Decision-Specific Experience and Imitative Behaviour in Foreign Ownership Structure Decisions: Evidence from Large Chinese Firms

Diego QUER, Enrique CLAVER and Laura RIENDA

Drawing on institutional theory, this article examines the importance of decision-specific experience and imitative behaviour of Chinese multinational corporations' (MNCs) foreign ownership structure decisions. From a sample of 189 outward foreign direct investment (FDI) decisions, the authors find strong evidence to support the hypothesis that Chinese firms tend to choose ownership structures based on prior experience with similar ownership structures. Moreover, Chinese firms tend to follow the ownership structure patterns established by earlier Chinese entrants. This article also investigates the moderating effects of cultural distance and host country-specific experience.

INTRODUCTION

In 2012, Chinese outward foreign direct investment (FDI) flows reached US$84.2 billion and there were around 22,000 FDI overseas enterprises established by Chinese investors in 179 countries and regions around the world.[1] The globalisation of Chinese firms raises the question of how to explain their behaviour as new leading world economic actors. The recent years have witnessed a growing number of papers focusing on Chinese enterprises "going global".[2] Some studies analysed the applicability of traditional

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1 United Nations Conference on Trade and Development (UNCTAD), *World Investment Report 2013. Global Value Chains: Investment and Trade for Development* (New York and Geneva: UNCTAD, 2013); Ministry of Commerce of People's Republic of China (MOFCOM), *2012 Statistical Bulletin of China's Outward Foreign Direct Investment* (Beijing: Ministry of Commerce of People's Republic of China, 2013).
2 Ilan Alon, John Child, Li Shaomin and John R. McIntyre, "Globalization of Chinese Firms: Theoretical Universalism or Particularism", *Management and Organization Review* 7, no. 2 (2011): 191; Wei Ziyi, "The Literature on Chinese Outward FDI", *Multinational Business Review* 18, no. 3 (2010): 73–112.

theoretical frameworks in the case of Chinese outward FDI.[3] This issue has given rise to the debate about whether existing theories—mainly derived from studies of multinational corporations (MNCs) from developed countries—are adequate to explain the international behaviour of emerging market MNCs.[4]

As Table 1 shows, neither of the main papers focusing on Chinese MNCs' entry mode choice has addressed the issue of how decision-specific experience and imitative behaviour affects foreign ownership structure decisions. Monica Yang and MaryAnne Hyland examined this issue, but did not focus on FDI entry mode choice. Instead, they analysed the influence of mimetic isomorphism on the decision-making process of Chinese cross-border mergers and acquisitions (M&As), including the percentage of shares owned by the Chinese firm.[5] Therefore, the aim of this article is to bridge this gap by analysing the importance of the above-mentioned institutional factors for Chinese MNCs' foreign ownership structure decisions.

As Jane W. Lu suggests, each organisation is embedded in two types of environments that influence its activities: its own internal institutional environment, including past structures or practices and the external institutional environment, which it shares with other organisations.[6] Focusing on both environments, this article examines the influence of decision-specific experience and imitative behaviour on the choice between wholly owned subsidiaries (WOSs) and joint ventures (JVs) by Chinese MNCs. The authors further investigate the potential moderating effects of cultural distance and host country-specific experience. In order to do this, the authors replicate and extend previous studies on entry mode choice to address the question: Does conventional wisdom, mainly based on developed country MNCs, apply in the case of Chinese MNCs?

The authors' empirical findings suggest that Chinese MNCs' decision-specific experience with WOS is positively associated with the use of the same ownership

[3] Max Boisot and Marshall W. Meyer, "Which Way through the Open Door? Reflections on the Internationalization of Chinese Firms", *Management and Organization Review* 4, no. 3 (2008): 349–65; John H. Dunning, "Comment on Dragon Multinationals: New Players in 21st Century Globalization", *Asia Pacific Journal of Management* 23, no. 2 (2006): 139–41; Liu Xiaohui, Trevor Buck and Shu Chang, "Chinese Economic Development, the Next Stage: Outward FDI?", *International Business Review* 14, no. 1 (2005): 97–115; John A. Mathews, "Dragon Multinationals: New Players in 21st Century Globalization", *Asia Pacific Journal of Management* 23, no. 1 (2006): 5–27.

[4] Ravi Ramamurti, "What is Really Different about Emerging Market Multinationals?", *Global Strategy Journal* 2, no. 1 (2012): 41–7.

[5] Monica Yang and MaryAnne Hyland, "Similarity in Cross-Border Mergers and Acquisitions: Imitation, Uncertainty and Experience among Chinese Firms, 1985–2006", *Journal of International Management* 18, no. 4 (2012): 352–65.

[6] Jane W. Lu, "Intra- and Inter-Organizational Imitative Behavior: Institutional Influences on Japanese Firms' Entry Mode Choice", *Journal of International Business Studies* 33, no. 1 (2002): 19–37; John W. Meyer and Brian Rowan, "Institutionalized Organizations: Formal Structure as Myth and Ceremony", *American Journal of Sociology* 83, no. 2 (1977): 340–63; and Mark Granovetter, "Economic Action and Social Structure: The Problem of Embeddedness", *American Journal of Sociology* 91, no. 3 (1985): 481–510.

