low correlation with the total score (i.e., $r < 0.25$) and those indicators below a sudden drop-off in the item total correlation were eliminated. This procedure was followed until the alpha criterion was met and the indicators were reduced to a reliable set. The final set of indicators used to measure each construct and Cronbach's alpha for each scale are provided in Table 3.

As shown in Table 3, the coefficient alpha for all constructs was above the 0.6 cut-off point established in the literature. Hence, the reliability of the constructs was judged to be sufficient for our study. A unit-weighting scheme was used to derive a score for each construct.

Table 3 Constructs and their validity

<i>Multiple item constructs</i>	<i>Cronbach's alpha</i>
Global synergies	0.63
The level of possible sharing between the foreign business unit and the organisation's other business units with respect to:	
<ul style="list-style-type: none"> • Manufacturing expertise... (low/high) • Marketing expertise... (low/high) • Management expertise... (low/high) • R&D expertise... (low/high) • Distribution system... (low/high) 	

Table 3 Constructs and their validity (continued)

<i>Multiple item constructs</i>	<i>Cronbach's alpha</i>
Country risk	0.63
<ul style="list-style-type: none"> • Stability of the political system of foreign country (low/high) • Likelihood of foreign government trying to control equity stake (low/high) • Likelihood of the government trying to control by instituting policies... (low/high) • Price control and local content requirements (low/high) 	
Firm specific assets	0.79
<ul style="list-style-type: none"> • Level of technological expertise contributed (low/high) • Risk of abuse by potential JV partners (low/high) • Level of unique skills contributed (low/high) • Risk of abuse by potential JV partners (low/high) 	

5.2 TOBIT analysis results

Table 4 shows the correlation matrix for the variables included in the TOBIT analysis. Some independent variables, particularly global synergies and global strategic motivations, are correlated with other independent variables. To test for the impact of multicollinearity, we ran several TOBIT analyses, alternately omitting the collinear variables. The results for all runs were similar in terms of the significance of coefficients hence we concluded that multicollinearity doesn't have an impact on the significance of the variables.

Table 4 Pearson correlations

	<i>MOE</i>	<i>FSA</i>	<i>CR</i>	<i>CD</i>	<i>HCE</i>	<i>IE</i>	<i>RS</i>	<i>R</i>	<i>SM</i>	<i>SY</i>
MOE	1	.80*	-.54*	-.48*	.52*	.248	-.42*	.47*	.77**	.76**
Firm specific assets		1	-.38**	-.37**	.41**	.22*	-.4**	.42*	.66*	.61*
Country risk			1	.17	-.32*	-.15	.30**	-.25*	-.36*	-.51*
Cultural differences				1	-.27*	-.35	.22*	-.31**	-.52*	-.47*
Host country experience					1	.29**	-.30*	.52*	.36**	.47*
International experience						1	-.50*	.41*	.18	.24*
Relative size of investment							1	-.44*	-.45**	-.50*
Reputation								1	.36**	.53*
Strategic motivations									1	.68*
Global synergies										1

Notes: *p < 0.05 (two-tailed), **p < 0.01 (two-tailed)

As shown in Table 5, the F statistic is highly significant (331.74 at 9 degrees of freedom, $p < 0.0001$). Hence, the null hypothesis of zero beta coefficients is rejected. We next examine the individual beta coefficients and their significance.

Table 5 TOBIT analysis results

<i>Model</i>	<i>F</i>	<i>Step</i>	<i>F significance</i>
1	331.74	1.00	<0.01
Parameter	Estimate	Standard error	t-statistic
Intercept	-11.49	16.95	-0.68
Global strategic motivations	5.50	1.67	3.28
Global synergies	7.56	1.93	3.89
Country risk	-2.97	1.37	-2.15
Cultural distance	-1.81	1.00	-1.81
Relative size	0.87	1.17	0.74
Firm specific assets	8.31	1.36	6.08
Reputation	-0.81	1.52	-0.53
Host country experience	2.18	1.05	2.05
International experience	0.43	1.14	0.38
Sigma	13.16	1.02	12.88

Five of the nine variables are found to have significant coefficients. The five variables included two strategic control variables (global strategic motivations of the parent firm and global synergies between parent and daughter firm), one competence variable (the host country experience of the firm), and two cost variables (firm specific assets and the country risk of the host country). The coefficients for all the nine variables have the predicted signs.

The findings suggest that Malaysian MNCs are prompted by long-term considerations of growth and expansion (strategic motivations). We observe that Malaysian MNCs are motivated by the lure of cheaper, abundant resources and larger, profitable markets. When these strategic motivations are important, Malaysian MNCs hold a higher stake in their foreign ventures, despite the higher potential agency cost, in the hope of reaping future revenues and profits. In response to our queries regarding their perceptions of the synergies achieved, senior managers indicated that foreign ventures often form an integral part of their supply chain and the synergies obtained by the strategic coordination of the parent and daughter firms more than compensate for the increased coordination and agency costs due to the higher equity stake. This sensitivity towards implementing long-term strategic motivations and exploiting synergies by enhanced strategic coordination is well supported by the fact that the average equity stake of Malaysian MNCs in their daughter firms was 63%.

