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Clustering and interorganizational dynamics in foreign market entry strategies. Evidence from Chinese MNEs.

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A mi familia,
a los colegas que me han aconsejado y empujado hacia adelante y
a los amigos que me han acompañado durante el tiempo de la investigación.

感谢我的家人
感谢给我指导助我前进的老师和同事们
感谢一路上陪伴、在精神上支持我的朋友们
没有你们我永远不会走这一天

If you want to travel fast, travel alone;
but if you want to travel far, travel together.

(Sara Nordin[1])

[1] Esta frase se ha sacado de su informe *Tourism Clustering and Innovation-Path to Economic Growth and Development* (2003)

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Antes de aterrizar el avión en Aeropuerto Adolfo Suárez Madrid-Barajas nunca imaginé ir a un mundo tanto lejano y distinto y pasar un par de años en mi vida viviendo por allí. La decisión me cambió totalmente la vida. Desafortunadamente he vivido unos años cuando está pasando un momento difícil en esa tierra por la crisis. Pero afortunadamente al mismo tiempo, he testigado un mundo cambiando, el cual me deja pensar mucho y me da oportunidad de volver a entender el mundo y la vida. Gracias a esta experiencia académica, siento que estoy creciendo tanto en los estudios como persona.

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INTRODUCTION

A great deal of attention has been given to cross-border business over the last thirty years in strategic management research. Markets nowadays are becoming more integrated and countries and companies are more involved in the global marketplace due to the increasing global economic integration. This trend makes that international management (IM) issues play a more central role in nowadays business practice and increases the importance and relevance of IM research.

How do companies operate in foreign markets has been the question at the centre of international business research (Root, 1964). Firms are not only concerned about where to go (foreign market choice issue), and what activities to carry out in those locations, but how they enter the location chosen (entry mode choice issue) (Chang & Rosenzweig, 2001). These two issues may be the most fundamental strategic concerns when firms decide to expand into foreign markets or carry out part of their activities outside the national boundary. These strategic decisions are critical to multinational enterprises (MNEs) as they affects directly the investment outcome and the future growth of their business in the foreign market.

With the aim is to increase the knowledge on MNEs' foreign expansion pattern and strategic decisions, we designed this research. We look specifically into multinational enterprise's (MNE) foreign market entry mode strategy in the foreign direct investment (FDI). One opaque aspect in foreign entry mode strategy is related to the location aspect. Prior empirical evidence has shown that MNEs' entry modes and locations chosen are to some extent associated in FDI. Many studies found that foreign entrants' entry mode preferences vary among not only the foreign markets that they decided to enter but also the regions where they established the business activities within the host country (e.g., He, 2003; Li & Li, 2010; Strange et al., 2009). The variation of firms' entry mode tendency in many of these cases seems to be attributed to specific institution-environment characteristics in the regions. However, except cases that there is significant

heterogeneity of the economic or institutional environments within a country such as the U.S. and China, why in some countries, or even within a region of these countries, where there are similar conditions, do investors still show difference in their decisions?

On the other hand, this issue raises a theoretical interest. Scholars studying MNE's foreign market expansion behaviors have focused on determinants related to the host market structure (e.g., Aw & Lee, 2008; Kang & Lee, 2007; Tatoglu & Glaister, 1998), political and legislative conditions (e.g., Cheng & Kwan, 2000; Du, Lu, & Tao, 2008; Kang & Jiang, 2012), cultural environment (e.g., Du, Lu, & Tao, 2012), and investors' own motivations (e.g., Chung & Alcácer, 2002; Kang & Jiang, 2012; Makino, Lau, & Yeh, 2002). These studies are based on either economic or institutional variables. However, are firms' foreign expansion and behaviors only shaped by strategic variables such as the economic (earnings) and uncertainty (risks) concerns?

These questions lead us to go beyond the general national conditions and look into the micro-environments within the foreign country. In IM literature the location has been usually understood and studied at a country level rather than a distinct "regional" approach (Dunning, 2009). The similar limitation exists also in the entry mode studies, the research on which usually stops at the country level. It is still unknown if the behaviors of MNEs are homogeneous within a foreign country under similar environmental conditions and what could be the factors other than the economic and institutional ones that can influence foreign investors' decisions. In line with recent claims by authors such as Kim and Aguilera (2015), in our research the emphasis is placed on spatial clustering (geographic concentration of related firms) in FDI and MNE colocation tendency. We studied the potential effect of other related firms belonging to the same business groups on new entrants' behaviors.

Based on previous contributions in literature on the understanding of foreign entry mode choice and agglomeration economies, we analyzed and predicted the entry mode propensities of MNEs linking to their location choices within the

foreign country. Specifically, we contrasted the influences of two important but structurally different types of clustering—*industry cluster* and *ethnic cluster*—on MNE's behaviors in FDI.

Similar to birds' flocking behavior, foreign investors are found to tend to agglomerate in FDI (e.g., Birkinshaw & Hood, 2000; Chang et al., 2013; Majocchi & Presutti, 2009). Scholars should also take into consideration that such a location tendency may vary according to the origin, structure, and development trajectory of the spatial clustering in the location. Despite the vast quantity of literature focusing on the geographic concentration of firms in related industries (*industry cluster*) (e.g., Marshall, 1920; McCann & Folta, 2008; Porter, 1990, 1998), little attention has been given to another kind of agglomeration where a group of MNEs of similar origin locate together (*ethnic cluster*). In the context of FDI, the analysis of the pattern of MNEs' location strategies and spatial dynamics requires the distinction of these two types of agglomeration.

Using the FDI of Chinese firms entering into Germany as the analytical setting, we found that foreign investors have quite different entry mode tendencies when tapping into regions where there is a concentration of related firms. Moreover, in this research we took a step back in studying the interrelationship between MNE's entry mode and location choices and carried out an analysis looking into MNEs' characteristics who pursuing the colocation strategy in FDI. We contrasted the structural and investment-specific characteristics of MNEs that have agglomerated and found that MNEs' location decisions were heterogeneous within the host country according to their internal characteristics and backgrounds.

This research makes several contributions. First, in this research we reviewed the literature on international entry mode choice and synthesized prior findings on its determinants. This retrospective look provides a complete picture of the proposed determinants and refines the knowledge on the prediction of this

strategic decision. This helps resolve some controversies appeared in the past research and describes a route-map for future research in this field.

Second, this research contributes to IM literature by bridging two fundamental FDI strategies. The shown "spatial dependence" suggests a geo-strategic perspective in the entry mode strategy and underlines the interdependence between these two decisions for MNEs to overcome the entry barriers. Also, we provide evidence on MNEs' location patterns within the host country by looking beyond the effects of economic or institutional variables related to the external conditions of the regions that are dominant in this research field. The interorganizational perspective which emphasizes investors' interactions with their immediate environments may increase scholars' understanding of firms' managerial decisions and their predictions in the context of international business.

Third, it increases the knowledge on agglomerations economies in the context of international business and contributes to the literature on economic geography. In the research we contrasted two different types of spatial clustering and firms' colocation tendencies in the context of FDI. The analyses not only reveal how foreign entrants can benefit from a colocation strategy but also show the similarities and differences among firms who tend to agglomerate in both national and international contexts.

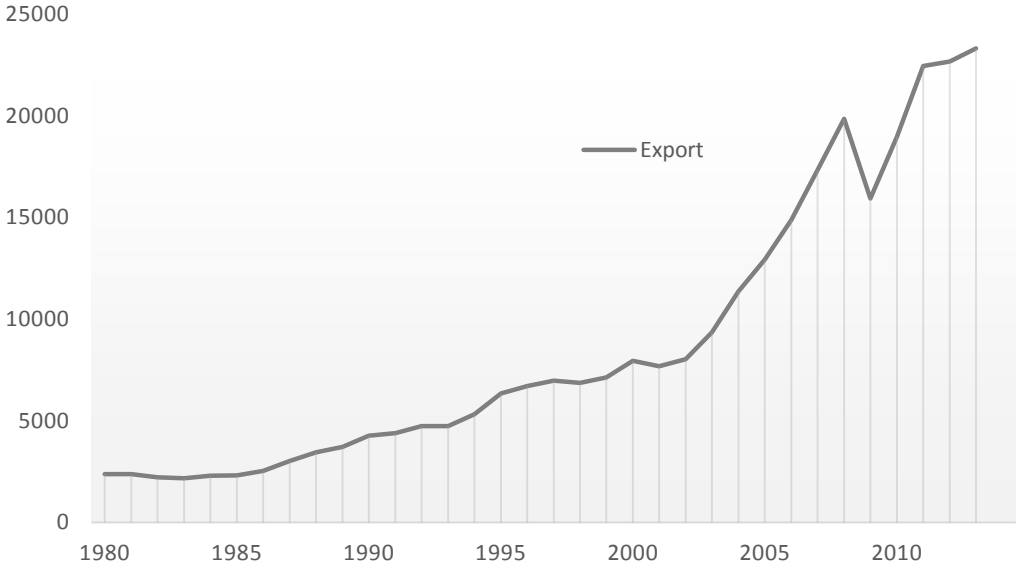
Moreover, by focusing on outward FDI from China, this study also sheds light on the empirical research of emerging market enterprises (EMEs), which have aroused great interest among researchers and practitioners owing to their growth in recent years and their increasing influence on the world's economic structure. It fills a research context gap of FDIs from non-developed economies investing in developed economies in literature. Some interesting results were shown in the analyses.

1. International business environment and new trends.

Business nowadays becomes more global due to the trend of trade globalization (e.g., Chase-Dunn, Kawano, & Brewer, 2000), or called economic integration (e.g., Gilpin & Gilpin, 2000). *Globalization*, although there is no universal agreement on its definition, this term is usually used by economists to refer to international integration in commodity, capital and labour markets (Bordo et al., 2003). After World War II, the economic globalization has accelerated considerably, especially in the last three decades. It is driven by two main factors. On one hand, the technological advance, especially the innovations in the information technology (IT) sector, removes the communication and transportation obstacles, which make it economically feasible for firms to locate different phases of business activities in different countries. On the other hand, it is attributed to the increasing liberalization of trade and capital markets in more and more countries, in which a number of established international institutions, such as the United Nations (UN), World Bank, International Monetary Fund (IMF), have played an important role. With the promotion of international co-operation by these international institutions, many governments have adjusted their policies and significantly reduced the local protectionism through either import tariffs or nontariff barriers.

Countries and companies are competing in more opened and integrated markets. The international trade and cross-border investments has witnessed a tremendous increase in the last thirty years (Figure Intr-1). The total amount has been growing generally steadily although some turbulences took place at the end of 1990s and the beginning of the new century and after 2008 corresponding to the financial crises and economic depressions that affected various countries worldwide. In 2013 the amount of world trade (in both goods and services) has risen up to 2,300 billion USD, which is 10 times as much as the volume in 1980.

Figure Intr-1: World trade in goods and services (billion USD).



Source: UNCTAD (2014)

The growth of international trade indicates the increased exchange of goods or services between countries. It reflects the process of economic integration worldwide. In such a global environment, no nation is self-sufficient. Each is involved at different levels in trade to produce more efficiently in some economic sectors than its trade partners, to sell what it produces, and also to acquire what it lacks (Rodrigue, Comtois, & Slack, 2013). The economic integration promotes the economic efficiency worldwide by dividing the production activities across countries or regions and optimizing the allocation of resources. Goods, as well as services, are provided at lower costs by different countries or regions, notably because of specialization, economies of scale and the related comparative advantages.

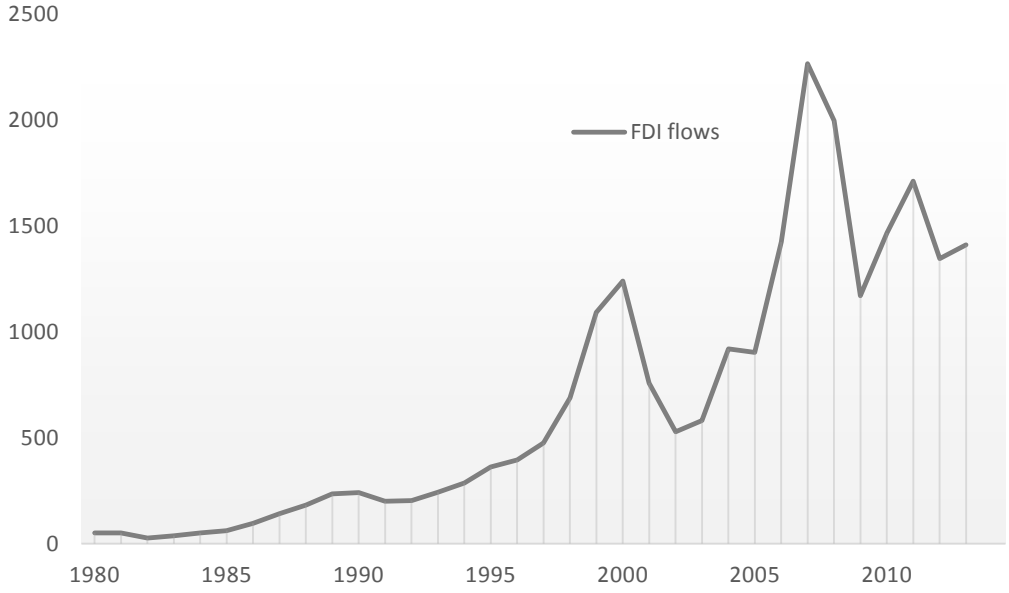
This increased international transfers and the global economic integration affect countries, market, companies, and people. Countries and regions are becoming more interdependent and collaborated. Companies and consumers can access to cheaper products and resources and those not available domestically. However, this economic integration merges markets and makes them correlated one to another. As a consequence, the competition increases and they are subject to the

global market. Even if one company operates domestically, it is exposed to the global conditions, facing the overseas competition and turbulences in other related markets.

1.1 The increased proposition of FDIs in international business.

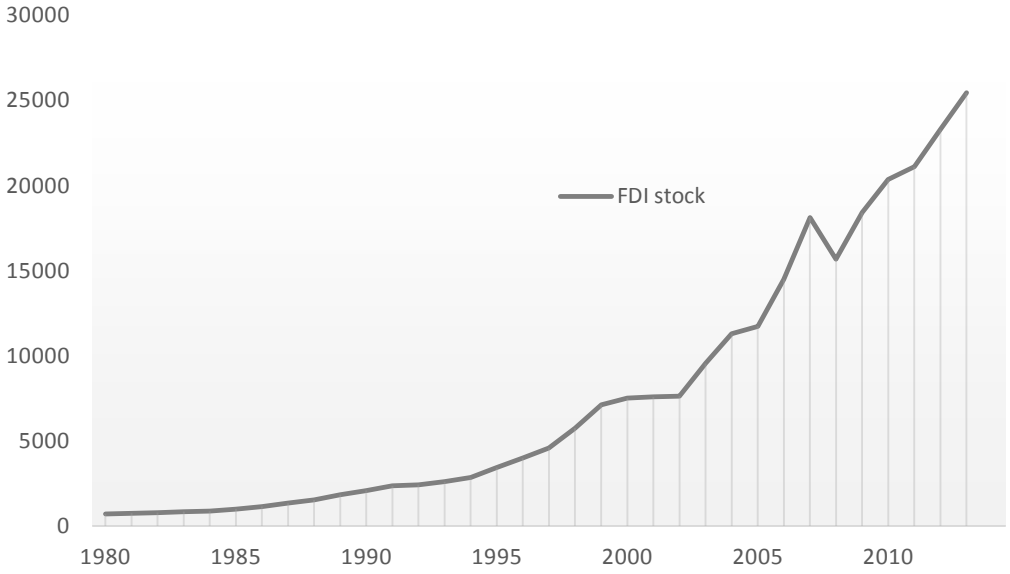
One trend shown in modern international business is the growing proposition of FDIs. The FDIs carried out worldwide have a substantial growth since 1980s. Downs appeared at the beginning of 2000 and after 2008. In 1980 the flow of outward FDIs worldwide was only 52.1 billion USD. It peaked by 2007 at 2,129.6 billion USD. Although the world economy is still in the recovery period, the world outward FDI flow maintains above one thousand billion USD in the last five years (Figure Intr-2). By 2014 the world outward FDI stock has accumulated 4401.4% since 1980 (Figure Intr-3).

Figure Intr-2: World outward FDI flows (billion USD).



Source: UNCTAD (2015a)

Figure Intr-3: World outward FDI stocks (billion USD).



Source: UNCTAD (2015a)

In 1980, the total amount of FDIs carried out worldwide was only 1.6% of the international trade volume. However, in 2007 the percentage was increased to 12.3%. Although the outward FDIs volume turned down since 2008 due to the world financial crisis, it has still kept a percentage nearly four times than the percentage in 1980 in recent years.

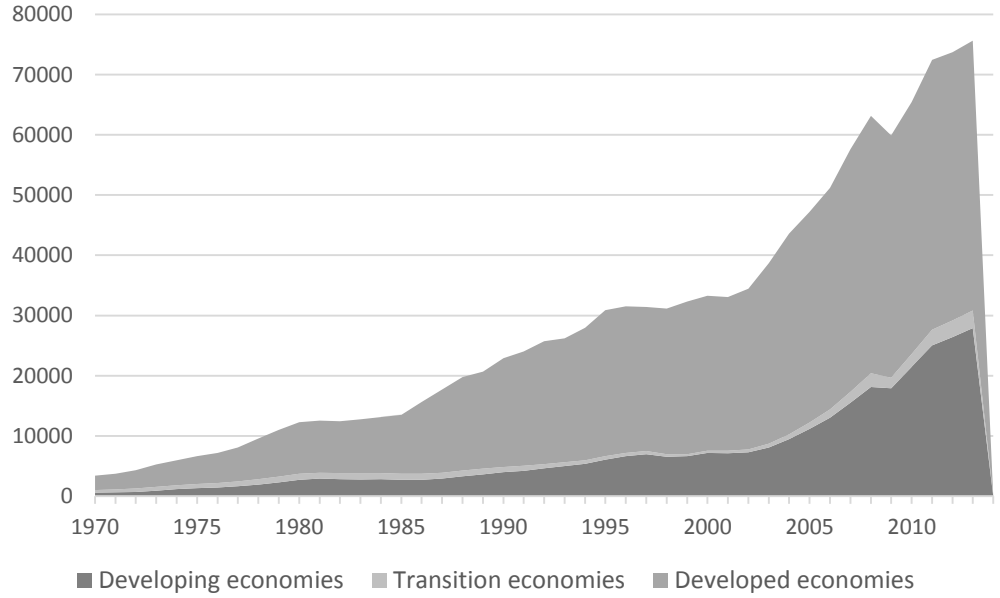
1.2 The waning and waxing of developed and developing economies.

Another trend in shown in the contributions of different countries to the world trade. Countries are not equally engaged in globalization. In the last century, the world's export and FDI amounts were mainly contributed by developed economies such as North American counties (i.e., the U.S. and Canada), Western European countries and Japan, and several newly industrialized economies (NIEs). Developing economies and transition economies have been rather slow to integrate with the world economy. However, the contributions of these developed economies to the world economy and their dominant influence in world trade have been eroded after 2000. Although the bulk of global income remains in the hand of developed countries, which maintain a stable growth in

the amounts of export and FDI, the share of them in world trade has declined continuously.