TABLE 1
Main Papers that Focus on Chinese MNCs Entry Mode Choice

Paper	Theoretical approach	Dependent variable	Independent variables
Cui Lin and Jiang Fuming[a]	Strategic behaviour perspective	WOS vs. JV	Host industry competition, host industry growth, assets-seeking motivation, global strategic motivation
Cui Lin and Jiang Fuming[b]	Strategic behaviour perspective, resource-based view, transaction cost theory and institutional theory	WOS vs. JV	Global strategic motivation, asset-seeking motivation, asset size, government financial support, asset specificity, partner opportunism, host government restriction, cultural barriers, restrictiveness of the Chinese government
Cui Lin and Jiang Fuming[c]	Resource-based view, institutional theory	WOS vs. JV	Firm specific assets, relative size of FDI, global strategic assets, tech/brand assets, government restriction, cultural barrier, financial support, approval restrictiveness
Xie Qunyong[d]	Resource-based view, organisational learning	WOS vs. JV Greenfield vs. acquisition	JV experience in inward FDI
Xu Yuehua, Hu Songhua and Fan Xu´ang[e]	Transaction cost theory, organisational capability theory, eclectic theory	Entry mode (foreign trade, franchising, JV, WOS); ownership share (percentage); ownership status (largest shareholder, second-largest ...)	Country risk, cultural distance
Liu Jie and Joanna Scott-Kennel[f]	Resource-based view, network perspective	Full vs. Partial control	Firm-specific advantages (technological or experiential advantages, *guanxi* intensity)
Cui Lin, Jiang Fuming and Bruce Stening[g]	Strategy tripod (firm resources, industry conditions and institutional forces)	WOS vs. JV	Cost advantage of the investing firm, learning opportunities in the host country, market attractiveness of the host country, host-country restrictions, cultural barriers, cognitive pressures
Diego Quer, Enrique Claver and Laura Rienda[h]	Institutional theory, transaction cost theory, resource-based view	WOS vs. JV	Host country political risk, cultural distance, technology intensity of the industry, firm size, international experience
Cui Lin and Jiang Fuming[i]	Institutional theory	WOS vs. JV	Institutional pressures, state ownership
Shieh Bih-Lian and Wu Tzong-Chen[j]	Organisational control theory	WOS vs. JV	Country, industry and venture factors

Notes:

[a] Cui Lin and Jiang Fuming, "FDI Entry Mode Choice of Chinese Firms: A Strategic Behavior Perspective", *Journal of World Business* 44, no. 4 (2009): 434–44.

[b] Cui Lin and Jiang Fuming, "Ownership Decisions in Chinese Outward FDI: An Integrated Conceptual Framework and Research Agenda", *Asian Business and Management* 8, no. 3 (2009): 301–24.

[c] Cui Lin and Jiang Fuming, "Behind Ownership Decision of Chinese Outward FDI: Resources and Institutions", *Asia Pacific Journal of Management* 27, no. 4 (2010): 751–74.

[d] Xie Qunyong, "Chinese Firms' Outward FDI Mode Choices: The Effects of Joint Venture Experience in Inward FDI", paper presented at the AIB Annual Meeting, Rio de Janeiro, Brazil, 25–29 June 2010.

[e] Xu Yuehua, Hu Songhua and Fan Xu´ang, "The Impacts of Country Risk and Cultural Distance on Transnational Equity Investments. Empirical Evidence of Chinese Enterprises' Shareholdings in Overseas Listed Companies", *Chinese Management Studies* 3, no. 3 (2009): 235–48; Xu Yuehua, Hu Songhua and Fan Xu´ang, "Entry Mode Choice of Chinese Enterprises: The Impacts of Country Risk, Cultural Distance and their Interactions", *Frontiers of Business Research in China* 5, no. 1 (2011): 63–78.

[f] Liu Jie and Joanna Scott-Kennel, "Asset-Seeking Investment by Chinese Multinationals: Firm Ownership, Location and Entry Mode", *Asia Pacific and Globalization Review* 1, no. 1 (2011): 16–36.

[g] Cui Lin, Jiang Fuming and Bruce Stening, "The Entry-Mode Decision of Chinese Outward FDI: Firm Resources, Industry Conditions and Institutional Forces", *Thunderbird International Business Review* 53, no. 4 (2011): 483–99.

[h] Diego Quer, Enrique Claver and Laura Rienda, "Chinese Multinationals and Entry Mode Choice: Institutional, Transaction and Firm-Specific Factors", *Frontiers of Business Research in China* 6, no. 1 (2012): 1–24.

[i] Cui Lin and Jiang Fuming, "State Ownership Effect on Firms' FDI Ownership Decisions under Institutional Pressure: A Study of Chinese Outward-Investing Firms", *Journal of International Business Studies* 43, no. 3 (2012): 264–84.

[j] Shieh Bih-Lian and Wu Tzong-Chen, "Equity-Based Entry Modes of the Greater Chinese Economic Area's Foreign Direct Investments in Vietnam", *International Business Review* 21, no. 3 (2012): 508–17.

Sources: See Notes (a) to (j); the authors' compilation.

structure in future entry decisions. Moreover, this decision-specific experience is more important than general international experience and host country-specific experience. Furthermore, the greater the cultural distance, the lower the influence of decision-specific experience. Finally, other Chinese MNCs' frequency of past entries using WOS is positively associated with their use of WOS.

LITERATURE REVIEW

Decision-Specific Experience

According to the institutional theory, organisational imprinting refers to the process of institutionalisation by which organisations tend to maintain certain structural features and practices over time. With organisational imprinting, once a decision starts being implemented, the likelihood of alternatives for future decisions is reduced.[7]

In the international entry mode literature, this notion may be related to a particular type of international experience—namely, decision-specific experience. For instance, the learning gained from prior experience with a particular ownership structure becomes valuable when the firm deals with a similar structure. Therefore, firms that have used full ownership entry modes (WOS) in the past should have gained experience with these ownership structures, and will be more likely to choose them again in subsequent entries.[8] The authors thus propose this in the first hypothesis.

Hypothesis 1. *Chinese MNC's experience with the use of WOS is positively associated with the use of the same ownership structure in its current entry decision*.

Apart from the above-mentioned decision-specific experience, two other types of international experience may influence strategic decisions of MNCs:[9] general international experience and host country-specific experience.

Regarding general international experience, Lawrence S. Welch and Reijo Luostarinen believe that if the firm has already undertaken FDI in some countries, it would have accumulated skills and experience on that particular entry strategy. This would facilitate moving into new target countries, even without having to go through preliminary stages, such as export or contractual agreements.[10] Firms with more FDI experience have gathered a larger number of distinctive abilities that help them to

[7] Lynne G. Zucker, "The Role of Institutionalization in Cultural Persistence", *American Sociological Review* 42, no. 5 (1977): 726–43; and Lu, "Intra- and Inter-Organizational Imitative Behavior".