This high average equity stake, which is equivalent to an average subsidiary being majority owned, may be attributable to the confidence that Malaysian MNCs have in their international business competence. Interestingly, neither their international experience nor the relative size of investment of the subsidiary affects the choice of equity stake. Indeed, the only competence criterion that seems to weigh on the minds of the managers is their previous experience in the particular host country. Malaysian MNC managers go cautiously to invest in markets when there are political, social, and cultural diversities in

host countries. On the contrary, once they get familiar with host country markets, i.e., higher on the learning curve, they can afford to increase their stakes. This is supported by the fact that Malaysian multinational firms with some previous exposure to foreign markets, their average equity stake was 70%, which is higher than the overall average stake of 63%.

The costs of setting up a particular venture influence Malaysian firms' choice of entry mode. Senior managers would like to choose the least expensive alternative while preferring higher equity stakes if their firm specific assets are threatened by potential opportunistic behaviour by their local partner. Ventures in countries that are seen to be risky or with underdeveloped legal systems (e.g., China) exhibit an interesting two-tier equity stake pattern. If the nature of assets contributed is not firm specific, then multinationals go in for lower equity stakes – averaging around 30%. On the other hand, if they are contributing firm specific assets, the equity stakes held by Malaysian multinationals average around 55%.

We summarise the test results of four nine hypotheses in Table 6.

Table 6 Empirical testing results of hypotheses

<i>Hypotheses</i>	<i>Results</i>
The higher the potential synergies between the market operation and other sister business units, the higher the equity stake by the MNC	Accepted
MNCs exercising global strategic motivations prefers a higher equity stake	Accepted
The higher the international experience of the parent firm, the higher its equity stake in a new foreign venture	Rejected
The higher the host country experiences of a MNC parent, the higher its equity stake in an overseas affiliate	Accepted
The larger relative size of investment by the foreign affiliate leads to a lower equity stake by the parent firm	Rejected
The transfer of firm specific assets to the foreign venture leads to a higher equity stake by the multinational parent	Accepted
The stronger the reputation of an MNC parent, the higher its equity stake in the foreign venture	Rejected
The higher the cultural distance between the home country and the host country, the lower the equity stake by the MNC parent	Rejected
The higher the host country risk, the lower the equity stake held by the multinational parent	Accepted

Four variables, namely, international experience, cultural distance, relative size of investment and reputation, did not have significant coefficients. To get a better sense of the impact of these variables, we calculated the means for these variables for the different modes of entry categories. Based on *t*-tests for differences in means across different categories, the following conclusions were drawn. Minority JVs exhibit a significantly higher average value for the cultural distance variable and the relative size of investment variable, both consistent with our predictions. Majority JVs, on the other hand, exhibit significantly higher average values for the international experience variable and the reputation variable, again consistent with our predictions. Similar differences were observed when we compared the minority JVs with WOS. There were no significant differences, however, between the two high control entry modes – majority JVs and the

WOS. This implies that the above four variables have a bearing on the choice between low and high control entry modes but cannot differentiate between different high control entry modes. Below, we provide a few potential explanations.

International experience of firms for both high control entry modes is large and, in fact, almost identical (4.73 versus 4.74). Possibly due to this uniformly high level of experience, the variable does not have a significant impact on the choice between the two high control entry modes. In a large percentage of cases (68%), new entries involved entry into Singapore or the Greater China region, which are culturally similar to Malaysia (Hofstede, 1991). For both high control entry modes, the relative size of investment of the subsidiary was much smaller than the parent thus implying that managing the subsidiary, either on a shared basis or on a sole basis, was feasible for the parent. Reputation, as a variable, might have a lower impact due to the possibility that social acceptance factors prompted respondents to provide a uniformly high response to this query, thereby reducing the impact of this variable.

6 Conclusions

In this paper, we were aiming to gain insight into the choice of MOE by Malaysia-based MNCs. Based on previous studies, we identified three broad categories of variables, relating to cost, competence and control, which impact the choice of entry mode. TOBIT analysis reveals that five of the posited variables influence the equity stake in an overseas affiliate.

The summary of the analysis is that Malaysian multinationals are strongly influenced by their strategic motivations and their desire to exploit synergies in their choice of entry mode. While they were cognisant of the risk involved in investing in a particular foreign country, the coefficient for this variable is less than half that of the effect of the strategic control variables. On the other hand, in situations where firm specific assets were transferred and the investing parent perceived a risk of opportunism on the part of the host country firms, there was a strong tendency to choose higher control entry modes, regardless of the value of strategic control variables. In terms of competence, Malaysian MNCs were strongly influenced by the degree of previous exposure they had in that particular host country and not by their general international exposure, in their choice of high control entry modes.

The contribution of this paper can be assessed in the following three ways. In several respects, the methodology differs from the methodology used in previous studies. The first difference is that equity stake, a continuous variable, is used instead of MOE state, a categorical variable. Secondly, in contrast to many other studies, which have used archival data, we used survey data providing information regarding the perceptions of decision-makers. Thirdly, the sample consists of Malaysian MNCs entering foreign countries, which differs from the focus of previous studies on U.S. or Japanese MNCs (e.g., Hill et al., 1990; Holtbrugge, 2004; Hitt et al., 2004).

7 Limitations

We acknowledge a few limitations to our study. One limitation is the geographical focus of the study on one country, Malaysia. Hence, we need to be cautious regarding

generalising the results from this study. Another limitation is the fact that we could not verify whether the answers were based on retrospective rationalisation or even on basis of acceptability (political correctness). But this is a general problem with the questionnaire approach used by our study.

Despite these limitations, the study provides a detailed insight into the MOE decisions of Malaysia MNCs. The use of primary data, a sound framework and stronger analysis techniques lead to a better understanding regarding the MOE choice by Malaysian firms.

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