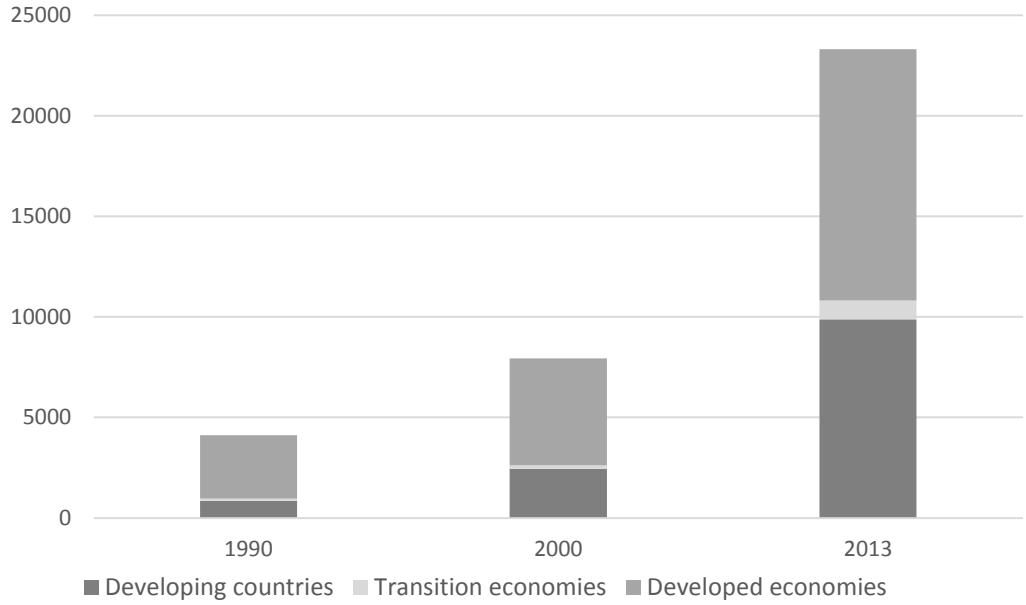
According to the data from UNCTAD (2015b), the contribution of developed economies to world GDP has shrunk from 77.2% in 2001 (25,536.7 billion USD) to 59.3% in 2013 (44,853.2 billion USD) due to the more rapid economy growth of developing and transition economies (Figure Intr-4). Their share in world trade amount was 74.1% in 1990 (3,159.0 billion USD), and in 2000 still had 67.1% (5,328.3 billion USD). However, this data dropped to 53.6% (12,492.5 billion USD) in 2013, which hit record lows in recent years (Figure Intr-5). Similar trend is also show in the contribution of developed economies to world FDI flows and stocks. Before 2000, although the volume of FDIs worldwide was relatively small, those carried out by developed economies had an absolute dominant percentage (e.g., 94.6% and 93.8% respectively in 1990). This situation is changing in the last ten years. Although in 2000 the FDI flows and stocks from developed economies still occupied 92.1% (1,073.9 billion USD) and 89.6% (6,535.7 billion USD) of the total amount worldwide, they shrined to 63.8% (833.6 billion USD) and 80.2% (19,716.5 billion USD) in 2013 (Figure Intr-6 and Intr-7).

Figure Intr-4: Countries' contributions to world GDP (billion USD).



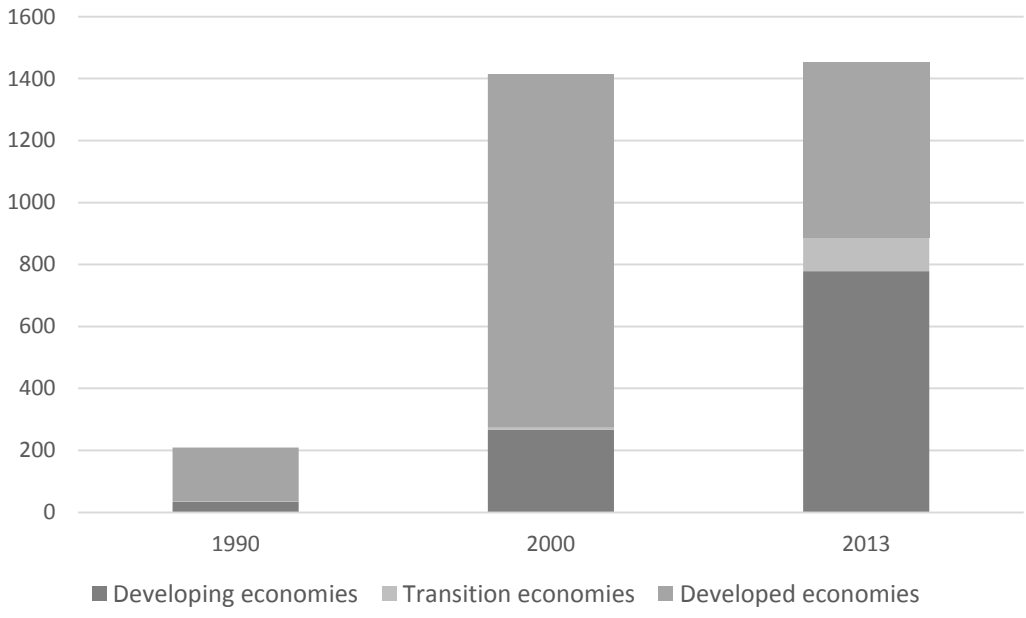
Source: UNCTAD (2015b)

Figure Intr-5: Countries' contributions to world trade (billion USD).



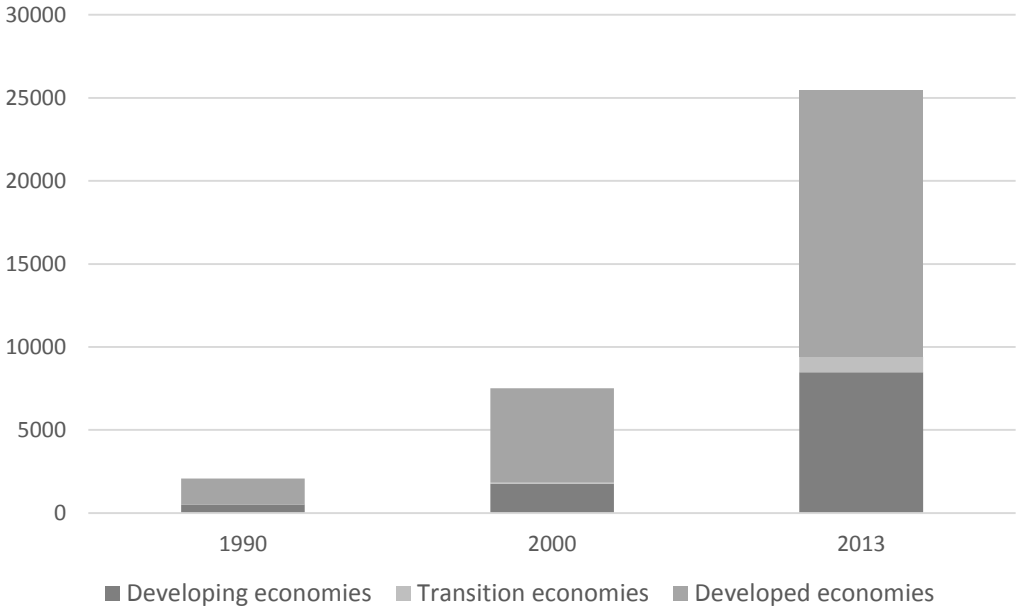
Source: UNCTAD (2014)

Figure Intr-6: Countries' contributions to world outward FDI flows (billion USD).



Source: UNCTAD (2015a)

Figure Intr-7: Countries' contributions to world outward FDI stocks (billion USD).



Source: UNCTAD (2015a)

1.3 Investments from emerging economies.

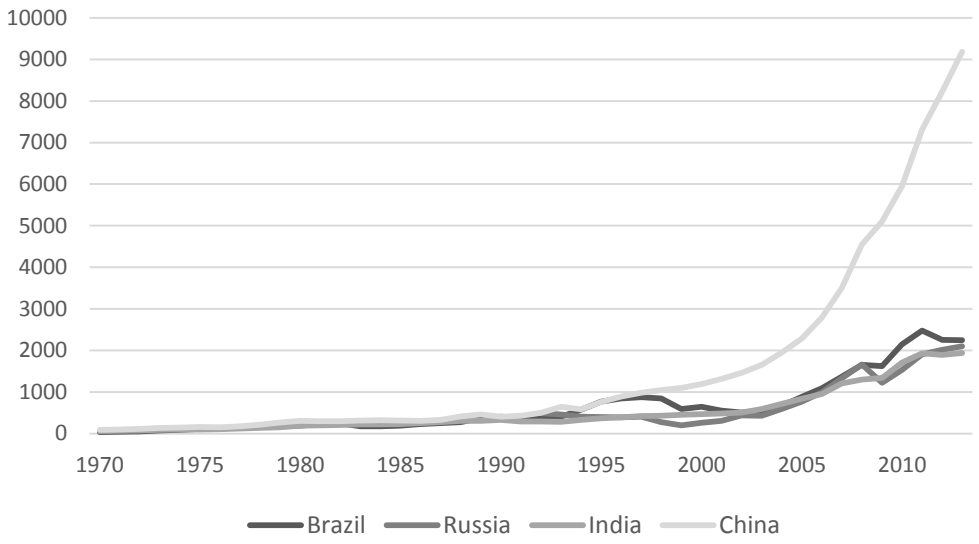
The globalization boots international trade and FDIs worldwide. Developing and transition economies nowadays are playing a more important role in this rise. Remarkably, a great portion of international trade and FDIs is contributed by *emerging economies*. The term *emerging economies* or *emerging market economies* generally refers to countries or regions which are low-income but in rapid economic growth and industrialization process using economic liberalization as their primary engine of growth (Hoskisson et al., 2000). They are contrary to the U.S., Japan and Western Europe which are considered major developed countries and other developing countries which are still in a low economic growth. These terms come into fashion in the last twenty years because of the increasingly important role of these countries and regions in contributing to the world's economic growth and development. They can be traced back to the 80s of the last century, when the term newly industrializing countries was widely applied to some fast-growing and liberalizing Asian and Latin American

countries. Then this term was replaced by *emerging economies* or *emerging market economies*, which implies a border ambit due to the adaptation of market-base policies in these fast-growing countries (Hoskisson et al., 2000). According to Arnold and Quelch (1998), a country can be considered as an emerging economy only when they possess at the same time two characteristics: it has a rapid pace of economic development and its government policies favor economic liberalization and the adoption of a free-market system.

The index of Morgan Stanley Capital International (MSCI) identifies 21 countries in its emerging markets list. It includes Brazil, Chile, Colombia, Mexico, Peru in America; Czech Republic, Egypt, Hungary, Malaysia, Morocco, Poland, Russia, South Africa and Turkey in Europe, Middle East and Africa; and China, India, Indonesia, Korea, Philippines, Taiwan and Thailand in Asia.

China and Brazil have been the largest emerging economies in the first decade of the new century. They are expected to keep a rapid economic growth in the second ten years. Russia and India follow them and are another two outstanding countries among the emerging economies (Figure Intr-8). They all together are widely called *BRIC*. This term is expanded to *BRICET* sometimes including both Eastern Europe and Turkey, or *BRICS* by adding South Africa. Other permutations include *BRICK* by adding South Korea and *BRICM* by adding Mexico. There are also some other terms, such as "next eleven" (referring to Indonesia, Bangladesh, Nigeria, Egypt, Iran, Pakistan, Turkey, Vietnam, South Korea, Mexico and Nigeria, which are the next largest emerging markets in world), "advanced emerging markets" (including Brazil, Mexico, Hungary, Poland, South Africa and Taiwan), and "secondary emerging markets" (including Taiwan, China, Chile, Czech Republic, Egypt, Colombia, Malaysia, India, Indonesia, Morocco, Pakistan, Philippines, Russia, Peru, Thailand, UAE, and Turkey.

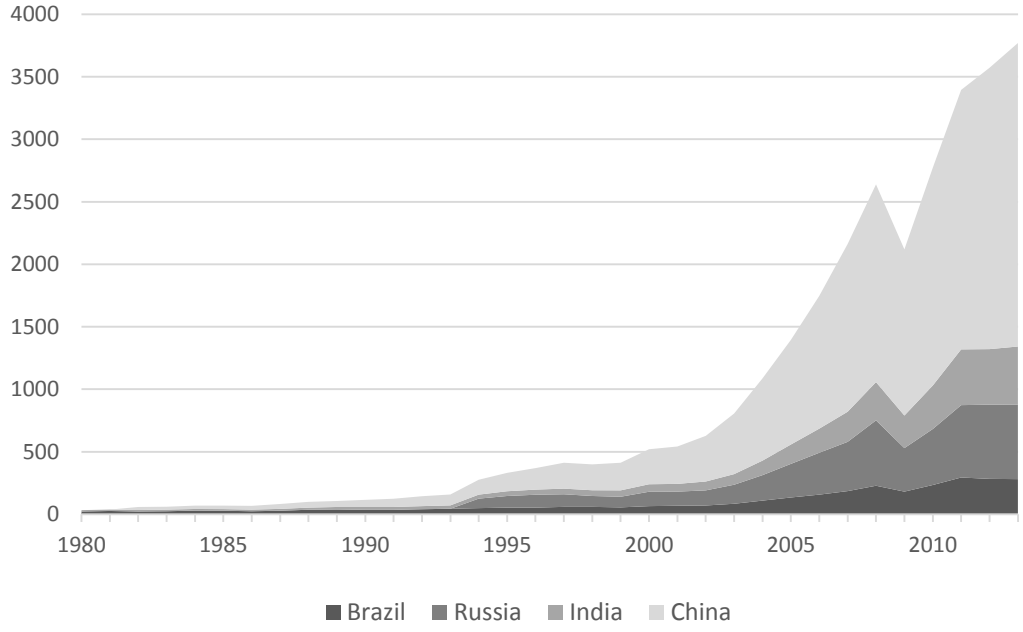
Figure Intr-8: BRIC GDPs (billion USD).



Source: UNCTAD (2015b)

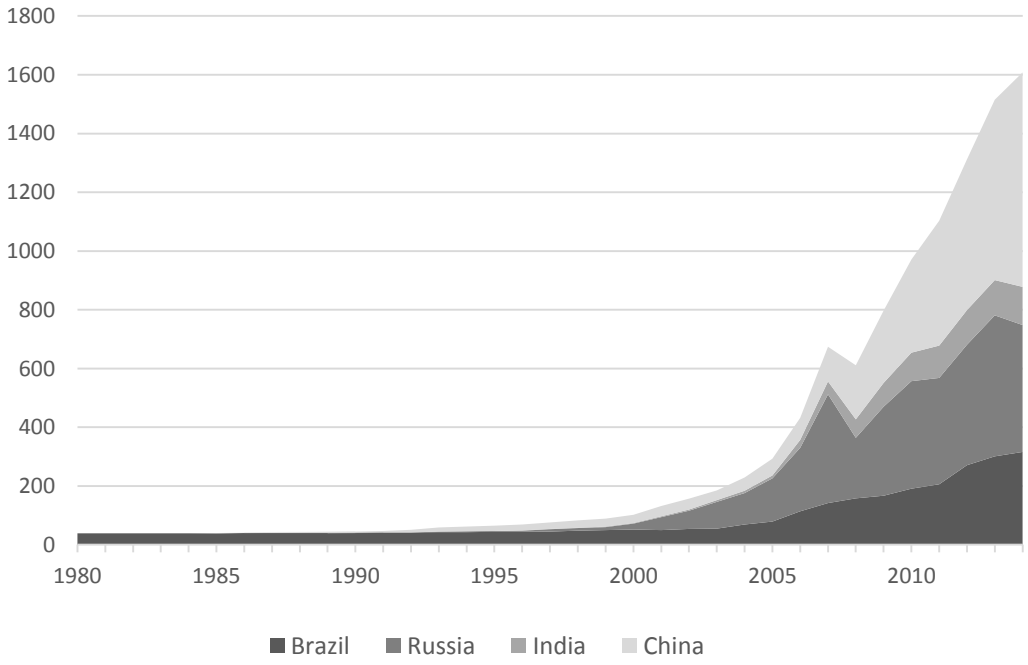
The economy of these countries with relatively lower Gross Domestic Product (GDP) has boosted significantly since the end of the last century. The rise of these countries is influencing world's economy structure. They change the image of developing economies and transition economies from traditionally importers and investments destinations to important goods and service providers, and become active foreign investments initiators. In 2013, the export amount from the BRIC has reached up to 3,770 billion USD (Figure Intr-9), and the FDI stocks from them has reached up to 1,515 billion USD (Figure Intr-10). That is to say, the sum of the export volume and FDI volume from these four countries already accounted for one third of the total amount from all developing and transition economies (36.7% and 31.0% respectively).

Figure Intr-9: BRIC export (billion USD).



Source: UNCTAD (2014)

Figure Intr-10: BRIC FDI stocks (billion USD).



Source: UNCTAD (2015a)

This situation has drawn a great deal of attention to the emergence of these countries. Both economics scholars and management scholars have begun to focus on the economic developments and investment environments of these countries. One of the hottest topics in development debates is the balance of globalization's costs and benefits for different groups of countries and the world economy. The economic growth of these countries provides a good sample to study the positive and negative influences of economic integration. Nevertheless it is still unknown if the growth is constant and healthy to these countries and if they can be benefited in a long term. For those who focus on foreign investments, emerging markets are considered relatively risky because they carry additional political, economic and currency risks. A great interest has also risen in studying the investments from the emerging economies, as well as other developing and transition economies.

Traditionally, emerging markets' contributions to the world economy lie in their domestic market growth and attractions to world capital. However, this situation has been changed in the new century. More than providing great proportions in the world GDP and trade, they are becoming more important investors and influencing other countries' economy development. This may be extremely meaningful if considering the background of the financial crisis that have impacted a series of countries and the potential economic recession worldwide which is brewing.

Some works have found that firms from these developing countries show differences in their international expansion patterns comparing with firms from developed countries (e.g., Matthrew, 2002, 2006). This may challenge the extant international theories and frameworks. Most of the mainstream theories and frameworks in IM are extracted and synthesized from the behaviors of firms come from industrialized countries, in which the free-market policy is usually adopted. As a result, some of the theories and frameworks may lack a full explanation for the behaviors of investments from other countries which have a different economic system and cultural background such as China, Russia, and Latin-American countries (Wang et al., 2012). It will be interesting and valuable

to shed light to the outward investments from these countries and to increase the understanding of the behaviors and investment performance of investors come out of these markets. There is also a need to test the extant IM theories and frameworks in these contexts.

2. International management literature and key research issues.

Strategic management, as a firmly established field in the study of business and organization nowadays, has witnessed a significant evolution in both of the research topics and methods during a relatively short period of time (Hoskisson et al., 1999). It focuses on a variety of business concepts and factors related to both the internal and external environments in which the organization competes and provides insight into the formulation and implementation of the goals and courses of actions (i.e., the strategies) for the organization performance (e.g., Nag, Hambrick, & Chen, 2007; Pearce & Robinson, 2000).

One of the emphases in the research of strategic management in recent years has been given to cross-border business. For countries and companies that are actively engaged in globalization, the benefits come with risks and challenges. Countries become more interdependent, and people and companies are all involved in the global marketplace. The economic integration creates opportunities for companies to access to other overseas markets, for either exploiting their extra production capacities to increase the income or looking for complementary resources and knowledge that are not available in the domestic markets to enhance the competitive advantages. On the other hand, this integration makes that it is inevitable to face the competition come from other markets, even stay at the domestic market. The foreign entrances may hold more advanced technologies and have more reasonable resources allocations. These advantages make the domestic companies incomparable to the foreign competitors, who are able to provide more differentiated products or are more efficient in the production activities (i.e., providing the products at lower prices).

The increasing globalization of markets and attention to international trade is reflected in academic research. Studies focusing on international business topics have significantly increased in the last twenties years and accounted for a much bigger share of the publications in strategic management journals (Werner, 2002). Scholars have tried to extend the knowledge of the management practices and theories extracted from the domestic market and apply it into the international context. These efforts have significantly increased the understanding on organizations' decision-makings in their foreign expansion and the differences of concerns between competing in the domestic market and in the global market.

Research on IM can be divided into two main categories. The first category is comprised of studies that look at the management of firms in a multinational context, which emphasizes the international aspects of management that do not exist in domestic firms (Ricks, 1991). Werner (2002) called it *pure IM research*. This includes studies looking at the internationalization process, entry mode decisions, foreign subsidiary management, expatriate management, etc. The second category includes studies that compare the management practices of nations (cross-national studies) and different cultures (cross-cultural studies). These studies are known by scholars as comparative management studies (Ricks, 1985; Ricks, Toyne and Martinez, 1990).

Prior scholars have summarized twelve main research topics in IM (Table Intr-1). These topics comprise issues on various aspects of IM. Not only do scholars have given attention to the macro level in international business, i.e., issues on the country, region, or industrial level (e.g., political influences, economic or industrial trends, and business group behaviors), but also they have dealt with issues at the micro level, which focuses on both the organization and individuals (e.g., MNE strategies, business units coordination, and human resource management (HRM)).

Table Intr-1: IM main research topics.