[8] Prasad Padmanabhan and Cho Kang Rae, "Decision Specific Experience in Foreign Ownership and Establishment Strategies: Evidence from Japanese Firms", *Journal of International Business Studies* 30, no. 1 (1999): 25–44; Chang Sea-Jin and Philip M. Rosenzweig, "The Choice of Entry Mode in Sequential Foreign Direct Investment", *Strategic Management Journal* 22, no. 8 (2001): 747–76; Lu, "Intra- and Inter-Organizational Imitative Behavior: Institutional Influences on Japanese Firms' Entry Mode Choice".

[9] Yu Chwo-Ming Joseph, "The Experience Effect and Foreign Direct Investment", *Weltwirtschaftliches Archiv* 126, no. 4 (1990): 561–80.

[10] Lawrence S. Welch and Reijo Luostarinen, "Internationalization: Evolution of a Concept", *Journal of General Management* 14 no. 2 (1988): 34–55.

overcome what Srilata Zaheer calls "the liability of foreignness" or the additional costs that a firm must face when it starts to operate in a foreign market.[11] Various empirical studies have identified a positive relationship between the number of FDIs a firm has carried out in other countries and its level of investment commitment.[12] Such arguments can also be applied to the choice of specific FDI ownership mode, as one can assume that Chinese firms with more accumulated experience find it easier to undertake FDI activities on their own.

The assumption underlying this argument is that previous FDI in other countries can help to mitigate the difficulties involved in setting up a subsidiary in a new country. However, the perceived cultural distance will probably be reduced if this experience was gained in the same host country. This idea recalls the second kind of experience the authors referred to earlier: host country-specific experience. Familiarity with the host country is more likely to lead MNCs towards full ownership of their foreign subsidiaries.[13]

However, Prasad Padmanabhan and Cho Kang Rae argue that the transferability of prior experience depends on the similarity between current and past decisions.[14] They point out that general international experience and host country-specific experience are more important in market entry mode decisions, in the scenario where the MNC faces a decision on whether to undertake FDI. Once this decision has been made, decision-specific experience becomes more important. These arguments suggest that decision-specific experience dominates other types of experience when the MNC chooses the FDI ownership structure. Therefore, the authors propose the second hypothesis as follows.

Hypothesis 2. *Chinese MNCs' decision-specific experience (with WOS) will be more important than general international experience and host country-specific experience in the Chinese MNCs' subsequent ownership structure decisions.*

Institutional factors alter the cost of doing business in one nation compared with another, which affects every aspect of MNC behaviour. From an institutional perspective, the choice of an entry mode is a result of the organisation's responses to isomorphic

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[11] Srilata Zaheer, "Overcoming the Liability of Foreignness", *Academy of Management Journal* 38, no. 2 (1995): 341–63.

[12] Farok J. Contractor and Sumit K. Kundu, "Modal Choice in a World of Alliances: Analyzing Organizational Forms in the International Hotel Sector", *Journal of International Business Studies* 29, no. 2 (1998): 325–58; Trond Randoy and C. Clay Dibrell, "How and Why Norwegian MNCs Commit Resources Abroad: Beyond Choice of Entry Mode", *Management International Review* 42, no. 2 (2002): 119–140.

[13] Benjamin Gomes-Casseres, "Firm Ownership Preferences and Host Government Restrictions: An Integrated Approach", *Journal of International Business Studies* 21, no. 1 (1990): 1–21; and Jean-Françoise Hennart, "The Transaction Cost Theory of Joint Ventures: An Empirical Study of Japanese Subsidiaries in the United States", *Management Science* 37, no. 4 (1991): 483–97.

[14] Padmanabhan and Cho, "Decision Specific Experience in Foreign Ownership and Establishment Strategies".

pressures arising from both firm's external environment and internal organisational practices and routines. Thus, as differences in institutional contexts increase, firms with lower international experience-based capabilities prefer JVs rather than WOSs because the former offers such firms the ability to tap into location-specific resources and gain legitimacy in the host market.[15]

Cultural distance between home and host countries is one of the most researched institutional factors in entry mode literature. As Cho Kang Rae and Prasad Padmanabhan suggest, the independent roles of both cultural distance and international experience in FDI ownership choice have been well documented in the literature.[16] However, they point out that the determinants of FDI ownership structure decisions would be better understood if potential interactive effects of international experience and cultural distance are considered. Klaus Uhlenbruck argues that the knowledge gained from previous decision-specific experience with a particular entry mode may be of lesser value in a culturally dissimilar environment and that cultural distance may hinder knowledge transfer between the parent company and the foreign subsidiary.[17] As a result, the authors propose the third hypothesis as follows.

Hypothesis 3. *The greater the cultural distance between China and the host country, the less likely a Chinese MNC will take into consideration its experience with WOS in its current ownership structure decision*.

A firm's experience in the host country may be another moderating factor in the relationship between decision-specific experience and FDI ownership choice. This kind of experience influences the survival of the venture and the preference for JV over WOS. A lack of institutional market knowledge—about language, laws and rules—is linked with psychic distance and the liability of foreignness. Experience in a given host country helps firms to overcome the liability of foreignness.[18] By mitigating the liability of foreignness, host country-specific experience may also help to apply prior

[15] Witold Henisz and Anand Swaminathan, "Institutions and International Business", *Journal of International Business Studies* 39, no. 4 (2008): 537–9; Gloria L. Ge and Daniel Z. Ding, "The Effects of the Institutional Environment on the Internationalization of Chinese Firms", in *China Rules. Globalization and Political Transformation*, ed. Ilan Alon et al. (Hampshire: Palgrave MacMillan, 2009), pp. 46–68; Keith D. Brouthers, Lance Eliot Brouthers and Steve Werner, "Resource-Based Advantages in an International Context", *Journal of Management* 34, no. 2 (2008): 189–217.

[16] Cho Kang Rae and Prasad Padmanabhan, "Revisiting the Role of Cultural Distance in MNC's Foreign Ownership Mode Choice: The Moderating Effect of Experience Attributes", *International Business Review* 14, no. 3 (2005): 307–24.

[17] Klaus Uhlenbruck, "Developing Acquired Foreign Subsidiaries: The Experience of MNEs in Transition Economies", *Journal of International Business Studies* 35, no. 2 (2004): 109–23.

[18] Harry G. Barkema and Freek Vermeulen, "What Differences in the Cultural Backgrounds of Partners are Detrimental for International Joint Ventures?", *Journal of International Business Studies* 28, no. 4 (1997): 845–64; Jan Johanson and Jan-Erik Vahlne, "The Uppsala Internationalization Process Model Revisited: From Liability of Foreignness to Liability of Outsidership", *Journal of International Business Studies* 40, no. 9 (2009): 1411–31; and Luo Yadong and Mike W. Peng, "Learning to Compete in a Transition Economy: Experience, Environment, and Performance", *Journal of International Business Studies* 30, no. 2 (1999): 269–95.

decision-specific experience. Thus as Jane W. Lu suggests, the imprinting effect of past entry modes becomes more important as the firm accumulates host market experience.[19] These arguments lead the authors to propose the fourth hypothesis.

Hypothesis 4. *The more extensive a Chinese MNC's host country-specific experience, the higher the likelihood that it will take into consideration its experience with WOS in its current ownership structure decision.*

Imitative Behaviour

One of the key elements of institutional theory is isomorphism. Isomorphism is a process that forces an organisation to resemble others that face similar environmental conditions. As large organisations expand their dominance, organisational structures tend to reflect institutionalised rules. Consequently, organisations become increasingly homogeneous.[20]

Institutional theory posits that organisations seek approval or legitimacy from their peers. Therefore, organisations tend to behave in ways that are consistent with the actions and orientations of other organisations within their institutional environment. Frequency imitation (copying very common practices) is one mode of selective inter-organisational imitation by which organisations execute practices previously used by a large number of other organisations.[21] In the case of international operations, the negative impact of institutional distance between the host and the home country may be attenuated by the experience of other home country firms in the same host country.[22] Jane W. Lu applies this notion to entry mode choice, suggesting that a firm's use of a particular entry mode is positively related to the proportion of other firms that have used the same entry mode in the past.[23] These ideas lead the authors to develop the fifth hypothesis.

Hypothesis 5. *Other Chinese MNCs' frequency of past entries using WOS is positively related to a Chinese MNC's use of the same ownership structure in its current entry decision.*

A firm's experience in the host country may be a moderating factor in the relationship between other firms' frequency of past entry mode use and a firm's current decision. Uncertainty encourages imitation, since organisations may model themselves on other organisations when facing an uncertain environment.[24] Applying this rationale to entry mode choice, Jane W. Lu argues that mimetic isomorphism may be a response to the firm's lack of experience in a market and suggests that a firm's experience will reduce

[19] Lu, "Intra- and Inter-Organizational Imitative Behavior".
[20] Paul J. DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields", *American Sociological Review* 48, no. 2 (1983): 147–60; Meyer and Rowan, "Institutionalized Organizations".
[21] Pamela R. Haunschild and Anne S. Miner, "Modes of Interorganizational Imitation: The Effects of Outcome Salience and Uncertainty", *Administrative Science Quarterly* 42, no. 3 (1997): 472–500.
[22] Guoliang F. Jiang, Guy L.F. Holburn and Paul W. Beamish, "The Impact of Vicarious Experience on Foreign Location Strategy", *Journal of International Management* (2014), forthcoming.
[23] Lu, "Intra- and Inter-Organizational Imitative Behavior".
[24] DiMaggio and Powell, "The Iron Cage Revisited".

the impact of frequency-based imitation.[25] As a result, the authors develop the sixth hypothesis as follows.

Hypothesis 6. *The more extensive a Chinese MNC's host country-specific experience, the lower the likelihood that it will take into consideration the frequency of other Chinese MNCs' past entries using WOS in its current ownership structure decision.*

METHODOLOGY

Sample

The research setting comprised outward FDIs made by mainland Chinese companies listed in Fortune Global 500. Data were collected from news items published on the *China Daily* website (http://www.chinadaily.com.cn/) and complemented by other data sources, such as each company's corporate website, the Chinese newspaper *Global Times*, and the UNCTAD (United Nations Conference on Trade and Development) World Investment Report. The authors identified 189 outward FDIs made by mainland Chinese firms between January 2002 and December 2010, which served as the sample for the study.

The authors next provide some descriptive statistics of the sample. The number of Chinese outward FDIs grew substantially since 2004, with 2008, 2009 and 2010 constituting 107 out of the 189 FDIs covered by the authors' sample—i.e. 56.6% of the total; 2008 (40 FDIs), 2009 (33) and 2010 (34). Australia leads the ranking of top destinations, with 17 FDIs, followed by the United States (13), Indonesia (11), the United Kingdom (10), Canada (9), Russia (7), Singapore (6) and Brazil (5). The company that made the most FDIs during the period analysed was CNPC (25 FDIs), followed by Huawei Technologies (15), ICBC (14), Sinopec (13), CNOOC (12) and Bank of China (10). The main industries represented in this sample were oil and gas (accounting for 27.5 per cent of the 189 FDIs), banking and finance (18.5 per cent), metals (14.3 per cent), telecommunications (13.8 per cent), engineering and construction (5.3 per cent) and automotive (4.8 per cent).

Dependent Variable

The dependent variable, ownership structure was proxied by a dummy variable assigned with a value of "one" for full ownership (WOS) and "zero" for shared ownership (JV).[26] A WOS is defined as one in which a Chinese firm possessed at least 95 per cent of the subsidiary's equity. JVs include both shared greenfield investments and partial acquisitions.[27]

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[25] Lu, "Intra- and Inter-Organizational Imitative Behavior".

[26] Brouthers, Brouthers and Werner, "Resource-Based Advantages in an International Context"; Cho and Padmanabhan, "Revisiting the Role of Cultural Distance in MNC's Foreign Ownership Mode Choice"; Lu, "Intra- and Inter-Organizational Imitative Behavior"; Padmanabhan and Cho, "Decision Specific Experience in Foreign Ownership and Establishment Strategies".