Research topic	Description
Global business environment	The global economy, markets, political and regulatory environments, and challenges for international business
Internationalization	Descriptions and measurements of internationalization, antecedents and consequences of internationalization
Entry mode decision	Predictors of entry mode choices and equity ownership levels and consequences of entry mode choices
International joint venture (IJV)	IJV partner selection, management of IJV partner relations, and consequences of IJV
Foreign direct investment	Timing, motivations, locations of FDI and consequences of FDI to firms and countries
International exchange	Antecedents and consequences of exporting and intermediaries
Knowledge transfer	Antecedents, processes, and consequences of knowledge transfer
Strategic alliance and networks	Relationships, networks, consequences of strategic alliance
Multinational enterprises	Strategies and policies, and models and descriptions of MNEs
Subsidiary-headquarter relations	Strategies and typologies, control, and performance of subsidiary
Subsidiary & multinational team management	Subsidiary HRM, subsidiary behaviors, multinational negotiations, multinational team management
Expatriate management	Expatriate HRM, issues for expatriate, and expatriate and repatriate reactions

Source: adjusted from Werner (2002)

One relevant aspect among these topics is on MNEs strategies. More and more studies have begun to focusing on determining optimum MNE strategies, although research efforts in this regard seem to be scare during the early period of the development of IM. Specific issues such as entry mode strategies (e.g., Brouthers & Brouthers, 2003; Chen, 2010), localization strategies (e.g., Belderbos, Olffen, & Zou, 2011; Huett, Baum, Schwens, & Kabst, 2014; Ramasamy, Yeung, & Laforet, 2012), timing of entry (e.g., Isobe, Makino, & Montgomery, 2000; Murray, Ju, & Gao, 2012), and strategic alliances (e.g., Christoffersen, 2013; Dyer & Chu, 2000) have been both theoretically and

empirically studied by scholars. These are not merely satisfied with understanding how MNEs tend to act (i.e., the prediction of these strategic decisions). Many of them also have worked on the consequences of these strategies to the investing firms and even to the countries (e.g., Brouthers, 2002; Liu, Gao, Lu, & Lioliou, 2015).

3. Research positioning and structure.

In this research we want to shed light on the aspect of MNE strategies in IM. We focus especially on MNEs' decision-markings when they carry out FDIs in a foreign country. As shown previously on the situation of nowadays' international business, FDI has an explosive growth worldwide in recent years and account for a greater proposition in the international trade. It has been argued to be important to the economic development, and can benefit not only the home country but also the host country (e.g., Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004). For the host country, first, it helps solve the employment issue in the host country by creating jobs to the local labor market. Second, FDIs carrying out productive activities in the host country can increase the domestic productivity of the host country and stimulate the economic growth. Third, through the networks of the foreign investor, the domestic market products can gain access to the markets of other countries. Moreover, domestic firms in the host economy may also benefit from accelerated diffusion of new technology and managerial skills and know-how, when foreign firms introduce new products or processes to the local market and train the local employees. Also, outward FDIs evidently increase the income of the home country, and the acquirement of resources and knowledge in overseas markets that are not available in the domestic market enhances the competitive advantages of both the investing firm and the industrial sector in the home economy.

Many countries pursue to attract or promote more FDI. Research on it and MNEs strategies in FDI not only has academic interests to scholars but only provide practical implications to managers and policy makers. It increases the knowledge

on how MNEs make decisions when decide to carry out FDI in a foreign market and on the prediction of their behaviors.

In this research we look mainly into MNE's entry mode strategy in the context of FDI. This strategic decision is important because choosing one or another mode can have enormous strategic consequence for the firm (Chang & Rosenzweig, 2001). As a consequence, research on studying factors which are critically related to firm's appropriate and successful operation structure in host country has been the focus for scholars of business management in recent years.

Research on foreign entry mode strategy is relatively new. Early studies can be traced back to the 70s of the last century (e.g., Stopford & Wells, 1972). However, it has become one of the most studied fields in IM in recent years. It deals with the issue concerning the form of operation the investing firm use in a foreign market. Some scholars have suggested viewing this strategic decision as a boundary concern for the firm in the international business context (e.g., Brouthers & Hennart, 2007). Whether firms enter foreign markets through contracts with the partners (e.g., distributors, suppliers, licensees, franchisees, or even those in the same sector) or by extending the firm abroad for carrying out sales or manufacturing activities, they have to decide the boundary for their business activities. There has been a significant evolution in the research on foreign entry mode decision. Early works usually lack a theoretical explanation for MNEs' choices. Since the late 1980s, scholars began to develop theories and frameworks to both theoretically and empirically look at this decision (Werner, 2002).

The research is carried out in three steps. We first made a retrospective look at the literature on foreign market entry mode strategy. The review centers on the prediction of this decision and their potential determinants. Then, two empirical analyses were proceeded to shed light on the location aspect in firms' foreign entry mode decisions. A sample of Chinese FDIs entered into Germany is used for the empirical analyses, which includes 282 local firms in total.

The present thesis is structured in five chapters. Chapter 1 introduces the literature background of the research we carried out, which gives a retrospective look at prior theoretical and empirical studies on foreign market entry strategy, especially the entry mode choice. In this chapter the pre-analysis results that we did for the literature review is included. Chapter 2 bridges the knowledge in prior literature on the agglomeration and clustering in FDI and describes how it may potentially influence MNEs' foreign entry strategies. We also explain in this chapter how the research hypotheses are constructed focusing on the two research issues. Chapter 3 describes the empirical analysis we carried out to test the hypotheses. In this chapter we explain the methodology adopted in the study—how we collected data and identified the analysis sample. In Chapter 4 we demonstrate the analysis results and discuss the main findings and their implications to our research and to the extant IM literature. Finally, in Chapter 5 we conclude these reviews and analyses carried out. We summarize the contributions and limitations of this research and indicate areas of potential future research.

CHAPTER 1

FOREIGN MARKET ENTRY MODE STRATEGY

Introduction.

The choice of a mode to enter a foreign market is one of the most critical decisions in firms' internationalization strategy (Agarwal & Ramaswami, 1992; Brouthers, 2013; Wind & Perlmutter, 1977). It has attracted considerable interest, both theoretically and empirically. Numerous studies have been given by management and marketing scholars on this strategic decision, either concerning its prediction or the consequences to the internationalized firms. To extend the extant knowledge on this strategic decision in IM is the initial objective of our research. This chapter describes the main situation of this research field. It serves as the theoretical base for the following Chapters and the development of hypotheses.

Before we started the research we did a review on the literature of foreign entry mode. Since its beginning and the rise later after 1980s entry mode research seems to have been quite developed and the contribution of new research are becoming marginal. Some scholars recently have begun to reflect if we really need more entry mode studies (e.g., Hennart & Slangen, 2014; Shaver, 2013). A review on this research field is quite necessary under this background. First, whether the answer to Shaver's (2013) question is affirmative or not, trying to reply it scholars need to have a clear idea of what have been done as yet in this research field. Second, a review helps figure out the pending or unraveled issues in prior studies where efforts are still needed in this research field—what needs to be done in future.

Several review works have been given to this research field and they all made great contributions to the literature and enhanced the knowledge on this strategic decision. However, efforts are still needed on at least two aspects. First, many of these prior reviews resumed one or more dimensions that determine the decision-

making (e.g., Harzing, 2003; Zhao et al., 2004; Tihanyi et al., 2005; Morschett et al., 2010). They rarely have tried to connect these different dimensions and figure out their relationships, neither have successfully achieved that the exhaustive reviews carried out by Brouthers and Hennart (2007) and Canabal and White (2008). The factors proposed by prior studies should not be laid as disconnected determinants which provide unrelated effects. A thread is required to link all these factors, not just a simple display of them, to improve and refine the understanding of this decision prediction. Second, little attention has been given to the sample aspect of past empirical studies. The research sample is critical to the empirical analysis and the final findings. The use of one or another with significant characteristics may lead to potentially quite different conclusions. This should be controlled in studies and also be paid attention to when resuming the findings. However, this aspect seems to have been ignored in previous entry mode reviews. Although authors such as Canabal and White (2008) have resumed the sample characteristics in prior entry mode studies, there lacks a further analysis and they rarely discussed its influence on the empirical findings and the understanding of this decision prediction.

The review aims to provide additional efforts to these mentioned review gaps and try to find out the potential pending or unraveled issues in this research field. Also, by this way we pave the way for the introduction of the main research idea in the following chapters.

Unlike some prior review works which have focused on one or more specific dimensions (transaction costs, cultural aspect, institutional uncertainty, etc.), we try to provide a whole picture which categorizes the potential determinants in the entry mode prediction and describes their effects and relationships. Second, we look especially into the sample context that each empirical study have based on in the review, which reveals not only what has been found but also how they have been found—the study of studies. The content analysis is employed in our review. Due to the vast literature on foreign entry mode decision, we select those published in the Top 10 international entry mode outlets which are proposed by Canabal and White (2008) during the period 1980–2013, assuming that these

studies are those which have the most impact and can represent the major contributions in this research field. In total 207 works were identified and reviewed.

This review contributes to the existing literature in three ways. First, we refine the knowledge on the entry mode decision by synthesizing prior findings on its determinants. Especially, we classify these determining factors into different but connected dimensions according to their effect characteristics. The whole picture of the proposed determinants not only connects their effects on the strategic decision but also figures out the relationships between them determinants, which may be helpful to understand the potential interactions between some of them and resolve some controversies appeared in previous works. It has implications to both scholars and practitioners, which is in line with the arguments of some recent entry mode works (e.g. Brouthers, 2002; Brouther, 2013; Martin, 2013). Second, through this review we identified several unraveled issues and gaps in this research field, which proposes a route-map for future research. Moreover, we provide reflections on several aspects of foreign entry mode research, which are helpful in extending the knowledge on this strategic decision.

1.1 Foreign entry mode research and literature background.

Firms need to choose an entry mode when they decide to explore an overseas market. Scholars such as define the *foreign entry mode* as a structural agreement that allows a firm to carry out the business activities in a foreign market with its resources and market strategy (e.g., Root, 1987; Sharma & Erramilli, 2004). Research on this strategic decision can be traced back to the 70s of the last century, which has been the third most studied area in IM (e.g., Canabal & White, 2008; Werner, 2002).

It is important for several reasons. First, the decision itself is complex and requires considerations on various aspects. Both external (host/home environments) and internal factors (within the firm) can affect investors' choice. It is not easy work to identify all the potential determinants. Second, the decision has important consequences. The entry mode decision is closely associated with the investment success (Brouthers, 2002, 2013; Hill et al., 1990). An appropriate entry mode not only leads to higher performance of the subsidiary but also to the accomplishment of the parent firm's objective. The influence on firms' performance is long-term. Firms' overseas entries usually involve great resource commitments. The initial choice of a particular mode is difficult to change without considerable loss of time and money (Root, 1987). Moreover, foreign investors' entry mode also has an impact on local economy development and industry progress. Many governments are not only interested in international trading exchange but also attract foreign direct investments. However, it should be known that foreign investments can have both benefits and threats to the local environment. The conduction and control of the foreign investments and their way of operating in the local environment to achieve an equilibrium is a central concern to the host authorities.

In the last twenty years, there is a large increase of studies, either theoretical or empirical ones, on the entry mode decision. Several authors have tried to review

this research field and resume prior contributions. Early works such as Sarkar and Cavusgil (1996) and Anderson (1997) have given an overall review to both the theoretical aspect and the determinants of this decisions. However, nearly twenty years have passed since their publication and their reviews should be up-dated, as the evolution has occurred in this research field and many new findings have been proposed by recently studies. In the new century scholars such as Harzing (2003), Zhao et al. (2004), Tihanyi et al. (2005), and Morschett et al. (2010) looked into several specific aspects in this decision-making. Harzing (2003) and Tihanyi et al. (2005) discussed the effect of national culture on the entry mode decision and compared the empirical evidence of prior studies. Zhao et al. (2004) focused on the explanatory capability of transaction cost economics (TCE) theory in the decision prediction, while Morschett et al. (2010) tried to synthesize all the potential external factors (market conditions, institutional restrictions, cultural distance, etc.) which are related to the decision prediction and their effects. On the other hand, Brouthers and Hennart (2007) and Canabal and White (2008) made relatively more comprehensive reviews and focused on several key concerns or issues that have drawn wide attention in this research field. Recently, some authors began to focus on prior findings on the entry mode consequence and tried to link it to the study on the decision-making (e.g., Brouther, 2013; Martin, 2013).

1.1.1 Key conceptions in studies.

Exporting, licensing, franchising, joint venture (JV), wholly owned subsidiary (WOS), acquisition, and greenfield investment are the terms of entry modes have appeared most frequently in studies. While MNE can enter a foreign country by itself establishing its own filial, it can also carry out its business in the target country with another firm reducing investment risk and enhance its competitiveness, whether this cooperation is by contract or equity involvement. The entry modes such as licensing, franchising are considered as the contractual ones, equity JV and WOS are considered as FDI modes as they involve the equity share of the investor in the subsidiary.

WOS, in some works called sole venture, either by greenfield investment or acquisition (brownfield investment), is usually employed to be contrary to JV in studies when analyze the level of entity involvement for FDI. However, greenfield investment and acquisition are not terms that are exclusive for WOS. Some authors such as Hennart (1988) have argued that JVs can also be established by both partial acquisitions and shared greenfields, which should be categorized as JV. This view is contrary to some other entry mode studies (e.g. Kogut & Singh, 1988), in which scholars argue that the term of JV should be reserved to shared novo ventures with separate legal personalities. A summary of the main entry mode terms in studies is given in Table 1.1:

Table 1.1: Main entry mode terms in studies.

Entry mode	Description	Nature
Exporting	Cross-border exchange the ownership of goods or service from a country to another one	The goods or service are complete controlled by distributors in another country
Licensing	Agreement between licensor and licensee, which are from different countries, allows licensee to use the licensed material during a fix period in its country	Trademark or other type of material
Franchising	Agreement between franchisor and franchisee, which are from different countries, allows franchisee to use franchisor's business mode during a fix period in its country	trademark, training or other advisory services
Joint venture	Two partners or more than two partners develop a new entity by contributing equity in another country	Partial equity investment
Acquisition/merger or brownfield investment	Purchase companies, business units or other facilities which have existed in another countries	Change of ownership of assets
Greenfield venture or greenfield investment	Investment in developing a new company in another country where no previous assets or other facilities exist	Investment of all assets needed
Wholly owned subsidiary	A company in another country whose common stock [2] is 100% owned by the parent company	Complete control and ownership by parent company

Source: own elaboration

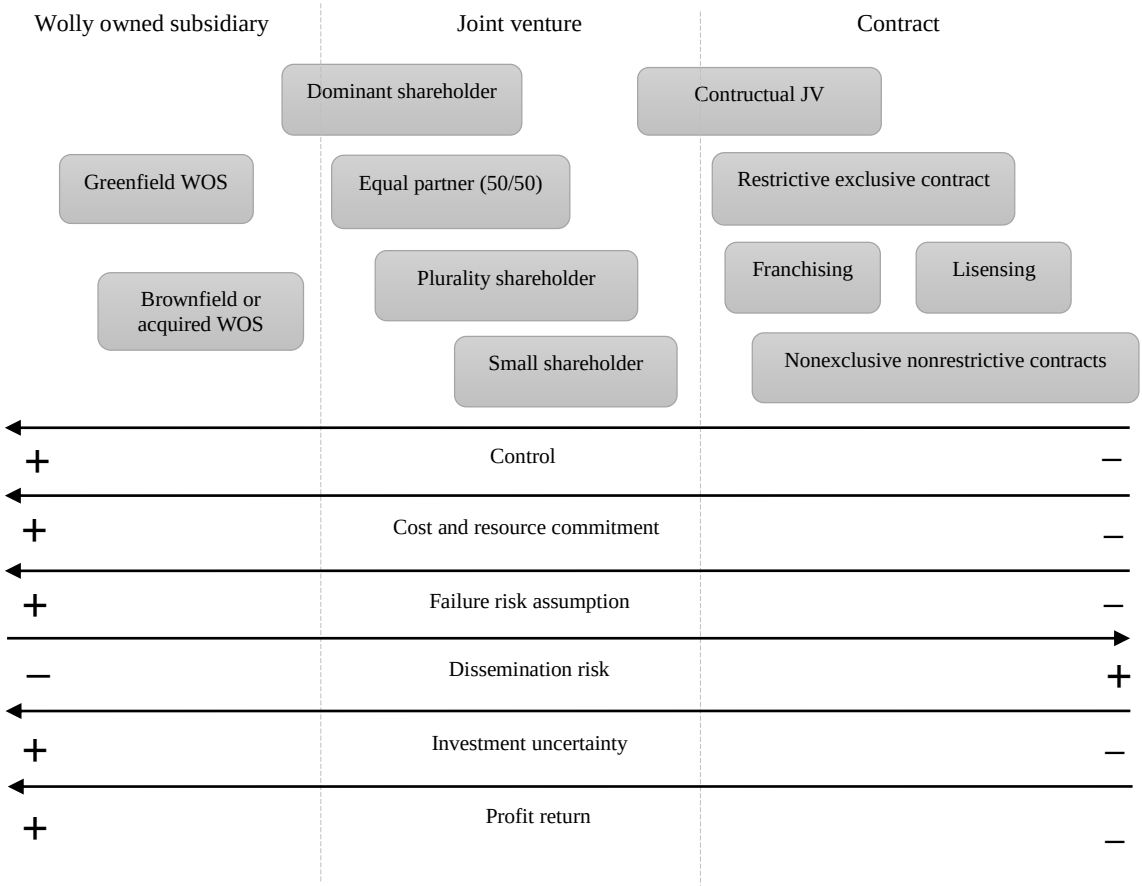
[2] Common stock, voting share, or ordinary share is a form of company equity ownership, which gives the right to its owner to share in the profits of the company and to vote in company's general meetings.

Two views are considered as mainstreams in the literature on the meaning of entry mode and the differences among contractual modes, JV, and wholly owned organizational structures (Brouthers & Hennart, 2007). One focuses on the control, commitment, and risk that parent firms want to implement on their subsidiaries in the host countries. And the other one focuses on the equity involvement of the modes.

The first perspective was proposed by authors such as Anderson and Gatignon (1986), Erramilli and Rao (1990), and Hill et al. (1990). *Control* refers to the authority of parent firms' over operational and strategic decision-making of their subsidiaries. Studies employed this concept on the meaning of international entry modes can be traced back to works such as Anderson and Gatignon (1986), Calvet (1981), Caves (1982), Davidson (1982), and Root (1987). *Resource commitment* refers to the dedicated assets, tangible or intangible, provided by parent firms to the entry in target countries, which cannot be redeployed to alternative uses without cost (loss of value). The development of the concept of resource commitment on entry mode decision can be found firstly in Vernon's (1983) work. *Risk* refers to the possible exposure of firms-specific advantages in know-how and the spillover of firms' key knowledge. It can be traced back to the work by Hill and Kim (1988).

This view suggests that different entry modes imply different levels of control over the foreign operation, require different levels of resource commitment, and undertake different levels of risks. That is to say, it arranges contractal modes, JV, and WOS along a continuum of increasing control and resource commitment and risk (Figure 10). WOS is preferred when firms want maximum control and are willing to devote large resources (Brouthers & Hennart, 2007). On the other hand, a WOS provide investor with higher protection than contractual modes and JV for their competitive advantages in business know-hows avoiding the potential dissemination risk. A graphic is given below to illustrate this view on the meaning of different types of entry modes (Figure 1.1):

Figure 1.1 Classic understanding on differences in entry modes.



Source: Adjusted from Anderson and Gatignon (1986) and Hill, Hwang and Kim (1990).

In IM literature, it is generally acknowledged that "control" of their foreign subsidiaries is one of the major problems for MNEs operating in the international marketplace (Jaeger, 1983; Geringer & Hebert, 1989; Sohn, 1994). Scholars have suggested that the level of "independence" of their foreign subsidiaries is negatively related with the MNEs' equity positions in them. In other words, MNEs' equity positions and their control ability over their foreign subsidiaries is closely related (Anderson & Gatignon, 1986; Hill et al., 1990; Sohn, 1994).

Regarding the dissemination risk, contractual modes such as licensing provide less protection to MENs because the other parties in the contract probably use the granted assets of the MNEs, tangible or intangible, for purposes other than those originally intended by MNEs (Hill & Kim, 1988). As these assets may constitutes the basis of firms' competitive advantages, especially some tacit

knowledge as technological and marketing know-how, spillover of these knowledge or key assets to other local companies may let MNEs which choose this type of entry lose their competitive advantages in local market for further entry, and even rise up some potential competitors in the future. In the same vein, entering by JVs may also meet this problem, although due to the ownership stake MNEs may have greater control over its partners' utilization of firms-specific know-how and suffer less from dissemination risk in comparison with contractual ones.

The second one was proposed by Hennart (1988, 1989, 2000), which classifies entry modes into two categories—contracts (non-equity) and equity according to the criteria of input contributor remunerate method. The equity entry modes, whether shared in a JV or full in a WOS, are characterized by the ex post payment for input contributor from the profits of venture, in contrast to contracts (non-equity), where payments are specified ex ante (Brouthers & Hennart, 2007).