[27] Keith D. Brouthers and Jean-Françoise Hennart, "Boundaries of the Firm: Insights from International Entry Mode Research", *Journal of Management* 33, no. 3 (2007): 395–425.

Independent Variables

Experience with full ownership. The authors measured firm experience with full ownership entry modes by calculating the percentage of its past entries that were WOS at the time of each entry.[28]

General international experience. This variable was proxied by the number of FDIs the firm had carried out in other countries at the time of entry.[29]

Host country-specific experience. As Luo Yadong suggests, two measures could be used for this variable: the number of FDIs previously established in the country (experience diversity) or the number of years the foreign firm has been operating there (experience intensity).[30] The authors could only use the first one as the second measure was not available for the firms included in this sample.

Experience with full ownership (other firms). The authors measured this variable by calculating the percentage of entries on a scale from "1" to "100"[31] using the WOS mode by other Chinese firms in the same host country at the time of each entry.

Cultural distance. The authors measured cultural distance using the Kogut and Singh index, based on Hofstede's cultural dimensions.[32] This measure has been used in many previous studies.[33] This index uses the differences in the scores on dimensions of national culture between the foreign country entered and the MNC's home country—in this case, mainland China. These differences were corrected for differences in the

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[28] Lu, "Intra- and Inter-Organizational Imitative Behavior".

[29] Randoy and Dibrell, "How and Why Norwegian MNCs Commit Resources Abroad"; Rizwan Tahir and Jorma Larimo, "Understanding the Ownership Structure Choices of Finnish Firms in Asian Countries", *European Business Review* 16, no. 5 (2004): 494–510.

[30] Luo Yadong, "Determinants of Entry in an Emerging Economy: A Multilevel Approach", *Journal of Management Studie*s 38, no. 3 (2001): 443–72.

[31] Lu, "Intra- and Inter-Organizational Imitative Behaviour".

[32] Bruce Kogut and Harbir Singh, "The Effect of National Culture on the Choice of Entry Mode", *Journal of International Business Studies* 19, no. 3 (1988): 411–32; Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values* (Newbury Park, CA: Sage Publications, 1980); Geert Hofstede, Gert Jan Hofstede and Michael Minkov, *Cultures and Organizations: Software of The Mind. Intercultural Cooperation and its Importance for Survival*, 3rd edition (New York: McGraw-Hill, 2010).

[33] Chen Haiyang and Michael Y. Hu, "An Analysis of Entry Mode and its Impact on Performance", *International Business Review* 11, no. 2 (2002): 193–210; Jean-Françoise Hennart and Jorma Larimo, "The Impact of Culture on the Strategy of Multinational Enterprises: Does National Origin Affect Ownership Decisions?", *Journal of International Business Studies* 29, no. 3 (1998): 515–38; Diego Quer, Enrique Claver and Laura Rienda, "Chinese Multinationals and Entry Mode Choice: Institutional, Transaction and Firm-Specific Factors", *Frontiers of Business Research in China* 6, no. 1 (2012): 1–24; Diego Quer, Enrique Claver and Laura Rienda, "Political Risk, Cultural Distance, and Outward Foreign Direct Investment: Empirical Evidence from Large Chinese Firms", *Asia Pacific Journal of Management* 29, no. 4 (2012): 1089–104; Xu Yuehua, Hu Songhua and Fan Xu´ang, "The Impacts of Country Risk and Cultural Distance on Transnational Equity Investments. Empirical Evidence of Chinese Enterprises' Shareholdings in Overseas Listed Companies", *Chinese Management Studies* 3, no. 3 (2009): 235–48; Xu Yuehua, Hu Songhua and Fan Xu´ang, "Entry Mode Choice of Chinese Enterprises: The Impacts of Country Risk, Cultural Distance and their Interactions", *Frontiers of Business Research in China* 5, no. 1 (2011): 63–78.

variance of each dimension and then arithmetically averaged. The algebraic formula is:

$$CD_j = \sum_{i=1}^{4} \{(Iij - Iich)^2 / Vi\}/4$$

where CD_j is the cultural distance between country *j* and mainland China, *Iij* is country *j*'s score on the i_{th} cultural dimension, *Iich* is the score of mainland China on this dimension, and *Vi* is the variance of the score of the dimension.

Control Variables

A number of variables previously shown to affect entry mode choice were included in the models as controls. First, the authors considered the host country's political risk by using the political risk rating of the International Country Risk Guide—a measure that has been used in some previous studies.[34]

Cui Lin and Jiang Fuming showed that in certain industries, Chinese firms possess high-value proprietary know-how, which can incur transaction costs when investing overseas.[35] These transaction costs are related to know-how specificity and the risk of partner opportunism, which are contingent on the industry and product characteristics of the Chinese firm. Thus, the authors considered industry technology as a control, by classifying the industries into various technology levels. More precisely, the authors in fact used the OECD (Organisation for Economic Co-operation and Development) proposal. [36]

Finally, the authors considered firm size as a control. Larger firms may be in a better position to compete successfully with host country firms, absorbing the high

[34] Political Risk Services, *International Country Risk Guide-ICRG* (The Political Risk Services Group, 2010); Peter J., Buckley, Jeremy Clegg, Adam R. Cross, Liu Xin, Hinrich Voss and Zheng Ping, "The Determinants of Chinese Foreign Direct Investment", *Journal of International Business Studies* 38, no. 4 (2007): 499–518; Jing-Lin Duanmu, "Firm Heterogeneity and Location Choice of Chinese Multinational Enterprises (MNEs)", *Journal of World Business* 47, no. 1 (2012): 64–72; Jing-Lin Duanmu and Yilmaz Guney, "A Panel Data Analysis of Locational Determinants of Chinese and Indian Outward Foreign Direct Investment", *Journal of Asia Business Studies* 3, no. 2 (2009): 1–15.

[35] Cui Lin and Jiang Fuming, "Ownership Decisions in Chinese Outward FDI: An Integrated Conceptual Framework and Research Agenda", *Asian Business and Management* 8, no. 3 (2009): 301–24.

[36] Organisation for Economic Co-operation Development (OECD), *Science, Technology and Industry Scorecard 2001* (Paris: OECD, 2001); Chen and Hu, "An Analysis of Entry Mode and its Impact on Performance"; Chen Haiyang, Michael Y. Hu and Patrick S. Hu, "Ownership Strategy of Multinationals from ASEAN: The Case of their Investment in Sino-Foreign Joint Ventures", *Management International Review* 42, no. 3 (2002): 309–326; Nitin Pangarkar and Yuan Lin, "Location in Internationalization Strategy: Determinants and Consequences", *Multinational Business Review* 17, no. 2 (2009): 37–68; Quer, Claver and Rienda, "Chinese Multinationals and Entry Mode Choice: Institutional, Transaction and Firm-Specific Factors"; Tahir and Larimo, "Understanding the Ownership Structure Choices of Finnish Firms in Asian Countries".

costs and risks in international operations.[37] The authors measured firm size by total global assets at the time of entry[38] and used log transformation to normalise the distribution of this variable.

RESULTS AND DISCUSSION

As the dependent variable used was dichotomous, the authors utilised binomial logistic regression for hypothesis testing. Prior to running the logistics regression test, the authors show some descriptive statistics and bivariate correlations (Table 2). The variables "cultural distance" and "relative political risk" show the highest bivariate correlation. However, the authors performed a multicollinearity test using the variance inflation factor (VIF) for all the variables. This test measures the extent to which the variances of the coefficients estimated in a regression are inflated when compared to the cases in which the independent variables are not linearly related. High VIF values can be indicators of the existence of multicollinearity. As reported in Table 2, the highest VIF was 2.13, which is well below 10, the cut-off point recommended by John Neter, William Wasserman and Michael H. Kutner.[39] This allows the authors to rule out the presence of multicollinearity in their data.

The authors also carried out a mean difference test, obtaining statistically significant differences between groups (WOS vs. JV) in the expected direction, in particular for the variables "experience with full ownership" and "experience with full ownership (other firms)". Moreover, it is worth mentioning that the high standard deviation of the variable "relative political risk" may have been caused by the fact that this variable was built by measuring political risk differences between China and each host country. Thus, there were both high negative and positive differences.

Table 3 reports logistic regression results with the control variables only, including cultural distance (Model 1); with the control variables and each of the predictor variables (Models 2 to 10); and with all control and predictor variables (Model 11). The authors tested the hypotheses sequentially using separate models, by following the methodology employed in prior studies that have analysed interaction effects.[40]

Model 2 tested hypothesis 1's prediction that Chinese MNCs' prior experience with WOS would be positively related to the use of WOS in subsequent entries. This hypothesis is strongly supported by the positive sign on the experience with full

[37] Pangarkar and Yuan, "Location in Internationalization Strategy: Determinants and Consequences".

[38] Cho and Padmanabhan, "Revisiting the Role of Cultural Distance in MNC's Foreign Ownership Mode Choice"; Padmanabhan and Cho, "Decision Specific Experience in Foreign Ownership and Establishment Strategies".

[39] John Neter, William Wasserman and Michael H. Kutner, *Applied Linear Statistical Models: Regression, Analysis of Variance and Experimental Designs*, 2nd edition (Homewood, IL: Irwin, 1985).

[40] Brouthers, Brouthers and Werner, "Resource-Based Advantages in an International Context"; Arjen H.L. Slangen and Jean-François Hennart, "Do Multinationals Really Prefer to Enter Culturally Distant Countries Through Greenfields Rather than Through Acquisitions? The Role of Parent Experience and Subsidiary Autonomy", *Journal of International Business Studies* 39, no. 3 (2008): 472–90.

TABLE 2
Descriptive Statistics and Correlations

Variable	Mean	SD	Mean difference test	VIF	1	2	3	4	5	6	7
1. Experience with full ownership	0.23	0.34	0.36***	1.52							
2. General international experience	4.13	4.53	–0.78	1.15	.06						
3. Host country-specific experience	0.20	0.53	–0.01	1.15	.06	.28					
4. Experience with full ownership (other firms)	1.19	0.36	0.21***	1.11	.04	–.04	–.05				
5. Cultural distance	1.99	1.19	0.68**	2.12	.20	.09	.17	.21			
6. Relative political risk	4.47	13.45	8.76***	2.13	.19	–.04	.08	.25	.68		
7. Industry technological intensity	2.40	0.55	0.44***	1.54	.28	–.08	–.09	.10	.10	.19	
8. Firm size	4.88	0.67	–0.06	1.35	–.25	.05	–.07	–.06	.02	.13	.45

Notes:
† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
Correlations above /0.17/ are significant with $p < 0.05$.
Correlations above /0.19/ are significant with $p < 0.01$.
Significance levels are based on two-tailed test.

Source: Authors' calculations.

TABLE 3
Logit Regression Results

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10	Model 11
Experience with full ownership		2.33***	2.56***		2.29***		2.09***				2.46***
		(0.67)	(0.69)		(0.69)		(0.71)				(0.78)
General international experience			–0.07								–0.03
			(0.06)								(0.06)
Host country-specific experience			–0.26								–0.38
			(0.42)								(0.68)
Experience with full ownership x				–3.12*	–2.74*						–2.70*
Cultural distance				(1.44)	(1.42)						(1.50)
Experience with full ownership x						1.53†	1.63				1.18
Host country-specific experience						(0.88)	(1.62)				(1.63)
Experience with full ownership								1.12*		1.17*	1.50**
(other firms)								(0.52)		(0.54)	(0.60)
Experience with full ownership (other firms) x									0.18	–0.32	–0.52
Host country-specific experience									(0.85)	(0.89)	(1.93)
Cultural distance	0.20	0.18	0.23	1.18*	1.04*	–0.24	0.20	0.18	0.20	0.18	0.98†
	(0.22)	(0.24)	(0.25)	(0.51)	(0.51)	(0.19)	(0.24)	(0.22)	(0.22)	(0.23)	(0.52)
Relative political risk	0.04†	0.03	0.03	0.04†	0.03	0.06*	0.03	0.03	0.04†	0.03	0.03
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Industry technological intensity	1.76***	1.05**	0.94*	1.48***	0.83†	–0.14	0.96*	1.71***	1.75***	1.72***	0.64
	(0.39)	(0.43)	(0.43)	(0.41)	(0.45)	(0.15)	(0.43)	(0.40)	(0.40)	(0.40)	(0.45)
Firm size	–0.48†	–0.11	–0.03	–0.37	–0.02	–0.04	–0.10	–0.43	–0.48†	–0.43	0.12
	(0.29)	(0.31)	(0.31)	(0.29)	(0.32)	(0.26)	(0.32)	(0.29)	(0.29)	(0.29)	(0.34)
Overall chi-square	39.47***	52.20***	54.75***	44.94***	56.51***	41.31***	54.45***	44.25***	39.51***	44.38***	65.33***
Overall % correct	78.1	76.8	78.7	75.5	77.4	75.5	79.4	78.7	78.1	78.7	79.4
–2 Log likelihood	162.15	149.42	146.87	156.69	145.11	160.31	147.17	157.37	162.111	157.24	136.30
Nagelkerke R2	0.31	0.39	0.41	0.35	0.42	0.32	0.41	0.34	0.31	0.34	0.47