1.1.2 Theories and framworks applied in research.

In foreign market entry mode literature transaction cost economics (TCE), the OLI framework, cultural distance, control degree theory, internationalization theory, risk, institutional theory, the resource-based view, foreign direct investment, organizational capabilities, the knowledge-based view (KBV), and uncertainty are the most commonly used theories and constructs (Canabal & White, 2008). Other theories such as internalization theory, agency theory, bargaining power theory and resource dependency theory have been also applied in some prior studies (Brouthers & Hennart, 2007). A brief description of these theories and constructs used in foreign entry mode strategy literature is given in the table below (Table 1.2):

Table 1.2: Main theories/constructs used in foreign entry mode strategy.

Theories or constructs	Key words	Applied studies
Transaction cost theory	Firms need efficient governance structure to minimize cost when operating in a foreign market.	Gatignon and Anderson (1988); Hennart (1991); Erramilli and Rao (1993); Brouthers, Brouthers, and Werner (2003); etc.
OLI framework	Three categories of advantage; different types of entry mode require different categories of advantage	Agarwal and Ramaswami (1992); Brouthers, Brouthers, and Werner (1996); Tsai and Cheng (2002); etc.
Culture distance	The cultural distance between host and home country which may bring risk and managerial difficulties	Shane (1994); Brouthers, Brouthers, and Nakos (1998); Hennart and Larimo (1998); etc.
Control degree	The degree of control firms need upon their activities in host countries	Kim and Hwang (1992); Pan and Tse (1996); Herrman and Datta (2006); etc.
Internationalization	Model Uppsala (U-Model); international gradual development of firms; transferability and distribution of business unit	Gronhaug and Kvitastein (1993); Nitsch et al. (1996); Brouthers, Brouthers, and Werner (2000); Pease, Paliwoda, and Slater (2006); etc.
Risk	The perceived level of risk in host countries, which predict levels of control by firms entering in the countries	Brouthers (1995); Brouthers, Brouthers, and Werner (2001); Elango and Sambharya (2004); Herrman and Datta (2006); etc.
Institutional theory	The impact of the institutional context of host countries, such as rules, norms and values; the level of isomorphism that should apply, corruption, etc.	Delios and Beamish (1999); Davis, Desai, and Francis (2000); Delios and Hanisz (2000); Pease, Paliwoda, and Slater (2006); etc.
Resource-based view	The resources involvement in host countries for firms	Erramilli et al. (2002); Chen and Chen (2003); Herrman and Datta (2006); etc.
Foreign direct investment	The market imperfection theory; four categories of imperfection; the evolution of MNEs in host countries	Kogut and Singh (1988); Kogut and Zander (1993); Eicher and Kang (2005); Dixon (2006); etc.
Organizational or competitive capabilities	Firms' capabilities of transferring resources and other types of factors in host countries	Chen and Hennart (2002); Erramilli, Agarwal, and Dev (2002); Claver and Quer (2005); Claude-Gaudillat and Quélin (2006); etc.
Knowledge-based view	Knowledge transfer in the international context; firms' learning capabilities; the sequential investment view	Kogut and Zander (1993); Sohn (1994); Chang and Rosenzweig (2001); Pak (2002); Elango (2005); etc.
Uncertainty	Environmental uncertainty in host countries	Erramilli and D'Souza (1993); Brouthers et al. (2000); Sanchez-Peinado and Pla-Barber (2006); etc.
Internalization theory	Decisions about carrying out activities within an institution or acquiring by other means in host countries	Gronhaug and Kvitastein (1993)
Agency theory	Control of interests differences and information asymmetry between agent (management in host country) and principal (company or other material's owner)	Fladmoe-Lindquist and Jacque (1995)
Bargaining power theory	Resource commitment is as high as the bargaining power, which decides the degree of control	Palenzuela and Bobillo (1999)
Resource dependency theory	Resources needs or requirements in host countries conduct firms' decisions and behaviors	Glaister and Buckley (1996)

Source: Adjusted from Brouthers and Hennart (2007) and Canabal and White (2008).

Among these theories TCE (or transaction cost analysis) is the most widely used one. As well as institutional theory and Dunning's OLI framework, they together account for nearly 90% of the published papers on foreign entry mode strategy in the top entry mode research outlets according to the review made by Brouthers and Hennart (2008).

Transaction cost analysis

Williamson's (1981, 1985) transaction cost analysis deals with firm boundary issues and provides rational economic reasons for organizing some transactions one way and other transactions another. It answers questions such as *make or buy*? *Use market contracting or integrate transactions within the firm*?

Although this framework was traditionally used to predict vertical integrations when it was developed, foreign entry mode scholars have successfully applied it to explain horizontal investment decisions, i.e., those in market of another territory. The difference is that the former one focuses on the transactional relationship between suppliers and buyers, while the latter one involves the transactional relationship between product/service providers and agents in another country.

The basic assumption of this theory is that governance structures differ in their capacities to respond effectively to disturbances. This view is borrowed by entry mode scholars to understand different kinds of entry mode who argued these entry modes differ in essence one from another, because each of them involves a different level of risk, control and resource commitment. In foreign entry mode research, this framework helps scholars predict *what* and *why* some factors can impact investing firms' decisions in entering another country from the perspective of operation structure that can minimize their cost and inefficiencies of operation adapting to the local environment.

Dunning's eclectic framework

Another important and widely applied framework in the field of entry mode strategy is Dunning's (1981, 1988) eclectic paradigm[3], although according to Brouthers and Hennart (2007), it's not a theory, a good tool combining insights from other three popular theories: transaction cost theory, resource-based theory, and institutional theory.

His paradigm underlined three major factors for FDI: ownership (O), location (L) and internalization (I), which determined the extent, form, and pattern of firms' international investments. The basic assumption is that firms are able to internationalization and engage in activities in foreign countries because of its ownership advantages, location advantages, and internalization advantages (Table 1.3). The ownership advantages refer to firms' existing competitive advantages (e.g. technology, trademark, qualified employees) over firms in the host country, which permit its specific-asset exploitation. These advantages can be not only tangible, such as capital and resources, but also intangible in terms of technology and managerial capabilities. Location advantages refer to the attractions (e.g. superior market or production opportunities and/or opportunities to secure cheap and valued inputs) provided by host countries or regions, for undertaking the value adding activities of MNEs. Internalization advantages refer to advantages that carry out certain activities by their own rather than through market or partnership arrangement in host country.

Table 1.3: OLI framework's three types of advantages and entry modes.

	Ownership advantages	**Internalization advantages**	**Location advantages**
Licensing	Required	Not necessary	Not necessary
Export	Required	Required	Not necessary
FDI	Required	Required	Required

Source: Dunning (1980, 1985)

[3] It's also named OLI-model or OLI-framework.

The resource-based view

The resource-based view focuses on how firms obtain sustained competitive advantages. Barney (1991) argued that the sustained competitive advantages are developed by firms based on valuable, rare and imperfectly imitable resources and for which there are not available strategically equivalent substitutes. In the entry mode studies, the resource-based view has been used and found some factors such as firms' experience, technology, human resource (skilled employee and managers), reputation, financial base that can affect firms' behaviors in host countries and the choice of entry mode.

The focus on source of firms' competitive advantages of this theory help scholars in the field of entry mode studies also found that firms operate in other countries not only exploit their advantages and capabilities but seek some resources they need to develop new advantages. This finding explains why some firms' behaviors and decisions in host countries are totally different from others, and contrary to some economic theories.

Additionally, it's needed to note that the knowledge-based view (KBV) and organizational capabilities theory, which also have been applied in entry modes studies, can be considered as extensions of the resource-based view includes. The resource-based view is fundament of the two theories because knowledge can be viewed as one of firms' resources and firms' organizational capabilities are developed based on some factors in firms' resource pool.

The institutional theory

The institutional theory deals with the institutional environments' influence on firms' behaviors. In entry mode studies, both host country and home country's environments have been studied using this theory. Factors such as host country risk and uncertainty, cultural distance, isomorphic pressure, country corruption have been identified in prior works.

1.2 Pre-analysis.

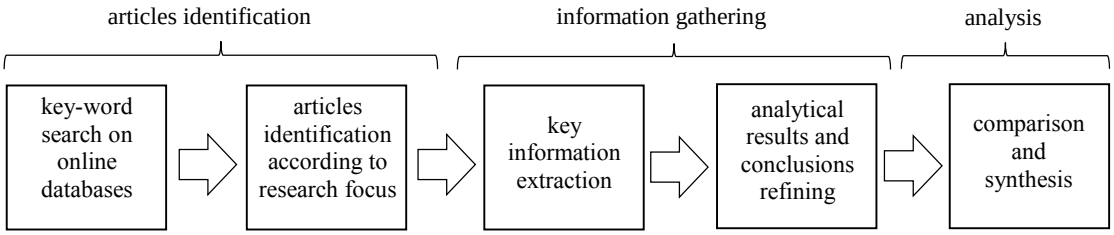
With the aim to know the situation of this research field and the contributions made by previous studies on MNE's FDI behaviors, especially the foreign market entry strategies, for a better orientation to our research, we did a pre-analysis reviewing the prior literature.

1.2.1 Review methods.

There has been a vast quantity of articles published focusing on foreign entry mode decision, which makes reviewing all of the empirical studies extremely difficult work. Owing to this, we focused on those published in the top 10 outlets of this research field which were proposed by Canabal and White (2008) for the review. We assume that studies published in them are those which have the most impact and their findings can present the main contributions in this field. The outlets include: *Journal of International Business Studies*, *International Business Review*, *International Marketing Review*, *Journal of Business Research*, *Journal of Management Studies*, *Management International Review*, *Strategic Management Journal*, *Journal of International Marketing*, *Thunderbird International Business Review*, and *Multinational Business Review*.

The articles were identified through online databases such as *Web of Knowledge*, *SCOPUS*, and *Google Scholar*. The publication time frame that we chose for the review is from 1980 to 2013. The year 1980 was taken as the start point because the entry mode research saw rapid growth beginning in the 1980s. A content analysis is used to look into the identified articles. Similar methods have been used in other review works such as Mayrhofer (2004). This method allows a better precision for review as it has a qualitative nature. For each article, we looked into not only the determining factors suggested and the main conclusions but also the theoretical bases and the sample that it tested. The research method and main review process is summarized in Figure 1.2.

Figure 1.2: Review methodology.



Source: own elaboration

1.2.2 Review results.

A total of 207 articles were identified in the target journals. Table 1.4 reports the publication distribution in these journals. Among these 174 articles are empirical studies. 148 papers looked into *entry mode prediction* (66.1%), 24 papers studied *equity ownership level prediction* (10.7%), 30 papers focused on *entry mode consequence* (13.4%), and 22 papers dealt with other issues related to foreign entry modes (9.8%)[4] (Figure 1.3). Publications on this research field increased significantly since the end of last century and still maintain a high level in recent years (Figure 1.4).

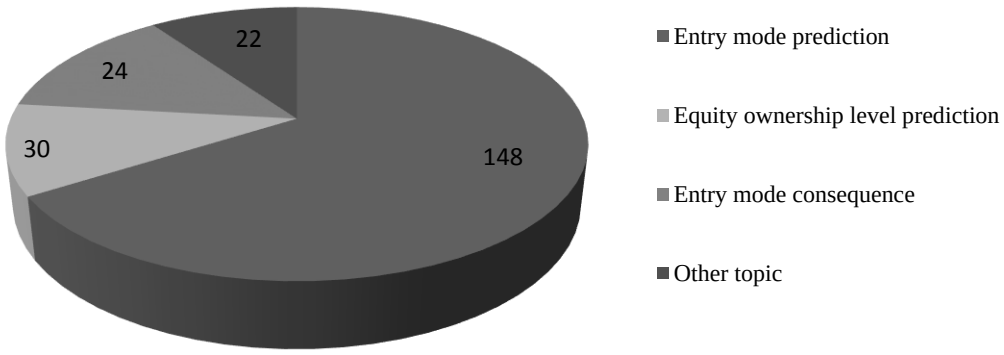
Table 1.4: Publications (1980 – 2013) in foreign entry mode research top outlets.

Journal name	Publications	Empirical study
Journal of International Business Studies	60	48
International Business Review	33	29
Management International Review	26	24
Strategic Management Journal	20	17
Journal of Business Research	19	16
International Marketing Review	12	12
Journal of Management Studies	11	11
Journal of International Marketing	11	7
Thunderbird International Business Review	8	7
Multinational Business Review	7	3

Source: own elaboration

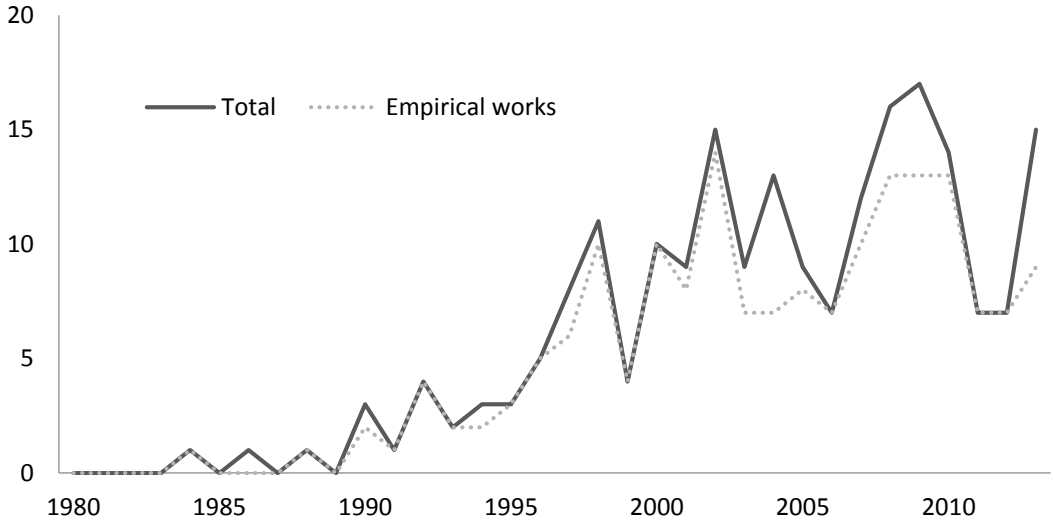
[4] Some studies have more than one focus (e.g., Brouthers et al., 2003).

Figure 1.3: Publication distribution in terms of research areas.



Source: own elaboration

Figure 1.4: Publication distribution in terms of year.



Source: own elaboration

1. Determinants of entry mode choice

A large quantity of determinants have been proposed and examined in these published studies. They are mainly drawn from four different levels in the

investment—the country level, industry level, investment/business level, and firm level.

Beside the geographic characteristics and the political and macro-economic conditions of the host country, scholars have also focused on the institutional environment at the country level (Table 1.5). These factors are mainly suggested based on institutional arguments, real option theory and TCT. Empirical evidence show that these country-level factors affect not only multinationals' (MNEs) entry mode choice between different hierarchical modes (i.e., the equity entry modes) or contractual ones (i.e., the non-equity modes) but also the equity ownership level of their subsidiaries. An evolution can be observed in the research on the impact of the host country environment. In early works authors usually treated the risks caused by the country-level conditions to foreign investments identically (e.g., Brouthers et al., 1999; Kim & Hwang, 1992; Taylor et al., 2000). In recent years, scholars began to segment this determining aspect and distinguish their effects on firms' entry mode choice. They looked beyond the classic factors such as *cultural distance*, *country risk* and *governmental restrictions*, which significantly refines the understanding of country-level conditions' effects on this decision-making.

Table 1.5: Country level (host) determinants in foreign entry mode decision.

Host country environment		Potential determinants	Outstanding studies	Main theories	Entry mode choice
geographic characteristics		distance away from the home country	Boeh and Beamish (2012); Ragozzino (2009)	TCE	JV vs. WOS; equity level of acquisition
political situation		political stability	Chan and Makino (2007); Lu (2002)	institutional theory	JV vs. WOS; equity level of JV
		diplomatic relation	Pan and Tse (2000); Tse et al. (1997)	Lack clear theory	non-equity vs. equity
economic (macro) situation		economy stability (exchange rate, inflation)	Cuypers and Martin (2010); Chari and Chang (2009); Tseng and Lee (2010)	real options theory	JV vs. WOS
institutional environment	regulatory conditions	regulatory restrictions or attractions; government intervention	Cui and Jiang (2012); Demirbag et al. (2010); Ekeledo and Sivakumar, (2004b); Luo (2001); Taylor et al. (2000); Tseng and Lee (2010)	institutional theory; bargaining power theory	JV vs. WOS
	nominative (legal) conditions	legal restriction	Brouthers (2002); Taylor et al. (2000)	institutional theory	JV vs. WOS
		property protection	Erramilli et al. (2002); Luo (2001); Maekelburger et al. (2012)	TCE	non-equity vs. equity; JV vs. WOS; franchising vs. management-service contracts
		Laws enforcement & supervision (corruption)	Chari and Chang (2009); Erramilli et al. (2002); Demirbag et al. (2010);		
	cognitive (cultural) conditions	cultural distance or proximity (uncertainty avoidance, power distance, individualism, masculinity)	Arora and Fosfuri (2000); Brouthers and Brouthers (2001); Cuypers and Martin (2010); Demirbag et al. (2010); Erramilli et al. (2002); Hennart and Larimo (1998); Maekelburger et al. (2012); Meyer (2001); Schwens et al. (2011); Wang and Schaan (2008);	TCE; Uppsala internationalization model; real options theory	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition; equity level of JV
		communication barrier (linguistic distance)	López-Duarte and Vidal-Suárez (2010); Demirbag et al. (2010); Slangen (2011)	TCE; communication cost theory	JV vs. WOS; greenfield vs. acquisition

Source: own elaboration

Scholars tested a large numbers of factors that are related to the market or the industry conditions in the host country, such as market size (e.g., Dunning et al., 2007; Morschett et al., 2008), growth potential (e.g., Brouthers et al., 1999; Li

& Li, 2010), demand fluctuation (Kim & Hwang, 1992; Li and Li, 2010), industry advertising or R&D intensity (Demirbag et al., 2010; Kogut & Singh, 1988; Shieh & Wu, 2012), competition degree (e.g., Somlev & Hoshino, 2005; Taylor et al., 2000). A wide range of theories and frameworks have been used to predict their potential effects on foreign investors' entry mode choices. However, unlike the country-level determinants, agreements have not been achieved by scholars on the effects of market and industry-related factors on MNEs' entry mode choice. Also, there lacks solid theoretical reasoning to explain the potential influences of these conditions. In some studies the deductions and arguments were hardly justified, even some did not give a clear description of the theoretical bases.

Trying to conclude the study on the market and industry level, we categorize the suggested determining factors into groups focusing respectively on the market attractiveness, entry barriers, exit barriers, and specificity of required assets (Table 1.6). In general, prior empirical evidences show the duality in the potential influence of the market/industry-related conditions on MNEs' entry mode choice. On one hand, the attractiveness of the local market/industry let foreign investors favor equity entry modes according to the OLI framework, while its uncertainties increase investors' propensity to share investment risks and reduce resources commitment in investments, which is similar to some country-level factors (e.g., the political and regulative environments). On the other hand, the asset specificity which the industry or market require entrants to commit for the competition increases their tendency to choose higher-control modes for the entry.