Notes:
The dependent variable is WOS (=1) or JV (=0).
† $p < 0.10$; * $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$.
Standard errors in parentheses.

Source: Authors' calculations.

ownership coefficient ($p < .001$). This finding is consistent with previous studies on MNCs from other countries. Focusing on Japanese MNCs, Jane W. Lu reported that a firm's entry mode pattern in previous investments exerted an imprinting effect on subsequent entries, whereas Prasad Padmanabhan and Cho Kang Rae found strong empirical evidence to support the hypothesis that Japanese firms tended to choose ownership structures based on prior similar experience.[41] Likewise, from a sample of Japanese and European firms entering the United States, Chang Sea-Jin and Philip M. Rosenzweig found that within a particular line of business, firms tended to select the same entry mode that had been used before.[42]

Model 3 tested hypothesis 2, which predicted the superiority of Chinese MNCs' decision-specific experience in explaining foreign ownership structure decisions. The results show that only decision-specific experience is significantly and positively related to the dependent variable ($p < .001$), while both the coefficients of general international experience and host country-specific experience are not significant. This provides strong support for hypothesis 2. Again, this result is in line with the findings of Prasad Padmanabhan and Cho Kang Rae for Japanese MNCs. Nevertheless, the results of Hypotheses 1 and 2 should be interpreted with caution. As Prasad Padmanabhan and Cho Kang Rae suggest, firms may exhibit inertia when choosing a particular ownership structure.[43]

Models 4 and 5 tested the moderating influence of cultural distance on prior experience with WOS (hypothesis 3). The negative coefficient for experience with full ownership X ("multiplication sign") cultural distance interaction is statistically significant in both models ($p < .05$), thus providing support for hypothesis 3. Therefore, cultural distance negatively moderates the otherwise positive relationship between the Chinese MNCs' decision-specific experience and subsequent decisions using the same FDI ownership mode. In this case, comparisons between the authors' findings and those obtained in previous studies are difficult. Cho Kang Rae and Prasad Padmanabhan obtained a positive effect of the cultural distance/decision-specific experience proxy on full ownership structure decisions of Japanese MNCs.[44] However, their motivation was to demonstrate the statistical superiority of interaction variables over standalone cultural distance on foreign ownership structure decisions. Other papers also considered interaction effects between cultural distance and decision-specific experience, but focused on the choice between greenfield investments and acquisitions or on post-acquisition subsidiary development.[45]

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[41] Lu, "Intra- and Inter-Organizational Imitative Behavior"; Padmanabhan and Cho, "Decision Specific Experience in Foreign Ownership and Establishment Strategies".

[42] Chang and Rosenzweig, "The Choice of Entry Mode in Sequential Foreign Direct Investment".

[43] Padmanabhan and Cho, "Decision Specific Experience in Foreign Ownership and Establishment Strategies".

[44] Cho and Padmanabhan, "Revisiting the Role of Cultural Distance in MNC's Foreign Ownership Mode Choice".

[45] Slangen and Hennart, "Do Multinationals Really Prefer to Enter Culturally Distant Countries Through Greenfields Rather than Through Acquisitions? The Role of Parent Experience and Subsidiary Autonomy"; and Uhlenbruck, "Developing Acquired Foreign Subsidiaries".

Models 6 and 7 tested the moderating effect of host country-specific experience on the relationship between prior experience with full ownership and subsequent foreign ownership structure decisions. Consistent with hypothesis 4, the coefficient on experience with full ownership X (“multiplication sign”) host country-specific experience interaction was positive, but was only marginally significant in one model ($p < .1$). This result marginally supports hypothesis 4. Focusing on Japanese MNCs, Jane W. Lu also proved that there is weak statistical support for this interaction effect.[46] The authors provided a possible explanation to this—host country-specific experience of some Chinese MNCs, especially in Western countries, is insufficient to enhance the imprinting effect of past behaviour on future decisions.

Model 8 tested hypothesis 5, which predicted that a Chinese firm would adopt the ownership structure patterns established by other Chinese firms in prior entries. The coefficient for other firms’ experience with full ownership was statistically significant and positive ($p < .05$), thus supporting hypothesis 5. This finding is consistent with that reported by Jane W. Lu in the case of Japanese MNCs.[47]

The results for the moderating effect of a firm’s host country-specific experience on imitation (hypothesis 6) are reported in models 9 and 10. The coefficient on other firm’s experience with full ownership X (“multiplication sign”) host country-specific experience interaction was negative only in model 10 but was non-significant. Thus, hypothesis 6 is not supported. This result contradicts the findings of Jane W. Lu, who obtained a significant negative coefficient for that interaction in Japanese MNCs.[48] As stated above, the host country experience of some Chinese MNCs may not be able to sufficiently reduce the prevalence of mimetic behaviour.

Finally, model 11 tested the robustness of the results by including all independent variables in the regression. As can be observed in Table 3, the effects are maintained for firm’s experience with full ownership, experience with full ownership X (“multiplication sign”) cultural distance interaction and other firms’ experience with full ownership.