Table 1.6: Industry level determinants in foreign entry mode decision

Host country market/industry structure	Potential determinants	Outstanding studies	Main theories	Entry mode choice
Attractiveness	growth potential	Agarwal and Ramaswami (1992); Brouthers (2002); Brouthers et al. (1999); Li and Li (2010)	real options theory; TCE	non-equity vs. equity; JV vs. WOS; equity level of JV; export vs. contractual
	demand or market size	Chen and Hennart (2002); Dunning et al. (2007); Luo (2001); Morschett et al. (2008); Somlev and Hoshino (2005)	real options theory; OLI framework; bargaining power theory	non-equity vs. equity; JV vs. WOS
	labor costs	Somlev and Hoshino (2005)	bargaining power theory	JV vs. WOS; greenfield vs. acquisition
	market uncertainty, demand fluctuation	Kim and Hwang (1992); Li and Li (2010)	real options theory	non-equity vs. equity; JV vs. WOS; equity level of JV
	asset turnover	Pan and Tse (2000)	lack clear theory	Non-equity vs. equity; export vs. contractual; JV vs. WOS
entry barriers	reputation, distribution, advertising or technology expense, access to resources, operation scale	Chen and Hennart (2002); Tse et al. (1997);	lack clear theory	JV vs. WOS; non-equity vs. equity
	competition	Kim and Hwang (1992); Li and Li (2010); Shieh and Wu (2012); Somlev and Hoshino (2005); Taylor et al. (2000)	internalization theory, real options theory; bargaining power theory	non-equity vs. equity; JV vs. WOS; equity level of JV; greenfield vs. acquisition
Exist barriers	exit cost	Li and Li (2010)	real options theory	JV vs. WOS; equity level of JV
industry assets specificity	technology (R&D) intensity	Demirbag et al. (2010); Kogut and Singh (1988); Luo (2001); Pan (1996); Pan and Tse (2000);	TCE	non-equity vs. equity; export vs. contractual; JV vs. WOS; greenfield vs. acquisition
	marketing (advertising) intensity	Kogut and Singh (1988); Shieh and Wu (2012)	TCE	JV vs. WOS; greenfield vs. acquisition

Source: own elaboration

At the investment/business level attention is mainly given to the specificity of assets that they want to transfer in the investment, i.e., technologies and

management skills (e.g., Maekelburger et al., 2012; Sanchez-Peinado et al., 2007; Schwens et al., 2011), and to investors' motivations of investment (e.g., Gil et al., 2006; Sanchez-Peinado et al., 2007) (Table 1.7). Other factors that they studied include the sector of the investment (e.g., Sanchez-Peinado & Pla-Barber, 2006; Sanchez-Peinado et al., 2007), business relatedness (e.g., Chari & Chang, 2009; Pehrsson, 2008), and investment size (e.g., Chen & Hennart, 2002; Demirbag et al., 2010). Some authors also looked into the location where investors carry out the business (e.g., Brouthers et al., 1999; Kaynak et al., 2007), but the relationship between this and firms' entry mode choice is in essence attributed to other conditions related to the location. Generally, except some disputes on the impacts of country-specific motivations, research on determining factors at the investment/business level shows quite consistent arguments and empirical results. TCE and other transaction-cost-related approaches (e.g., bargaining power theory, internalization theory) dominate in these studies.

Table 1.7: Investment level determinants in foreign entry mode decision.

Investment characteristics	Potential determinants	Outstanding studies	Main theories	Entry mode choice
sector/activities	business relatedness (diversification degree)	Chari and Chang (2009); Kogut and Singh (1988); Pehrsson (2008)	TCE	JV vs. WOS; greenfield vs. acquisition
	Manufacturing /service	Ekeledo and Sivakumar (2004a); Kogut and Singh (1988); Jack et al. (2008); Sanchez-Peinado and Pla-Barber (2006); Sanchez-Peinado et al. (2007)	TCE	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition
transferred asset specificity	specific know-how: technology (R&D) or marketing (advertising) intensity	Brouthers (2002); Meyer (2001); Maekelburger et al. (2012); Puck et al. (2009); Sanchez-Peinado et al. (2007); Schwens et al. (2011)	TCE	non-equity vs. equity; JV vs. WOS
investment size	investment size, operation scale	Chari and Chang (2009); Chen and Hennart (2002); Demirbag et al. (2010); Luo (2001); Palenzuela and Bobillo (1999); Pan (1996); Shieh and Wu (2012); Taylor et al. (2000); Tse et al. (1997)	TCE; sunk cost; bargaining power theory	JV vs. WOS; equity level of JV
motivation	investment/project duration	Chen and Hennart (2002); Pan (1996); Shieh and Wu (2012)	TCE	JV vs. WOS; equity level of JV
	overseas operations autonomy; international strategy (global vs. multidomestic) or global synergies	Dikova and Witteloostuijn (2007); Harzing (2002); Kim and Hwang (1992); Luo (2001); Pak (2002); Ripollés et al. (2012); Sanchez-Peinado et al. (2007); Shieh and Wu (2012) ; Slangen (2011); Slangen and Hennart (2008)	TCE	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition; equity level of JV
	Entry speed	Chen (2008); Dunning et al. (2007); Pak (2002)	knowledge-based perspective	non-equity vs. equity; greenfield vs. acquisition; JV vs. WOS
	specific motivations (seeking market, natural resources, strategic assets/knowledge; following clients; assets exploitation/exploration)	Anand and Delios (2002); Aulakh and Kotabe (1997); Dunning et al. (2007); Gil et al. (2006); Pak (2002); Sanchez-Peinado et al. (2007)	knowledge-based perspective; organizational capability perspective	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition
location	Location	Brouthers et al. (1999); Demirbag et al. (2010); Kaynak et al. (2007); Luo (2001); Pan and Tse (2000); Tse et al. (1997);	OLI framework	non-equity vs. equity; export vs. contractual; JV vs. WOS

Source: own elaboration

Scholars also try to understand the link between investing firms' own characteristics and their entry mode choice (Table 1.8). They mainly focused on the experience (e.g., Puck et al., 2009; Slangen & Hennart, 2008), resources (e.g., Quer et al., 2007; Morschett et al., 2008) and capabilities (e.g., Brown et al., 2003; Tseng & Lee, 2010) bases of the investor. A series of factors related to these three aspects have been suggested. These aspects seem to do not have identical effects on MNE's entry mode choice. While many scholars argue that firms' managerial capabilities can improve the efficiency of practice and knowledge transference in investments, which according to TCE reduces the necessity of adopting more control over the operations, the resources base of the investing firm seems to be related to the resources commitment in the investment. Similarly to studies focused on the market/industry-level and investment/business-level conditions, the degree of asset specificity is tested again at the firm level. Scholars suggest that higher control is required when investing firms possess specific assets, which are costly for monitoring because of potential opportunistic behaviors. Moreover, institutional theory, agency theory, and upper echelon theory have been used to explain potential influences of firms' ownership structure and executives on the decision.

Table 1.8: Firm level determinants in foreign entry mode decision.

Firm characteristics	Potential determinants	Outstanding studies	Main theories	Entry mode choice
experience	host country experience	Arora and Fosfuri (2000); Penner-hahn (1998); Puck et al. (2009); Slangen and Hennart (2008)	Uppsala framework; TCE	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition; equity level of JV
	international experience (multinationality)	Baek (2003); Erramilli (1991); Maekelburger et al. (2012); Sanchez-Peinado et al. (2007); Schwens et al. (2011); Slangen and Hennart (2008);	TCE; organizational capability perspective	
capabilities	ability to develop differentiated products	Agarwal and Ramaswami (1992); Brouthers et al. (1999)	TCE; organizational capability perspective	non-equity vs. equity; JV vs. WOS; export vs. contractual
	absorptive/transfe rence capability, innovation ability, market linking capability	Brown et al. (2003); Chi and Seth (2009); Erramilli et al. (2002); Penner-hahn (1998); Pinho (2007); Tseng and Lee (2010)		non-equity vs. equity; franchising vs. management-service contracts; JV vs. WOS
	complementary capability requirement	Chen (2008); Delios and Beamish (1999); Lu (2002);		JV vs. WOS
asset specificity	specific know-how, technology (R&D) or marketing (advertising) intensity	Chen and Dimou (2005); Chen and Hennart (2002); Dikova and Witteloostuijn (2007); Kim and Gray (2008); Lu (2002); Maekelburger et al. (2012); Sanchez-Peinado et al. (2007)	TCE; organizational capability perspective	non-equity vs. equity; JV vs. WOS; greenfield vs. acquisition
resources	parent firm's size	Agarwal and Ramaswami (1992); Contractor and Kundu (1998); Ekeledo and Sivakumar (2004a, b)	bargaining power theory; resource-based view; organizational capability perspective	JV vs. WOS
	parent firm's profitability, financial funds	Demirbag et al. (2010); Kogut and Singh (1988); Quer et al. (2007); Sanchez-Peinado et al. (2007); Taylor et al. (2000)		non-equity vs. equity; JV vs. WOS
	complementary resource requirement	Hennart (2009); Morschett et al. (2008); Taylor et al. (2000)		JV vs. WOS
networks	networks	Maekelburger et al. (2012)	TCE	non-equity vs. equity; JV vs. WOS
Ownership structure (shareholders)	state ownership	Cui and Jiang (2012); Musteen et al. (2009); Pan (1996)	institutional theory; agency theory	non-equity vs. equity; JV vs. WOS; equity level of JV
	institutional shareholders	Musteen et al. (2009)		non-equity vs. equity; JV vs. WOS
	insider ownership	Baek (2003)		
CEO characteristics	compensation, position tenure; educational level, functional background, experience	Herrmann and Datta (2002); Herrmann and Datta (2006); Musteen et al. (2009)	agency theory; upper echelon theory	non-equity vs. equity; JV vs. WOS

Source: own elaboration

Most of entry mode studies focused on the host country environment and investment-related considerations. But empirical evidence shows that MNEs' entry mode propensity seems to vary amongst the countries of origin, i.e., the nationality of the investors (e.g., Pan & Tse, 2000). Scholars suggested the influences of aspects pertaining to the home regulative orientation and cultural characteristics of the nation (e.g., Cui & Jiang, 2012; Hennart & Larimo, 1998) (Table 1.9). Some authors also tried to study the impact of the home country's economic conditions (e.g., Pan, 2002). But there lacks of clear theoretical reasoning to support some of the hypotheses.

Table 1.9: Home country determinants in foreign entry mode decision.

Home country environment	Potential determinants	Outstanding studies	Main theories	Entry mode choice
regulatory conditions	regulatory restrictions	Cui and Jiang (2012)	institutional theory	JV vs. WOS
cultural conditions	risk orientation	Hennart and Larimo (1998); Pan (2002); Pan and Tse (2000); Tse et al. (1997)	institutional theory	non-equity vs. equity; export vs. contractual; JV vs. WOS
	power distance	Hennart and Larimo (1998); Pan and Tse (2000); Tse et al. (1997)		non-equity vs. equity; export vs. contractual; JV vs. WOS
economic conditions	exchange rate, lending rate, export rate	Pan (2002)	lack clear theory	equity level of JV

Source: own elaboration

Beside the concerns on the four levels' conditions in foreign investments, some authors argued the potential isomorph in MNEs' decision-makings (e.g., Chan & Makino, 2007; Guillén, 2003; Maekelburger et al., 2012). These studies showed MNEs' mimetic behaviors in foreign investments. This perspective suggests an irrational potential in investors' entry mode choices, which is very different from the other concerns. Scholars distinguished two isomorphs in decision-makings, which are originated from investors' past experience and the behaviors of other related firms engaged in the same business context (Table 1.10).

Table 1.10: Isomorph in foreign entry mode decision.

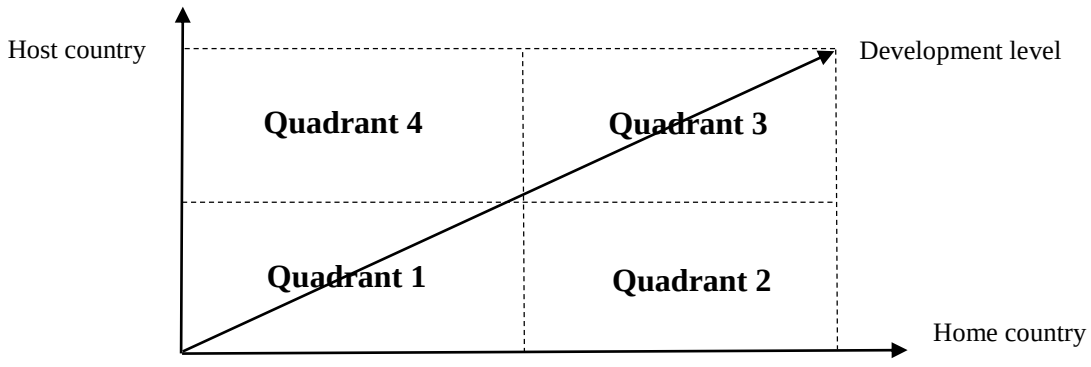
Conformance type		Potential determinants	Empirical studies	Main theories	Entry mode choice
external legitimacy	home country	other investors' behaviors (country/industry level, same business group)	Chan and Makino (2007); Guillén (2003); Lu (2002)	institutional theory; organization theory	non-equity vs. equity; JV vs. WOS; equity level of JV
	host country	other investors' behaviors (country/industry level, same business group)	Maekelburger et al. (2012)		
internal legitimacy		prior management practice (organizational inertia)	Chan and Makino (2007); Davis, et al. (2000); Guillén (2003); Lu (2002); Puck et al. (2009)	institutional theory; organization theory	non-equity vs. equity; JV vs. WOS; equity level of JV

Source: own elaboration

2. Sample contexts

A large variety of countries have been tested in research as either the home country or the host business environment of the investment. We created a construct with four quadrants according to the development level of the country[5] to look into the sample issue of prior empirical studies (Figure 1.5).

Figure 1.5: Sample contexts of prior empirical studies of entry modes.



Source: own elaboration

[5] We followed the classification of countries by UNCTAD (2013).

Except some papers which did not specify their sample contexts (i.e., the case of "worldwide"), the results show that 132 papers tested the sample focusing on developed countries and 34 papers on developing or transition countries. Specifically, 126 papers were based on the context of foreign investments from developed countries into other countries, among which 21 papers were the case of "developed into developed" (quadrant 3), 25 papers, "developed into non-developed" [6] (quadrant 2), and 6 papers treated developed countries as investment destinations. On the contrary, most of the papers focused on developing or transition countries were based on the context of foreign investments into these countries (22 articles). 6 papers looked into the context of investments from non-developed countries into non-developed countries (quadrant 1), and the other 6 papers did not distinguished the host countries. No paper was found that used samples based on the context of investments from non-developed economies into developed economies (quadrant 4).

[6] Including both developing countries and transition countries according to UNCTAD's (2013) classification.

1.3 Key issues in the prediction of foreign entry mode.

1.3.1 The strategies dimension in foreign entry mode choice.

An important but mysterious dimension in entry mode prediction is related to investors' strategic considerations in foreign investments. The strategic aspect has been given relatively less attention and its effect on this decision seems to be opaque. Study on this aspect can be dated back to Kim and Hwang's (1992) work, in which they suggest the potential effect of MNEs' desired coordination degree across their global business units on their entry mode decision. Scholars such as Harzing (2002), Luo (2001) and Ripollés et al. (2012) followed this claim and focused on MNEs' international strategy or market orientation in the foreign investment (e.g., global vs. multidomestic). Similarly to these works, authors such as Dikova and Witteloostuijn (2007), Slangen (2011), Slangen and Hennart (2008) studied the degree of autonomy that the parent firm plan to grant their overseas operations or subsidiaries in the foreign investments.

Research on this larger strategic considerations seems to provide quite convincing arguments and conclusive evidence. These studies based on TCE and underlined the "control" (for management synergy) in the decision-making. They have not only explained the choice between non-equity modes and equity modes and the equity level of an equity mode (e.g., WOS vs. JV) but also predicted the establishment mode preference in MNEs' entry mode decision (acquisition vs. greenfield investment), as it has been argued that equity modes, a higher ownership level, and a greenfield investment can grant investors more control over their foreign business activities (Anderson & Gatignon, 1986; Hill et al., 1990).

Apart from the larger strategic considerations, scholars also looked into MNEs' specific motivations for investing in the host countries and their potential effects on the entry mode choices. Firms cross borders not only for seeking new markets but may also for other reasons such as seeking efficiency, natural resources or strategic assets (Dunning, 1998). Prior entry mode studies showed quite similar

findings on the entry mode preference of MNEs' which seeking strategic assets or complementary capabilities. The authors observed significant tendency to appeal to equity entry modes rather than non-equity ones (e.g., Dunning et al., 2007; Pak, 2002), to acquisitions over greenfield investment (e.g., Anand & Delios, 2002), and to JV over WOS (e.g., Chen, 2008; Sanchez-Peinado et al., 2007) for those who aim to acquire specific knowledge or strategic assets for enhancing their capabilities and global competitiveness through overseas investments.

Divergences appeared in the research focusing on other specific investment motivations such as the client-following and market-seeking strategies. Erramilli and Rao (1990) and Sanchez-Peinado et al. (2007) suggest that client-following firms are more likely to create WOSs, while no significant ownership difference was found by Gil et al. (2006). Aulakh and Kotabe's (1997) work showed no significant differences in new venture mode choice for firms pursuing a market position strategy and firms pursuing other strategies. Sanchez-Peinado et al. (2007) found knowledge-intensive service firms tend to prefer JV when their entry is motivated by seeking market. Gil et al. (2006) tested FDIs by Western European and US firms in the emerging markets of Central and East Europe (CEE) and found that these investors seem to prefer WOS than JV when they seeking markets, while when seeking natural resources in CEE they would like to use JV.

Unlike the studies on MNEs' larger international strategies and foreign investment orientations, there is no consensus on the theories to predict and explain investors' entry mode choices in the research focusing on the effect of the specific investment motivations for investing in the host country. Some works even blended other potential factors which may affect the results (knowledge intensity, specific host country environment, etc.) into the analyses. Dunning et al. (2007) suggest a knowledge-based perspective for the choice between non-equity entry modes and equity modes. They argue that hierarchies (equity modes) are more effective mechanism than market to transfer tacit knowledge and imperfectly imitable capabilities (Dunning, 2000; Madhok,

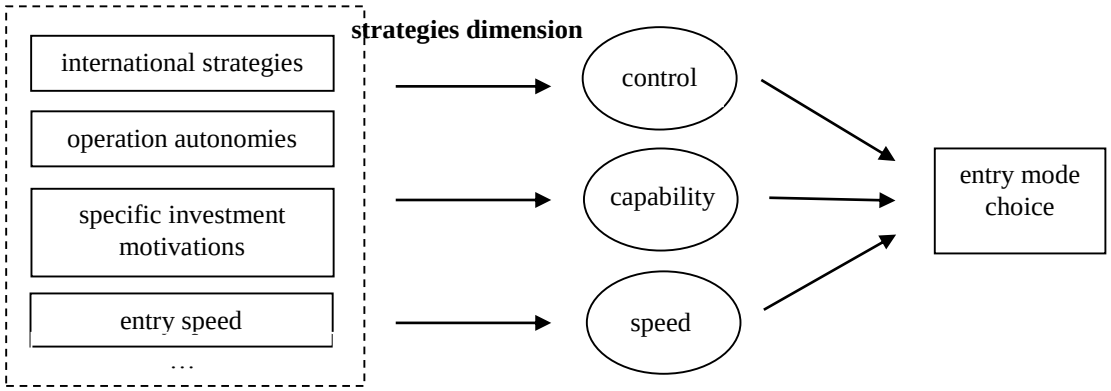
1997), because these knowledge and capabilities are usually embedded in operations and difficult to be separated. Sanchez-Peinado et al. (2007) underlined the organizational capability perspective (OCP) to understand firms' "value-creating behaviors" but failed to give a clear explanation for how this perspective can predict firms' entry mode. Why firms cannot develop specific assets or capabilities by their own through internal activities but have to appeal to other firms, either by JV or acquisition? Some authors try to relate these choices to the cost concern (e.g., Anand & Delios, 2002). However, no clear answer seems to have been given to the question why developing internally should be necessarily more costly than buying in markets or through acquisition? Or maybe the choice of one mode is because the other is not available? Also, there are still other questions that should be answered—why do firms need more control or coordination when seeking natural resource?; if firms have to share ownership for local market knowledge when seeking markets, is this the effect on entry mode choice attributed to the "needs of knowledge inputs" or the strategic considerations? Evidently, more efforts are required on these issues to understand the real effect of the specific investment motivations on entry mode choice.

Another important concern suggested by literature which is related to investors' strategic considerations is the speed that the firms want to penetrate the host market. Chen (2008) found that MNEs prefer acquisitions to greenfield investments when they need a rapid entry, e.g., into a fast-growing but with high competition market. The opportunity cost of delaying entry into this kind of market is high. The acquisition modes provide investors with existing operations in the market, which speeds up their penetration. The author even observed that such an entry mode tendency is higher in the case of sole ownership. Moreover, Dunning et al. (2007) and Pak (2002) showed that the preference difference is also shown in the choice between non-equity entry modes and equity modes under the same circumstances. They suggest that contractual modes such as franchising are more feasible options than merge and acquisitions (M&A) because it is sometimes difficult to come across local firms that are ready to sell their operations. The non-equity modes can allow foreign investors to obtain a

sizable share of market in a short time.

In conclusion, the strategy dimension has significant impact on MNEs' the foreign entry mode choice. These effects can be categorized into at least three different concerns which include control, capability and speed under the observable determining factors (Figure 1.6). However, the review shows that the effects of this dimension is still far away from being concluded. We argue for more analysis on this dimension, especially on the effect of MNEs' specific investment motivations for investing in the host country on entry mode decision.

Figure 1.6: The effect of the strategies dimension on foreign entry mode choice.



Source: own elaboration

1.3.2 "Soft/hard" uncertainty and interactions between determinants.

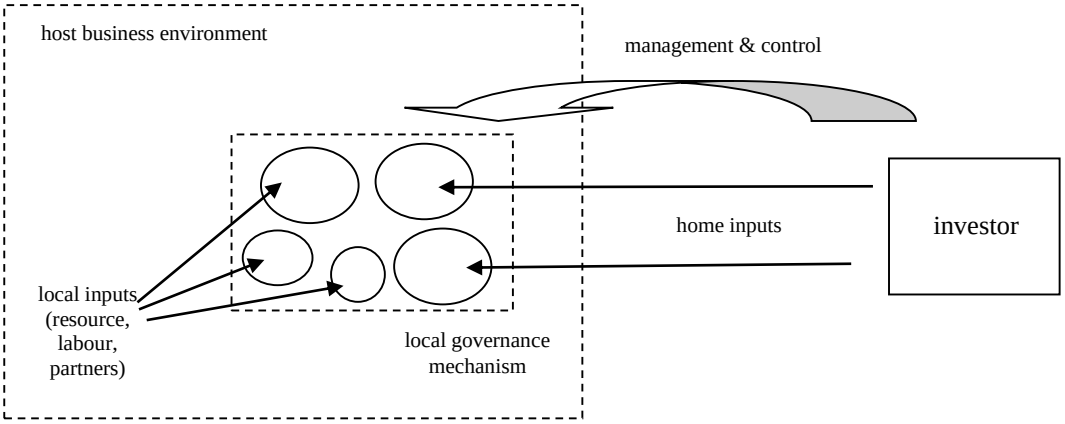
The search of previous findings and contributions on the determinants of foreign entry mode decision and their effects in the main publishing outlets shows paradoxes in studies which focusing on the cultural aspect, investment uncertainties and investors' experience.

Studies looking into cultural characteristics in entry mode choice can be traced back to Gatignon and Anderson (1988) and Kogut and Singh's (1988) works (López-Duarte & Vidal-Suárez, 2013). Nevertheless disputes on the effect of

cultural aspect rise in recent years in the research. Scholars who studied the cultural aspects usually focus on the differences of cultural environment between the host and home countries of the FDI, i.e., the "cultural distance". Trying to settle the disputes several scholars looked into the measurement of this factor (e.g., Dow & Ferencikova, 2010; Drogendijk & Slangen, 2006).

However, instead of exhausting the improvement of measurement, scholars may have to first re-think the nature of the problem which the cultural differences (or distance) can bring to the foreign investments. The cultural issue is actually related to the cognitive psychology, which affect the attention, language, perception, and the way of thinking and evaluation of both investors (influenced by the home country culture) and foreign business environment constituents (influenced by the host country culture) (Medin & Ross, 1992; Scott, 2013). The cognitive differences reduce the communication efficiency between the investor and the local constituents (e.g. in information exchange and negotiation), and may even lead to misunderstandings or disagreements, which affect the management quality on the overseas activities (e.g., knowledge transference, operation monitoring and practices enforcement) (Figure 1.7). In other words, the problems and risks that the cultural differences bring to foreign investment are behavioral in nature, which affect the efficiency (cost) of investment.

Figure 1.7: Foreign governance mechanism and management quality.



Source: own elaboration

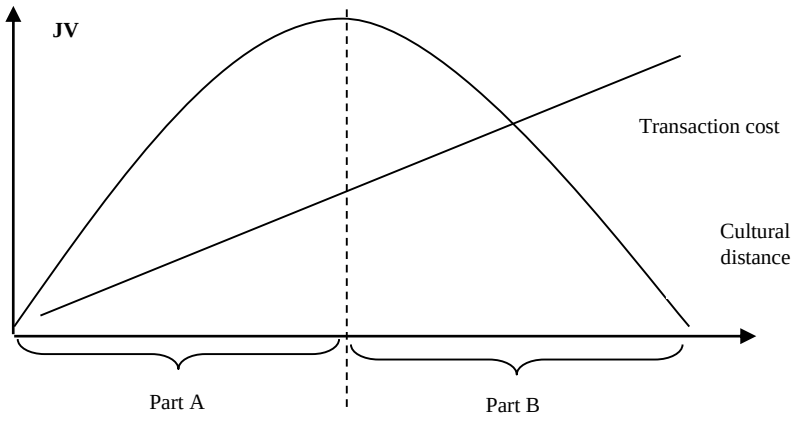
We argue that entry mode research should distinguish the uncertainty originated by cognition (behavior uncertainty) from the uncertainty originated by other institutional conditions. The behavior-related uncertainty to some extent can be controlled by the investor. That is to say, investors can take managerial measures (e.g., adopting a specific governance and monitoring structure) to reduce the uncertainty resulting from the cognitive asymmetry. In contrast to this "soft" (can be controlled) uncertainty, risks brought on by other institutional conditions, such as the regulative and nominative environments, as well as the political and macro-economic conditions of the host country are irresistible, or in other words, "hard" in nature, to which foreign investors has no way but yield. Because they can hardly change the macro situation at the country level or intervene in governmental affairs.

These two kinds of uncertainty affect foreign investors' entry strategies in very different ways. Facing behavioral hazard, investors may need more control over their overseas operations, which increases their tendency to internalize and, as a consequence, leads them to prefer equity entry modes to non-equity modes, WOS or higher ownership level in JV, and greenfield investments to brownfield investments (acquisitions). On the other hand, in environments characterized by high "hard" uncertainty, investors may have to choose a flexible entry strategy

reducing the resource commitment and the potential sunk cost.

However, the cultural paradox is still far away from being resolved when distinguishing the soft and hard uncertainties. Some scholars have suggested the potential nonlinear relationship between cultural distance and MNEs' entry mode choice. Wang and Schaan (2008) proposed an inverted U-shape curve of foreign investors' tendency of preferring JV over WOS under the effect of cultural distance appealing to TCE. Nevertheless they failed to explain clearly with solid theories why this entry mode tendency increases in the low cultural distance environment (part A in Figure 1.8) while drops in the high cultural distance environment (part B in Figure 1.8) respectively. Based on the argument above on the differentiation of soft and hard uncertainties we suggest the relationship between cultural distance and MNEs' entry mode choice be nonlinear, but inverted U-shape for WOS over JV, not for JV over WOS.

Figure 1.8: Wang and Schaan's (2008) inverted U-shape relationship between JV and cultural distance.



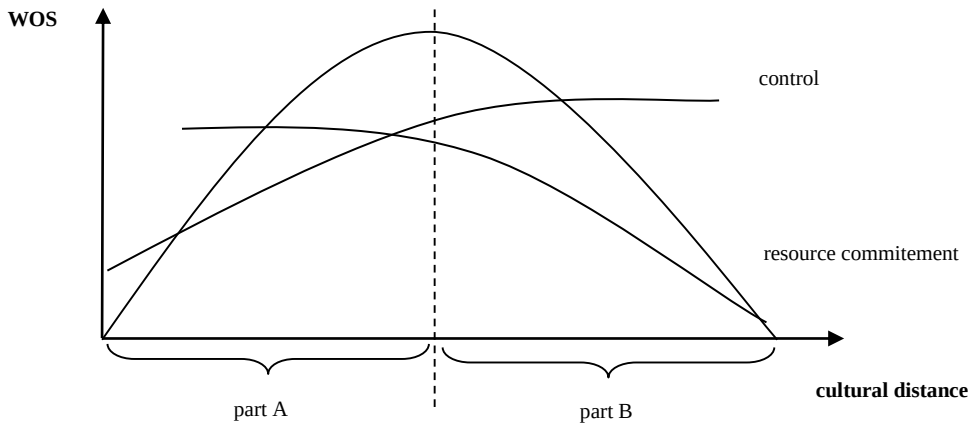
Source: Adjusted from Wang and Schaan (2008)

TCE suggest that internalization is more efficient when transaction cost is high. However, the cultural or cognitive difference between the home and host environments may not only increase the behavioral uncertainty in transactions but also the external risks on the foreign investments. Great differences in ideologies may affect the attitude of the host society towards the investments from a determined country, which further influence the regulative conditions for

the investments. That is to say, the cultural-related factor (observable) may not only have an effect on the transaction-cost dimension (latent) but also on the uncertainty dimension (latent) in foreign investments, which influence specifically MNEs' entry mode choices in INDIRECT way.

In low cultural distance environments, the influence of the cultural-related factor on the uncertainty dimension is not significant. That is to say, the impact of "hard" uncertainty on investments is also low. The necessity of control dominants in the investors' entry mode choice for the transaction-cost reason. Thus, when the cultural distance increases, foreign investors' preference for higher control entry modes also increases (part A in Figure 1.9). In high cultural distance environments, the influence of the cultural-related factor on the uncertainty dimension becomes significant. When the cultural distance increases, the investments risks also increases, which reduces investors' tendency of resources commitment in the investments according to the institutional theory or the real options theory (part B in Figure 1.9).

Figure 1.9: The proposed inverted U-shape relationship between WOS and cultural distance based on the soft/hard uncertainties.



Source: own elaboration

By proposing this reverse inverted-U-shape relationship between the factor of cultural distance and firms' foreign entry mode choice we not only try to give our own reflections and answer to the cultural paradox in the research based on the prior findings and contributions, but also want to draw scholars' attention to

the potential mutual effects between determinants and their joint effect on firms' decision-makings. The determinants of foreign entry mode choice are not isolated, neither are their effect unidirectional. Studies on this strategic decision predictions have begun to explore the moderating effects. However, this is still not enough. We argue that the interrelationship between the proposed determinants should be figured out and the potential interactions have to been identified to refine the understanding of this decision.

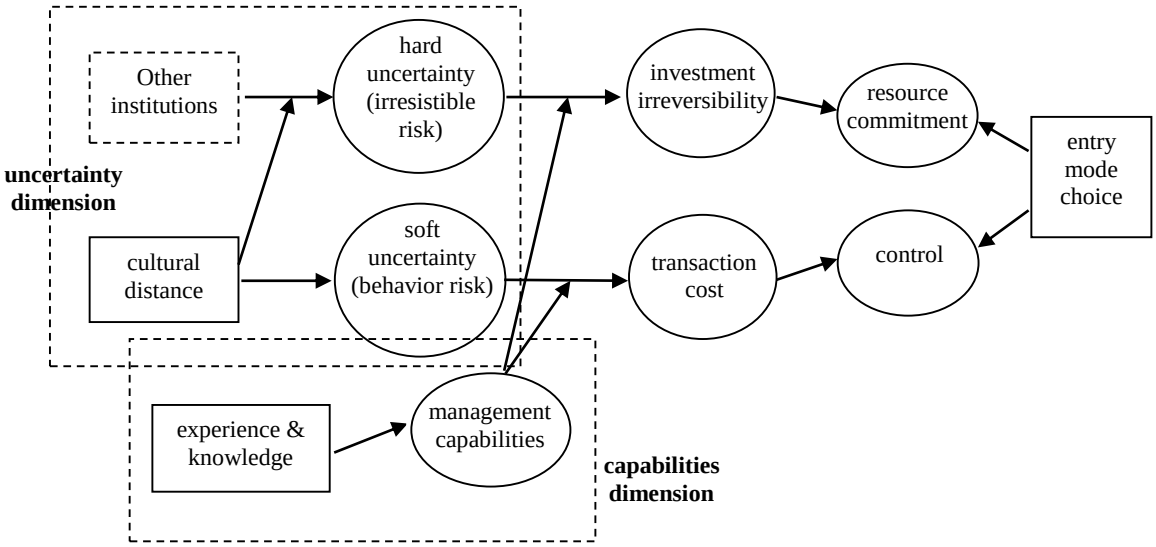
Besides the potential interactions between cultural distance and other institutional conditions, there are also some other factors in the game. As has been discussed above, behavioral uncertainties emerge as the cultural differences between the home and host environments increase. To reduce the behavioral uncertainties and the consequent extra costs in investments foreign investors need more control over the overseas operations. However, they may not always have to internalize the activities to achieve this end. Those who have greater managerial capabilities may be able to deal with these uncertainties and control the negative consequence to their investments without adopting a specific governance structure.

The experience of operating in international markets and knowledge about the host country can increase investors' know-how on overseas investments and the understanding of the host business environment, which enhance their abilities to control the potential behavioral risks in the local context. Prior empirical evidence shows a positive relationship between foreign investors' experience and the propensity of choosing lower control-level modes (e.g., Maekelburger et al., 2012). That is to say, experience or knowledge is also closely associated with the effect of cultural distance on the entry mode choice. That a similar but U-shaped relationship between MNEs' international experience and their propensity for integrated entry modes has been found in literature (Erramilli, 1991) is the best instance. As the experience and knowledge increase investors' managerial capabilities to control (i.e. reduce) the potential uncertainties in foreign investments, they act as the counterpart of the effect of cultural distance on MNEs' entry mode choice. Hence the relationship between them is precisely

opposite to the relationship between cultural distance and firms' entry mode choice which we have proposed above.

In conclusion, paradoxes and controversies in the literature of foreign entry mode choice on the effects of cultural distance, investment uncertainties and experience are related to the interactions and multidirectional effects of these factors. Although cultural conditions are one important component of the institution environment in the foreign investment context (Scott, 2013), it is not appropriate to understand their effect by appealing to institutional theory. The essence of their effect is closely related to the potential behavioral risks, which increase the costs in transactions. Moreover, the cultural conditions influences other institution elements (e.g., regulative institutions), in the meanwhile their effects are conditioned by other factors such as investors' knowledge, experience, and managerial capabilities (Figure 1.10). These analyses and deductions, although based on separated empirical evidences in the identified prior studies, suggest scholars pay attention to the potential interactions and mutual effects between the determining factors in entry mode research. We call for, on one hand, empirical studies on what has been discussed in our review regarding the mutual and joint effects between cultural distance, investment uncertainties and experience, and on the other hand, efforts on the potential interactions that may exist in other determinants in entry mode research. Study on the interrelationships between the determinants of foreign entry mode choice is important and required, which will refine the understanding of this decision-making and even the consequent influence on the investment performance.

Figure 1.10: The interactions and effects of cultural distance, institutional uncertainties, experience on foreign entry mode choice.



Source: own elaboration

1.3.3 The separation of external uncertainty.

Uncertainty (latent) is one of the most important concerns in foreign entry mode prediction. Uncertainties in foreign investments can be brought on by a lot of factors (observable). Some scholars have distinguished risks caused by factors related to the environmental restrictions, such as the conditions at the country or industry/market levels, and those by caused by factors related to managerial needs or limitations, which focus mainly on the investing firm or the operational (investment) levels (e.g., Anderson & Gatignon, 1986; Erramilli & D'Souza, 1995; López-Duarte & Vidal-Suárez, 2010). They classified these uncertainties into *internal uncertainties* and *external uncertainties*. Many authors employed TCE when focusing on *internal uncertainties*, and institutional theory when looking into *external uncertainties*. This classification is based on the superficial characteristics of the determining factors, i.e. the level where they are. But it is confusing for entry mode research, as uncertainties that come from the external

environment or the internal environment may not have the same impact on this choice. One advance on this in literature is the distinction of *endogenous* and *exogenous* uncertainties in some recent works (e.g., Chari & Chang, 2009; Li & Rugman, 2007). It centers on the consequence and resolutions for the risks—whether they can be affected by investing firms' actions or not. The insight that goes beyond the "physical" properties of the factors is meaningful. It draws the attention to the nature of the effects that these factors have on the decision-making. This is extremely important for the uncertainty dimension in entry mode research, which is complex and composed by various factors.

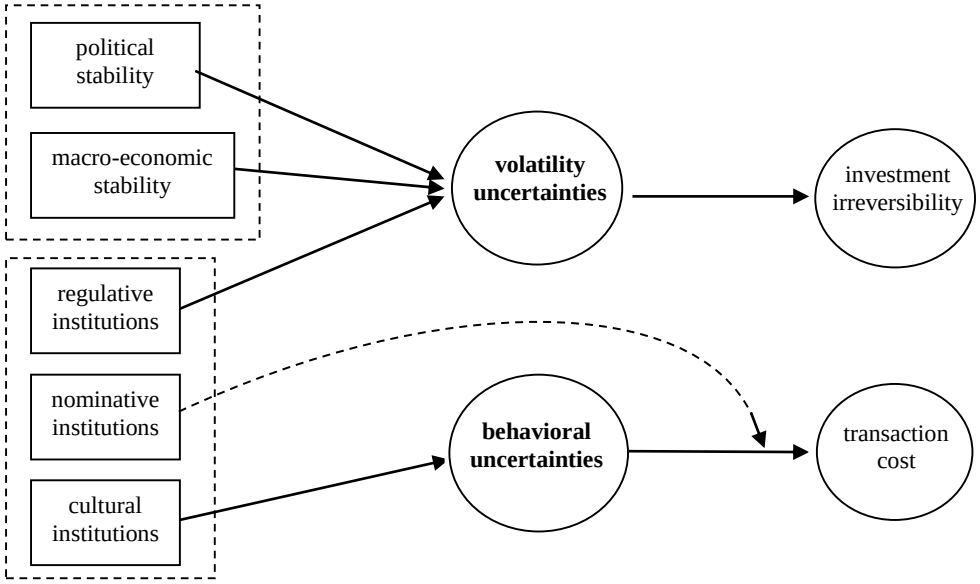
One important concern in the external environment suggested by literature is the institutional context. Prior empirical evidence has shown that the institutions of the host country have significant impact on MNEs' entry mode choices. However, differences were found in the effects of institution-related factors. This suggests that institutional theory cannot be used in research for all the factors related to the institutional environment, although they are "institutional". One example is the case of cultural distance discussed in the previous section. The cultural differences between the home and host countries increase potentially the behavioral uncertainties, which affect the efficiency (cost) of the investment. As we have argued, the impact of behavioral uncertainties on foreign investments can be moderated by other factors, and one of them comes from the internal characteristics of the investing firm, i.e. the managerial capabilities. The experience of operating in foreign markets gives firms knowledge of carrying out cross-border business and increases their understanding of the host context. This enhances their abilities to confront with the behavioral uncertainties and reduce the negative consequences to the investments.

Literature also suggests another potential moderating effect on the impact of behavioral uncertainties. Scholars such as Erramilli et al. (2002), Luo (2001), and Maekelburger et al. (2012) found that legal environment of the host country is very closely associated with foreign investors' decisions. They showed that in countries where the institutional environment provides safeguard for investors' properties firms' propensity to adopt a governance structure with higher control

decreases. A similar decision tendency is also shown in Demirbag et al. (2010) and Dikova and Witteloostuijn's (2007) works. They found that the host country's institutional advancement and corruption level determine the decisions of high-tech investors.

These evidences suggest that the laws enforcement and the governmental supervision in the host country influence foreign investors' perceptions of potential behavioral risks in investments, which are shown in their strategic decisions. Thus, it is necessary for scholars to go beyond the external environment in entry mode research. The institutional factors do not have similar effects on MNEs' entry mode choice to those related to the political and macro-economic conditions, such as the political or macro-economic stability of the host country. Moreover, the interactions and moderating effects exist in them. Scholars have to separate the institutional uncertainties in study and figure out their interrelationships. The effects of cultural and nominative institutions seem to should be distinguished from that of regulative institutions. While the formers lead to the volatility and irreversibility of investments, the latter are related to the behavioral risks, although they seem to have opposite effects on the efficiency concern in entry mode choice (Figure 1.11).

Figure 1.11: Institutional uncertainties and other environmental uncertainties at the country level in foreign entry mode choice.



Source: own elaboration

1.3.4 The "sample hazard" in empirical studies.

Although a wide range of countries have been approached in prior entry mode research, either as the home country or as the host country of the investments, our review shows that there is an imbalance of the investment contexts used as the analytical setting in the empirical studies. In most of the empirical works hypotheses were tested in samples of MNEs from developed economies such as the United States, Japan, or those of Western Europe. Recently, some studies began to shed light on foreign investments from non-developed economies, however, the analytical context of MNEs from non-developed economies investing in developed economies has been rarely explored.

International business literature has shown that the strategies and behaviors of MNEs from the developing and transition economies seems to be different from those which come from mature markets (e.g. Hoskisson et al., 2000; Cavusgil et al., 2002; Hoskisson et al., 2005). Similar findings were found in the study on

the path and behaviors of internationalization and outward FDIs from different origins (e.g. Hobday, 1995; Luo & Tung, 2007). Some theories and frameworks which are effective in one context may have problem in explaining firms' behaviors in another (e.g. Child & Rodriguez, 2005; Hoskisson et al., 2004; Wright et al., 2005). These findings implicate that sample context moderates study findings, which needs need to be taken into consideration in research. This issue may be also important in the study of entry mode decision not only because entry mode choice is one of the fundamental decisions in international business but also some prior studies have shown that MNEs' entry mode preferences vary with the country where they go and where they come from (e.g. Makino & Neupert, 2000; Luo, 2001; Zhao et al., 2004; Jung et al., 2008). Some authors have begun to explore the reasons for the behavioral differences between firms in different investment contexts. However, it is still unknown its potential influence on the entry mode decision. Are new determinants or theories needed to predict and explain the entry mode decisions of firms' from these non-developed economies?