CONCLUSION

By replicating and extending previous research on entry mode choice, the authors tried to show if the conventional wisdom, derived from developed country MNCs, apply in the case of Chinese MNCs. The authors’ findings suggest that, in general, the Chinese approach to FDI ownership structure decision is consistent with that of MNCs from other countries. Although this leads the authors to conclude that the behaviour of Chinese MNCs may not be unique, the Chinese case is an appropriate setting to discuss anomalies to traditional internationalisation theories.[49] Ultimately,

[46] Lu, “Intra- and Inter-Organizational Imitative Behavior”.
[47] Ibid.
[48] Ibid.
[49] Mike W. Peng, “The Global Strategy of Emerging Multinationals from China”, *Global Strategy Journal* 2, no. 2 (2012): 97–107.

the greatest benefit of studying emerging market MNCs is not about finding out differences from developed country MNCs, but the opportunity it provides to develop internationalisation theories.[50]

The authors' findings have important implications for researchers and practitioners. From a theoretical standpoint, this article contributes to filling the gap identified by Keith D. Brouthers and Jean-Françoise Hennart, who suggested that a way forward for future research on entry mode choice is examining the interactive effects of institutional factors on other decision-making criteria. More precisely, by analysing the moderating effects of cultural distance on decision-specific experience, the authors attempted to answer the following question: how do institutional dimensions influence the ability of firms to exploit specific resource-based advantages?[51] Moreover, to the best of the authors' knowledge, this is one of the first attempts to examine the importance of decision-specific experience and imitative behaviour for Chinese MNC foreign ownership structure decisions. As stated above, Monica Yang and MaryAnne Hyland also examined the influence of mimetic isomorphism on the decision-making process of Chinese cross-border M&As. Their results suggest that not all Chinese cross-border M&A decisions are influenced by mimetic isomorphism, as evidenced by the lack of support for ownership structure (percentage of shares owned by the Chinese acquiring firm).[52]

Moreover, this article contributes to a better understanding of these new MNCs, which will have significant implications for future theorisation and empirical efforts of global strategy research.[53] Even though in recent years an increasing number of studies have focused on Chinese MNCs, more research is needed to extend our knowledge of these companies, given the recent nature of their internationalisation process. The globalisation of Chinese firms has given rise to an interesting epistemological debate on the evolution of Chinese management research. As Jay B. Barney and Zhang Shujun point out, it raises the question on whether the future of this field is to develop a "theory of Chinese management" (applying and refining theories developed elsewhere in the Chinese context) or a "Chinese theory of management" (creating explanations for Chinese management that are uniquely Chinese).[54]

While some scholars such as Alan M. Rugman believe that existing theories can satisfactorily explain Chinese outward FDI and suggest that no new theory is needed, other researchers such as Anne S. Tsui claim that more context-sensitive research is

[50] Ramamurti, "What is Really Different about Emerging Market Multinationals?"
[51] Brouthers and Hennart, "Boundaries of the Firm", p. 407.
[52] Yang and Hyland, "Similarity in Cross-Border Mergers and Acquisitions".
[53] Peng, "The Global Strategy of Emerging Multinationals from China".
[54] Jay B. Barney and Zhang Shujun, "The Future of Chinese Management Research: A Theory of Chinese Management versus a Chinese Theory of Management", *Management and Organization Review* 5, no. 1 (2009), p. 15.

needed.[55] Li Yuan and Mike W. Peng advocate for an integrative (hybrid) approach to develop theories that integrate both mainstream Western theories and Chinese realities.[56] Thus, scholars need to act locally (focusing on China) but think globally (i.e. a research strategy which taps into Chinese realities while endeavouring to remain globally relevant).[57] As Ravi Ramamurti suggests, "the real challenge is to discover which aspects of existing theory are universally valid, which aspects are not, and what to do about the latter".[58] This article contributes to this debate by analysing a strategic decision of Chinese MNCs from an institutional perspective.

In addition to contributing to the academic literature on entry mode choice and Chinese MNCs, this article also has several implications for practitioners. Based on the study of the largest Chinese MNCs, this article provides Chinese managers with a framework to make decisions on FDI ownership structure choice. Although some relationships observed in prior studies focusing on developed country MNCs do not seem to apply to Chinese firms, managers must be aware that their choice may have been influenced by the firm's decision-specific experience with a particular entry mode, or by the experience of other Chinese firms using that entry mode in the same host country. Furthermore, they must be aware that short cultural distance between China and the host country may help to apply past decision-specific experience. The authors' findings also have implications for managers of developed country MNCs. In recent years, some Chinese MNCs have carried out significant cross-border M&As and are becoming leading players in many industries worldwide. In order to compete successfully with these new global players, it is necessary for managers of developed country MNCs to deepen their knowledge of how Chinese MNCs behave in the global arena and how they make decisions when doing business abroad.

Despite these contributions, this research has some limitations that should be addressed in the future. First, since the authors' empirical research is based on secondary data, managerial perceptions as well as other variables that might also affect ownership structure choice, such as the specific reason for each outward FDI decision or host country institutional barriers, were not considered. Furthermore, this sample only covers outward FDI decisions made by large Chinese MNCs listed in Fortune Global 500, with the vast majority of them also being state-owned enterprises. Although major Chinese cross-border M&As carried out so far are included in this sample, outward FDIs of other Chinese firms are not considered.

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[55] Alan M. Rugman, "Book Review: Globalization of Chinese Enterprises", *The International Trade Journal* 24, no. 3 (2010): 352–4; Anne S. Tsui, "Contributing to Global Management Knowledge: A Case for High Quality Indigenous Research", *Asia Pacific Journal of Management* 21, no. 4 (2004): 491–513.
[56] Li Yuan and Mike W. Peng, "Developing Theory from Strategic Management Research in China", *Asia Pacific Journal of Management* 25, no. 3 (2008): 563–72.
[57] Mike W. Peng, "From China Strategy to Global Strategy", *Asia Pacific Journal of Management* 22, no. 2 (2005): 123–41.
[58] Ramamurti, "What is Really Different about Emerging Market Multinationals?", p. 41.