Some authors pointed out that MNEs from developing and transition economies do not possess significant advantage to compete in the global market, especially in markets which are more mature than their home contexts and characterized by high competition (e.g., Matthews, 2002). Many of these "latecomers" explore overseas markets with a "resource leverage" strategy—they enhance their resource and capability base through foreign investments for competing in the home or other markets. That is to say, this advantage base and the investment purpose may make them different from those from developed economies. Also, as new entrants in the international market, many MNEs from the developing and transition economies lack of the experience of competing in global markets, especially carrying out the direct investments in an economic-liberalized environment. There are significant differences in institutional environments, business practices, and market conditions between developed economies and transition economies (Lebedev et al., 2014). The unfamiliarity with the new "game rules" may influence their decision-makings. Moreover, investors from these countries usually involve in a strong home-based institution environment.

Scholars have shown a high affiliation to the home institution environment in the behaviors' of MNEs from these economies.

The volume of overseas investments from the transition and developing countries is relatively low and they played a less important role in the past in comparison with those from developed economies. However, in the last decade, FDIs from these economies, especially those "emerging economies", have had a large increase, which now are changing the structure of the world's (UNCTAD, 2013). The focus on the strategies and behaviors of investors from these countries not only has interests for those policy makers but also implicates great potential in management research.

In conclusion, the investment context gap in foreign entry mode research may implicate new potential. We can admit that no more efforts are needed for the sample setting in research if all potential sample contexts had been tested. However, this gap has left many questions. We argue that attention should be given to the context that overseas investments from developing and transition economies in research, especially those entering in developed economies. The elimination of this research hazard will complete the understanding on the prediction of this strategic knowledge, and even increase scholars' knowledge on how it associates with the performance of foreign investments.

1.4 Mapping the foreign entry mode determinants.

Prior entry mode studies have suggested and tested a variety of determining factors that pertain to different aspects in the foreign investment. Our retrospective shows that scholars have looked into conditions at four levels in foreign investments—the country level, industry/market level, investment level, and firm level. Also, they have not only focused on the rational considerations that determine the entry mode choice, but also on some irrational factors (e.g., the organizational inertia and the potential agency problem between the executives and firm), which also have potential impacts on the decision. However, the analyses and empirical evidences show that factors from the same level do not have similar influences on the decision-making. To improve the understanding of these suggested determining factors' effects while figure out their potential interactions, we summarize and re-categorize the main entry mode determinants. Our mapping proposes four dimensions of factors around three core concerns (i.e., the effect of effects) in foreign entry mode choice (Figure 1.12).

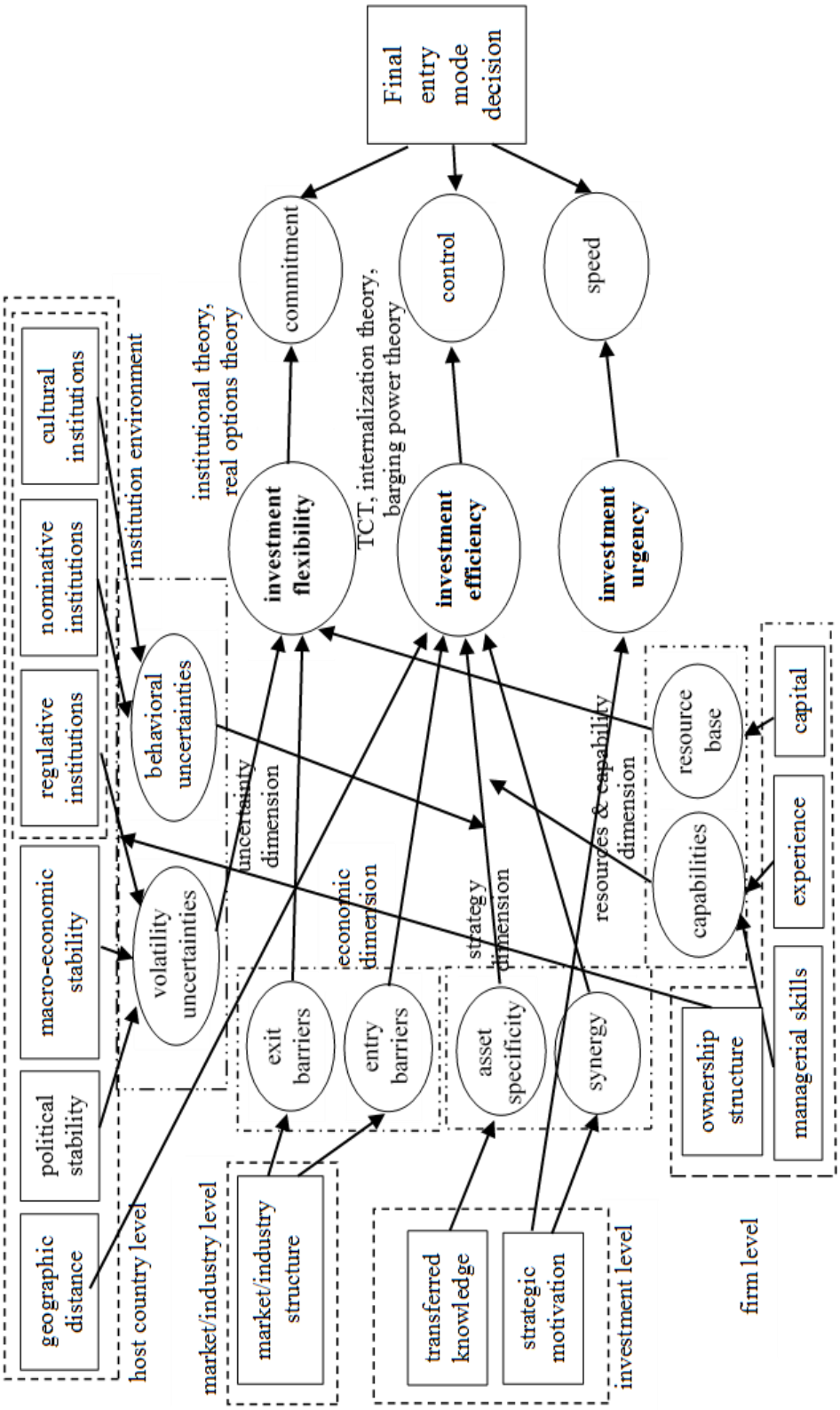


Figure 1.12: Interrelationships between cultural distance, uncertainty and experience and their joint effect on international entry mode decision.

Source: own elaboration

Scholars traditionally view the differences among entry modes as changes of the control that firms want, the commitment that they are willing to make, and risk that they take on (e.g., Anderson & Gatignon, 1986; Erramilli & Rao, 1990; Hill et al., 1990). Unfortunately, this view has two limitations. First, it confuses the relationships between *control*, *commitment*, and *risk* in the entry mode decision. The degree of risk that investors are willing to take on should not be one result of investors' strategic considerations shown in the decision-makings. On the contrary, it is actually the cause of *control* and *commitment*. That is to say, the degree of risk that investors are willing to take on decides their desired control over their overseas business activities and resources commitment in investments (see the discussion on the separation of uncertainty in entry mode decision).

Second, this view ignores other strategic concerns in entry mode choice such as the entry speed. Some scholars showed that investors not only focus on the economic issue (i.e., the balance between benefits and costs) but also other strategic considerations in foreign investment's decision-makings (e.g., Chen, 2008; Dunning et al., 2007; Pak, 2002). They found that entry modes are different in the speed that allow MNEs to compete in the local market. However, the influence of the concern on entry speed or urgency that investors need the local business activities in operations on their decision-makings has not been paid enough attention in prior entry mode research. Many scholars consider it logical that firms tend to carry out acquisitions or JVs when they seeking strategic assets through foreign investments or needing complementary resources and capabilities for exploring the local market. In facts, MNEs do not necessarily have to appeal to other firms with these desired resources/strategic assets. They can develop these by themselves (i.e., establishing WOS) recruiting skilled labor or even commissioning the operations to others through contractual agreements. But in some circumstances they may be forced to speed up this development process, specifically, when the potential cost of entry or operation delay is high. In short, the entry speed concern is critical to firms' decision-makings in foreign investments. As well as the *control* and *commitment*, it should be added and underlined in the entry mode choice.

Concluding the prior discussions and evidences, we suggest three main concerns in entry mode choice—the investment efficiency concern, investment flexibility concern, and investment urgency concern. The investment efficiency centers mainly on the economic considerations in the investment, which decides the control and the internalization degree for the business activities. The investment flexibility concern refers to the degree of flexibility that MNEs are willing for the foreign investments, which results in their resource commitment. At last, the investment urgency concern is related to the speed that investors need their investments to enter the "run-mode" (i.e., go into operations), which decides whether they need immediate operative "inputs" for the local business development or their home-based/global competitive advantages. These three strategic concerns compose the core considerations in the foreign entry mode decision and determine which mode MNEs may prefer.

The suggested determining factors for foreign entry mode choice in literature are actually all around these three core concerns. They can be distinguished into four main dimensions according to the differences of their effects, which include the strategy dimension, economic dimension, uncertainty dimension, and resource and capability dimension. The strategy dimension and economic dimension focus on factors that are related to investors' investment purposes and local market/industry structure. They play a leading role in investors' decision-makings, as they describe what investors want and how is the immediate business context in which they identify opportunities to obtain what they want. Factors belonging to the strategy dimension mainly come from the investment level, and those of the economic dimension are related to the characteristics of the local market/industry's environment. These two dimensions together determine the resources/knowledge that investors plan to contribute and transfer, the synergy and speed that they are willing, and the required costs for the entry, monitoring, and exit. They affect all the three core concerns in the entry mode choice.

The uncertainty dimension and the resource and capability dimension look into the external (not immediate business-related environment) and internal (within

the investor) conditions. Factors for the uncertainty dimension usually come from the country level, and they are closely associated with the investment efficiency concern and flexibility concern. As what has been discussed, two different types of uncertainty should be distinguished. One is related to the behavioral risks. The potential opportunistic behaviors and cognitive asymmetry increase the hazard of value loss in investments. This kind of uncertainty requires investors' monitoring and supervision over their business operations, which increases the investment costs when appealing to market. The other kind of uncertainty is related to the investment volatility or irreversibility. Investors may suffer significant losses, which cannot be costlessly reversed under such a kind of uncertainty. That is to say, the behavioral uncertainty affects investment efficiency while the volatility uncertainty is related to the flexibility concern. The cognitive and normative-environment conditions of the host country influence the degree of behavioral uncertainty in investments, while the political and economic stability of the host country and its regulative institutions determine the degree of volatility uncertainty that foreign investors may face. Additionally, these uncertainties are moderated by factors related to firms' own characteristics such as the ownership structure, resource base and managerial capabilities.

The mapping of entry mode determinants not only refine the understanding of their effects and interrelationships, but also put forward the potential theoretical bases for the study on them. For factors related to the flexibility concern, institutional theory and real options theory may be the appropriate theoretical basis. Investors can hardly react to the volatility uncertainty and the lack of resources, as a result, they may have to adopt a flexible strategy in investments. The cost-related theories (e.g., TCE, internalization theory, and bargaining power theory) may help explain why firms prefer higher control and internalization degree from the perspective of investment efficiency and cost minimization. This "landscape" may give some instructive suggestions to the study on the influences of the market/industry conditions on entry mode choice, which seems to be chaotic and have hardly been clearly and systematically concluded like the uncertainty-dimension factors in prior literature.

Unfortunately, the review and mapping show that there lacks theoretical basis for the speed concern in entry mode choice. Research efforts are required in future on this aspect.

1.5 Linking the performance study to the prediction study.

Despite extensive research in this field, most studies focused on antecedents of the decision, the importance of entry mode performance was ignored until recently. Shaver (2013) argues that it's important to keep in mind when addressing entry mode decision we should not just "try to describe what companies do", but also "try to know what companies should be doing to be successful".

Prior entry mode studies have confirmed the significant interaction between entry mode and performance. Early studies looked at entry mode performance tended to provide simple comparative analysis between several different kinds of entry mode (e.g. Woodcock et al.,1994; Nitsch et al., 1996; Anand & Delios, 1997; Pan et al.,1999). Later, scholars begun to look for moderating effects on the desired performance of subsidiary. Some moderating factors such as consumption time of the product (Anand & Delios, 1997), ethnocentric staffing (Konopaske et al., 2002), country of origin (e.g. Magnusson et al., 2008; Jung et al., 2008), cultural differences (e.g. Magnusson et al., 2008; Wang & Schaan,2008), and subsidiary integration level (Slangen & Hennart, 2008) on the performance of different entry modes were proposed and studied by prior works. It is from Brouthers et al.'s (1999) work that scholars begun to test the entry mode decision models in providing guidance for optimizing desired performance.

The measurement of performance in entry mode research also has undergone an evolution over these two decades. Many prior works focused on financial performance of the subsidiary by testing subsidiaries' profitability (e.g. Woodcock et al.,1994; Anand & Delios,1997). Later, Pan et al.(1999) took market share in host country into the performance evaluation of subsidiaries. Many scholars begun to use a combined measure of affiliate performance in order to capture its multi-dimensional character. Brouthers (2002) suggested that both financial (sales level, profitability, sales growth, etc.) and non-financial measures (market shares, marketing, reputation, market access, etc.) should be taken into consideration. Brouthers et al. (2003) and Brouthers et al. (2008) used

similar two-dimension measures. And Georgopoulos and Preusse (2009) employed more extended measures which included six dependent variables as proxy for performance—market share, firm size, return on equity, capital intensity, product differentiation, and industry concentration.

Our review of the empirical evidences in entry mode performance study found that works which provided simple comparative analysis between several different kinds of entry mode do not show consistent results. However, tests showed that investing firms followed different entry mode frameworks do significantly outperformed those which didn't followed entry mode frameworks. In their work, Brouthers et al. (1999) tested the OLI framework predicted entry modes and the performance of subsidiaries after the entries. Studies carried out by Chen and Hu (2002) and Kim and Gray (2008) focused on the TCE-predicted entry modes and performance. Brouthers (2002) examined the performance of firms under an extended transaction cost model. Later, Brouthers et al. (2003) proposed a “transaction cost-enhanced” framework for entry mode choice and compared the performance of firms followed modes can be predicted by this framework and the performance of those that can be predicted by this framework. And they three again in 2008 tested firms used the combined real option/transaction cost predicted choices (Brouthers et al.,2008).

These empirical evidences on entry mode performance study confirm most findings of prior entry mode prediction studies, which suggest transaction cost-related factors, institutional or environmental conditions, OLI-related factors and investment motivations should be taken into consideration when making entry mode decision.

Early studies which provided simple comparative analysis between several different kinds of entry mode may run a wrong way, and therefore is misleading. Scholars such as Shaver (1998) and Brouthers (2013) pointed out such kind of study ignores an endogeneity issue. Investing firms' performance is not based simply on which mode they used, because there is not an absolute "better" mode that can definitely lead firms to better performance than others, but exist a more

"appropriate" mode that can help firms overcome entry barriers and reduce potential investment risks and costs to achieve the expected results. This endogeneity issue may be the reason of the contradicting results in those simple entry mode comparative analyses. Actually, the "fit" of strategies with different contexts (opportunities, threats, resources, etc.) is one of the central themes in strategic management (Venkatraman & Camillus, 1984). As other strategic decisions, entry mode strategy should also help firms adapt to both external and internal environments.

The philosophy of "fit" advanced not only our understanding of entry mode performance, but also help the decision prediction study. The performance study should not only be considered as an independent issue in entry mode research. It is a good way to evaluate the *ex ante* decision. Thus, the link of performance to decision prediction can give us a clear idea how well we have known about this decision. Although many entry mode prediction models (OLI framework, TCE framework, enhanced-TCE framework, etc.) have been examined by aligning it with different decision-making models with performance, works are still needed. Future can continue working on other entry mode-decision models which have been proposed. On the other hand, it may be interesting to compare the performance predicted by one model to another. In the thirty year of studying entry mode decision, numerous determining factors of entry mode choice have been identified. However, the question is how many of these factor really need to be taken into considerations in the decision? Is there any factor which can influence such decision, but are redundant and does not necessarily lead to a better performance? Future entry mode studies can add the performance concern in the prediction study and test to which extent adding a factor in prediction do not affect more firms' performance.

1.6 Conclusions.

Entry mode choice is one of the fundamental decisions when firms decide to carry out cross-border business operations. Our pre-analysis centered on its prediction which are published on the top entry mode journals from 1980 to 2013. We compared and synthesized the findings of these works on the potential determinant of this strategic decision, and also look into the analysis contexts of these works. This retrospective look shows that research on the prediction of foreign entry mode is still far away from perfection. First, paradoxes are shown on the effects of several determining factors (e.g., cultural distance, investment risk, and experience). The disputes on them still have not been settled. Second, recent studies have begun to pay attention to the moderating effects when analyze the effect of one determinant factor. However, scholars have not been aware that the influences of many entry mode determinants are not isolated and unidirectional. The interrelationships between them are still unknown. Third, research on the strategy dimension and economic dimension (i.e., the market/industry-related conditions) in foreign entry mode choice has not been well developed. Some contradicting effects have been suggested and many past works lack solid theoretical bases. Fourth, we identified a potential sample hazard in prior entry mode studies. Scholars have not tested all the investment context. It is unknown that if the behaviors of MNEs from non-developed economies are similar to those of firms from developed markets, and if new determinants and theories are needed to explain their foreign entry mode decisions.

We argue that research efforts should be given to these issues in future. First, scholars need to improve theoretically and empirically the study of factors related to the strategic and market/industry conditions and conclude their influences on entry mode choice. Second, the interrelationships and potential interactions between the suggested entry mode determinants should be figured out. Moreover, analysis should be given to the investment context of firms from non-developed economies entering developed economies. In this review, we

tried to provide reflections on these identified research limitations and suggested three core concerns and four dimensions to conclude and refine prior research contributions. These original ideas may give inspirations to scholars and be helpful for the future research.

This review has several limitations. The main defect is related to the review scope. The large quantity of entry mode studies that have been done by scholars makes examining each of them through the content analysis an impossible work, which is actually qualitative in nature. Some important contributions by other interesting studies may be not included in our review. However, we believe that studies published on these top entry mode outlets are those which have the most impact and can present and can present the situation (i.e. the main contributions and limitations) of this research field.

CHAPTER 2

THE LOCATION ASPECT IN FOREIGN MARKET ENTRY MODE STRATEGY

Introduction.

The globalization and the growth of FDIs worldwide have currently aroused considerable interest among management scholars focusing on MNE's FDI strategies. In the literature focusing on international business and firms' overseas market expansion behaviors the "location" issue has been understood at the country level rather than the distinct "regional" approach (Dunning, 2009). The limitation exists also in the entry mode studies, the research which usually stops at the country level. Are the behaviors of MNEs homogeneous within a foreign country? On the other hand, most of the contributions on the understanding of these strategic deceisions were drawn from the FDIs from developed economies. Are the strategic decisions of MNEs from developed economies similar to those of EMEs? Attention needs to be given to these uncovered fields.

Among all the strategic concerns in MNE's foreign market expansion, where to invest and how to select an appropriate entry mode may be the two fundamental decisions that investing firms have to make once they decide to go abroad and enter another country. Management scholars have argued that these two decisions can affect directly investors' business development in the local market and are closely associated with their survival and post-entry performance in the host country.

In IM literature, entry mode decision and location choice have been usually studied separately as two independent decisions. However, to some extent these seem to be correlated as shown in some prior works (e.g., He, 2003; Li & Li, 2010; Strange et al., 2009). In these studies, the analytical results show that the variation of firms' entry mode tendency in different regions within the host country seems to be attributed to the specific regional institution environment and market-related conditions. Nevertheless, this association exists maybe not only because of the shared external determining factors, but probably the interdependence between these two decisions in investors' strategic concerns.

Trying to shed light on MNE's FDI behaviors within the host country and reveal the potential location-strategy considerations in entry mode decision, in this chapter we review the literature on MNE's foreign market expansion pattern and try to connect previous findings on the entry mode and location concerns in MNE FDI strategies. In line with recent claims by authors such as Kim and Aguilera (2015), we focus specifically on spatial clustering (geographic concentration of related firms) in FDI and MNE's colocation tendencies.

Similar to birds' flocking behavior, foreign investors are found to tend to agglomerate in FDI (e.g., Birkinshaw & Hood, 2000; Chang et al., 2013; Majocchi & Presutti, 2009). Scholars should also take into consideration that such a location tendency may vary according to the origin, structure, and development trajectory of the spatial clustering in the location. Despite the vast quantity of literature focusing on the geographic concentration of firms in related industries (*industry cluster*) (e.g., Marshall, 1920; McCann & Folta, 2008; Porter, 1990, 1998), little attention has been given to another kind of agglomeration where a group of MNEs of similar origin locate together (*ethnic cluster*).

In the context of FDI, the analysis of MNE's foreign market expansion pattern and entry strategies requires the distinction of these two types of agglomeration. Several issues emerge from this "clustering" behavior. First, why foreign investors tend to agglomate with other related firms when entering a foreign country? and why firms choose quite different agglomerating ways—one colocate with those from the same home country or with similar cultural background, while another colocate with those operated in the same sector or with related business activities? What are the drivers, or better said, the strategic concerns behind these colocation behaviors? Second, how a colocation strategy may influence foreign investors' entry mode choice? Under what circumstances this influence may exist?

Moreover, scholars studying the determinants of MNE's FDI decisions have

mainly based on either economic or institutional variables. However, with the exception of cases where there is significant heterogeneity of the economic or institutional environments within a country, such as in the United States and China, why in some countries or regions with similar conditions, do investors still show difference in location preference? Are firms' foreign expansion and behavior only shaped by strategic variables such as economic (earnings) and uncertainty (risks) factors?

Driven by these questions, we review the mentioned literature. A series of hypothoses are formed in this chapter according to the analysis of past findings and evidences, focusing on the spatial dependence in MNEs' entry mode strategy and the antecedents of their colocation strategy in FDI.

2.1 Agglomerations in FDI.

Strategic management literature has underlined a special geographic economic concentration of interconnected companies and institutions in a particular field (Porter, 1990, 1998; Krugman, 1991). It can be found different industry districts when observing the map of an industrialized country. In these agglomerations, firms of related industries colocate through buyer-supplier and supplier-buyer relationships (Porter, 1990). This kind of agglomerations, or called by many scholars *industry clusters*, is not only important for local start-ups (e.g., Puig, Marques, & Ghauri, 2012), but also in the context of international business, as it also attracts foreign investors (Birkinshaw & Hood, 2000; Majocchi & Presutti, 2009).

However, attention may have to be given to another important kind of agglomeration, where a group of foreign investors with similar ethnic background colocate with each other. This *ethnic cluster*, or called by Tan and Meyer (2011) *country-of-origin cluster*, is a special agglomeration in the context of FDI, especially in a foreign country with significant institutional and cultural differences to the host country. Scholars found that MNEs prefer these regions in their FDIs (Belderbos & Carree, 2002; Head et al., 1999). Chang et al. (2013) suggest agglomerations of firms with a common nationality can reduce perceived local investment risks. Miller, Thomas, Eden and Hitt's (2008) empirical study shows that colocating with ethnically similar firms in a foreign country can significantly increase new entrants' chances of survival.

Due to the inherent difference in their path of formation and the characteristics of the firms which it consists of, the inter-firm relationship between firms located in ethnic clusters and industry clusters is not similar. In ethnic clusters, the inter-firm relationship is characterized by high trust because of shared socio-cultural background (Tan & Meyer, 2011). The inter-firm relationships in an industry cluster are collaborative but at the same time competitive (Porter, 1990, 1998). Firms in this kind of agglomeration are in related industries and connected by business ties. They may compete for the productive inputs and customers, while

maintain an interdependence between each other. These two kinds of agglomerations locations provide foreign investors quite different investment environments to other regions.

2.2.1 Networks and agglomeration externalities.

It is important to have a relevant business network position in the host market when entering a foreign country. This is decisive for the investment to succeed. Scholars has suggested the important role of networks in MNEs' international behaviors (e.g., Chen & Chen, 1998; Ge & Wang, 2013; Jean, Tan, & Sinkovics, 2011).

The network relationships involve formal (business) networks that include customers and suppliers and informal (social) networks (Puig & Marques, 2010). The network perspective traditionally draws upon social exchange and resource dependency theories and focuses on the network linkages of investors. However, some scholars have recently put forward a new view on the network perspective in international business that may be called the *network development perspective*. In contrast to studies that focused on firm's extant networks, this view stresses the importance of the network development process in internationalization (Johanson & Vahlne, 1990; 2009). It underlines learning in firms' international behaviors, which should not be only treated as exploitation activities but also as a position-building process in foreign markets (Axelsson & Johanson, 1992; Johanson & Vahlne, 2009).

This view is similar to recent studies focusing on outward FDI from emerging economies and EMEs, which have argued that many EMEs lack significant competitive advantages to compete in a mature market and their overseas investments are characterized by the aim to seek strategic assets, such as superior technology, unique products, special managerial or marketing know-how, and home-based capability enhancement (Matthews, 2002; Luo & Tung, 2007; Kang & Liu, 2007). However, technology exploration and network development activities are not exclusive to EMEs. There have been proposals in strategic

management that firms need both exploitation and exploration capabilities to sustain their ownership advantages (e.g., Teece, Pisano, & Shuen, 1997; Simsek, 2009). These findings imply that the FDI strategic decisions of MNEs may not only be influenced by their extant resources or networks but also by their need for other complementary resources and networks in the host environment, either to deal with the local competition or for the home base.

A special network is generated in the spatial clustering because of the geographic proximity of a group of firms. Through the colocation strategy, foreign investors can significantly reduce the cost of building their own networks in the host context as the geographic proximity facilitates access to the contacts they require with other related firms or other constituents in the location.

In an ethnic cluster firms that are from the same home country are connected by ethnic ties. In an industry cluster firms in related industries are connected by business ties. The inter-firm relationship of compatriot firms is characterized by a high level of trust between firms. Chang et al. (2013) and Tan and Meyer (2011) have suggested that such a high trust relationship can facilitate the communication and information transfer process. New entrants can accelerate their learning process through these high-trust connections that help them gain legitimacy in the host context and build their own social network with the local institutions that are related to their business development.

Tan and Meyer (2011) conclude that there are two major benefits that firms can enjoy by colocating with their compatriot firms. First, it can help foreign investors reduce their liability from being outsiders and build trust in the local context by facilitating learning about the host environment and institutions. Second, in this location foreign investors can gain the legitimacy that their compatriots have already achieved in that location.

On the other hand, the network of firms in related industries connects providers, customers, and other related business partners in the sector. Network insiders can immediately approach local business partners and build their own business

network in the local context. They can also get access to market information and other specific knowledge related to their sector through this network (Ghoshal & Bartlett, 1986; Gilbert, McDougall, & Audretsch. 2008); that is, these connections with other related firms and the networks in the agglomerations help foreign investors to build the social and business networks that they need in the host context.

Investors can gain the position of an insider in the network of a group of firms by locating in the agglomeration. However, both of the two networks have pros and cons. Although a network of firms of the same origin lacks specificity with the investor's business, being an insider in a network of firms with similar activities lets a firm face direct competition and as a result increases their failure rate. Thus, the decision of whether to approach one or the other form of network requires a strategic focus and a trade-off is required. A particular EME may prefer a network with its compatriots to enable it to tap into an ethnic cluster while another EME may need a specialized industry-related network to enable it to tap into an industry cluster in the foreign country.

2.2 The sub-national level in foreign entry mode research.

International entry mode literature has focused on several macro-environment factors of host countries and their effects on this decision, such as political environment and legal restrictions (Brouthers, 2002; Lu, 2002; Chan & Makino, 2007), economic or market conditions (Chari & Chang, 2009; Cuypers & Martin, 2010), and the cultural aspect (Brouthers & Brouthers, 2001; Slangen & Hennart, 2008). However, it is seemed that scholars have rarely looked into the location-related aspects and usually treated the host country's environment as a whole (Dunning, 2009).

Evidence from several previous works shows that firms' entry mode decision to some extent is associated with the area where they locate within the host country. He (2003) compared the location patterns and the choice between equity JVs, contractual JVs and WOSs of FDIs and the results showed that there is significant difference of entry mode preference between the coastal area and the western area in China. Strange et al. (2009) also studied FDIs in China and he found that in areas within China where there are strong cultural and historic links with the home country MNEs tend to prefer higher equity stake in their affiliates. Li and Li (2010) found FDIs in coastal regions of China tend to choose a more committed ownership structure for their overseas operations. These works, although do not seem to have extended international entry mode theories, because the correlation between locations and entry modes in these studies actually arises from the regional institution- and economy-environment differences, they do suggest that scholars may have to give attention to the micro-contexts within the host country and the location patterns where investors tap into, as foreign investors' behaviors are not homogeneous although investing in the same country.

2.2.1 FDI entry barriers and MNE's strategies.

Foreign investors are likely to have disadvantages compared with national firms when they tap into a new foreign market. Management literature suggests much of the location-specific disadvantages faced by the foreign investors is attributed to the lack of the knowledge about the political and legislative, economic and market, and culture-related environments of the host country (e.g., Anand & Delios, 2002; Hymer, 1976; Meyer, Wright, & Pruthi, 2009; Tan & Meyer, 2011). This may be the first and the initial layer of disadvantage foreign investors usually face, which, according to Zaheer (1995), could be called *liability of foreignness*. Such a liability of foreignness is actually the result of the unfamiliarity with the foreign environment suggested by the classic Uppsala internationalization framework (Johanson & Vahlne, 1977; 2006). It is the initial layer of disadvantages because it is no more than a fixed cost at the beginning of the investment. Although accessing such information seems to be costly initially, once incurred it would not to be incurred again (Hymer, 1976).

Besides the *liability of foreignness*, which is mainly related to the knowledge of the local environment, foreign investors also usually suffer from *liability of outsidership*. This may be the second layer of disadvantages for investors when entering a foreign market, which is related to outside networks in the local business context. Modern business practices and theoretical advances view markets as networks of relationships in which firms are linked to each other, and via which to a large extent that firms learn and build trust and commitment (Johanson & Vahlne, 2009). It is importance to have a relevant network position in the host market when entering a foreign country. Being well established in the outside networks (the *insidership*) is decisive for investment success. Compared to national firms, foreign entrants usually a developed local business and social networks, which impedes their access to certain resources that are required for their business operations in the host country, and to key market or industrial information, or even some political information in some circumstances, that can significantly affect their business. Overcoming the *outsidership* is more difficult

and usually requires a long time.

Another important barrier to foreign investors which is of a more permanent nature arises from discrimination by local government, consumers, and suppliers as foreigners (Hymer, 1976; Zhou, 2013). To reduce such discrimination and institutional pressures, foreign investors need to gain social acceptance in the host country. Different from the knowledge of local general environment and market, the legitimacy issue is related to the conformation of local business practices, which affects MNEs' foreign operations in quite a different way (Scott, 2013; Yang, Su, & Fam, 2012). It is an investment to understand the local market and develop cooperative relationships with local constituents such as local government, distributors, and suppliers (e.g., Eden & Miller, 2004; Zaheer, 1995). Establishment and maintenance of legitimacy in the host environment is vital for the survival and success of the business in the host country (Kostova & Zaheer, 1999). It is critically important especially in a culturally and institutionally distant country, since foreign investors in such a context may feel it more difficult to develop trust with local constituents, which results in more uncertainties in their business operations (Zhou, 2013).

One way to overcome these barriers that management literature has suggested is establishing JVs with others or acquire an incumbent firm (e.g., Anand & Delios, 1997; Klossek, Linke, & Nippa, 2012; Meyer et al., 2009). A JV with local firms or acquiring a local firm can give investors immediate resources and networks in the host environment, and even a ready stock of specific knowledge and management skills that have generated by the local firm (Anand & Delios, 1997). Moreover, through the local partners or the acquired firms, foreign investors enhance their legitimacy in local constituents (Meyer & Nguyen, 2005).

Another way to overcome foreign entry disadvantages is the colocation strategy. Firms can gain access to the information or resources they need by locating geographically close to other related firms (Meyer et al., 2009; Tan & Meyer, 2011). Previous authors have found that MNEs have clear location preference in FDI (e.g., Head & Ries, 1996; Shaver & Flyer, 2000; Nachum & Wymbs, 2005;

Chang & Park, 2005; Alcácer & Chung, 2014). These studies have showed that MNEs' location preferences are not only influenced by the regional specific institutional environments or natural resources. Instead, in many cases, they are influenced also by other related firms in the location. The geographic proximity facilitates the information transfer and reduces the cost related to the search for information and learning for investors (Hansen & Løvås, 2004). By the frequent contacts between firms and the employees, firms can gain access to the specific information they need and tap into the network externalities.

However, these two ways have their own limitations. A JV is at the expense of control level over the business operation and bears the dissemination risk (Hill et al., 1990), while acquisitions are usually costly and problematic because of the information asymmetry between the target and the foreign acquirer (Barney, 1988) and the level of integration is often difficult to achieve (Jemison & Sitkin, 1986; Nayyar, 1993). Contrary to JVs and acquisitions, which provide investors an immediate stock of resources and capabilities, colocation strategy takes more time for foreign investors to break through the resource and knowledge barriers and build their networks in the foreign environment. It can be a viable means when firms don't need a rapid entry in the local market or when local partners and acquisitions are unavailable.

2.2.2 Interdependence between the colocation and entry mode strategies.

Colocating with investors from the same home country can donate the entrant with a network of these investors which are of a similar ethnic origin and cultural background, through which new entrants can acquire the knowledge of the local context and gain legitimacy in the host environment. The inter-firm relationship between investors with a similar origin is characterized by relatively high trust, which facilitates the communication between firms (Tan & Meyer, 2011). A high trust relationship is critical for new entrants to learn about the foreign context, especially the knowledge concerns the sensitive cultural and institutional aspects of the host country and other kinds of tacit knowledge (Dhanaraj et al., 2004; Miller et al., 2008; Tung, 1998). Foreign investors who are from a culturally and

institutionally distant country, especially those with little previous FDI experience, usually find it difficult to develop trust with local constituents (Zhou, 2013). This problem impedes investors' business development in the host environment. Also, new entrants can take advantage of the networks of these compatriot firms to develop their own social and even business networks in the host environment.

In short, ethnic clusters provide foreign investors a friendly start-up environment and can be an important source for foreign investors to learn about the host context and overcome the first and the third layers of FDI disadvantages. By locating this area, foreign investors do not have to try to overcome the entry barriers by collaborating with local partners or through a large investment to acquire an incumbent local firm. This strategy can be a springboard for foreign investors by minimizing their costs keep a wait-and-see option for the future expansion in the host country.

The entry mode literature seems to also advocate such a entry tendency. Evidences from studies such Cuypers and Martin (2010), Puck et al. (2009), and Brouthers and Brouthers (2003) show that in a relatively favorable environment with less uncertainties firms are more likely to prefer a greenfield invesment and have more resource commitment.

Hypothesis 1.1a. Locating in ethnic clusters within the foreign economy, investors are more likely to choose greenfield investments over acquisitions.

Hypothesis 1.1b. Locating in ethnic clusters within the foreign economy, investors are more likely to choose WOSs than JVs.

Colocating with firms in related industries can provide investors with immediate tangible and intangible resource that are specific to their business because of the geographic proximity and the consequent frequent contacts between each other. This strategy can significantly reduce their business development costs (Richardson, 1969; Parr, 2002). First, they can take advantage of the ready

infrastructures and other shared facilities in the location. Second, they can tap into the specific business network (clients/suppliers) and gain access to the production inputs and the distribution channels in the host country (Bathelt & Li, 2013; Carbonara & Giannoccaro, 2014; Kugman, 1991). Moreover, similar to ethnic cluster, the geographic proximity facilitates the contacts and information exchange between firms. Investors can benefit from the information leakage and gain access to the market-related information, such as market forecasts and new demand in the host country, and industry-specific knowledge, such as the current technologies and innovations (Dayasindhu, 2002; Mariotti & Piscitello, 1995; Mariotti et al., 2010).

Industry clusters provide foreign investors an immediate business network to overcome the second layer of FDI disadvantages and gain access to resources that they need. However, the inter-firm relationship in industry clusters is more competitive. New entrants may face more rivalry from the incumbent firms, as they are very likely to be direct competitors and potential threats for the productive inputs or market shares (Folta et al., 2006). The appearance of new "players" reduces the average benefit and increases the failure chance to firms. Moreover, the different ethnic origin and socio-cultural backgrounds may increase this hostility. The labels of "competitor" and "foreigner" will make it more difficult for foreign investors to achieve the collaboration level as expected. This problem may be a challenge especially to investors who with less experience and are unfamiliar with the host context. Thus, locating in this area they may need a flexible strategy to reduce investment uncertainties and look for ways to solve the problems related to the liability of foreignness and legitimacy issues in the local context.

From the perspective of entry mode theories this eclectic strategy seems to be also advocated. Evidences from Li and Li (2010) show that in a high competition and uncertain context, MNEs would like to choose more flexible, rather than more committed, ownership strategies that allow adjustment in future. Also, a low control governance structure can be efficient high competition environment, as the venture partners' behaviors can be controlled by the competitive pressure

according to TCE theory. The threat of being replaced can force them to perform efficiently and reduce opportunistic behaviors.

Hypothesis 1.2a. Locating in industry clusters within the foreign economy, investors are more likely to choose acquisitions over greenfield investments.

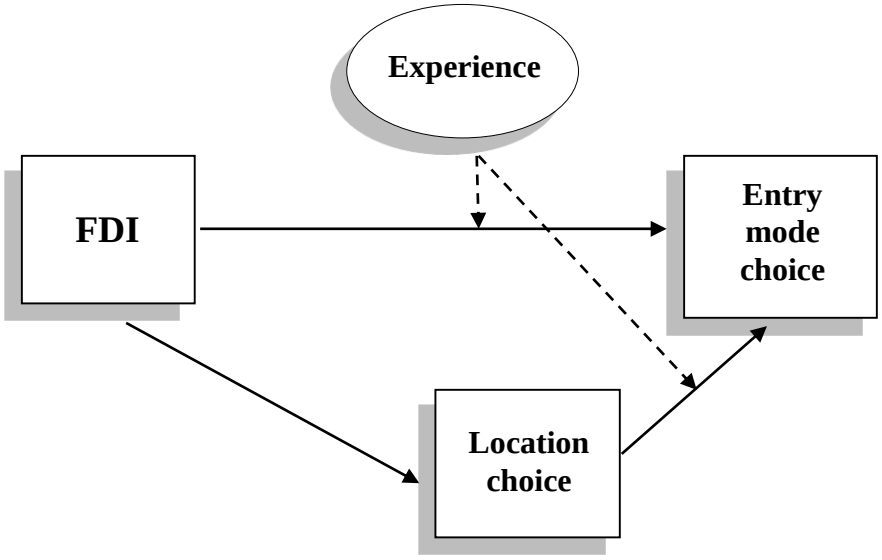
Hypothesis 1.2b. Locating in industry clusters within the foreign economy, investors are more likely to choose JVs over WOSs.

These entry mode tendencies and its dependence with the colocation strategy seem to be related to the FDI disadvantages and the entry barriers faced by foreign investors. Thus, investors who have overcome these disadvantages and entry barriers will not show such behavior tendencies. Investors who have had prior FDI experience in the host country may have better knowledge base about the local context and begun to build their both social and business networks in the host environment. As a consequence, the influence of the clustering and the colocation strategy on them will weaken.

Hypothesis 1.3. The experience has a moderator effect on the relationship mode-location.

Figure 2.1 summarizes the main conceptions and basic idea

Figure 2.1: Interdependence between location and entry mode strategies.



Source: own elaboration

2.3 MNE characteristics and colocation pattern in FDI.

Since the inception of IM research in the 1960's, scholars have devoted substantial energy to understanding the 'where' side of MNEs' international expansion, and how they make their decision to place value-added activities in particular overseas areas outside the home base. The mainstream literature deals with this issue and provides explanations for MNE behavior from three perspectives: The first is a focus on the economic-related variables at the country, industry, and firm levels. This usually emphasizes cost minimization (e.g., the internalization theory and the transaction-cost theory), market and industry structures in both the home and host countries (e.g., the industrial organization paradigm), and advantages associated with the product, the investor or the location (e.g., the product life cycle logic and the OLI framework [7]) as motivations for firms to pursue business opportunities and locate some of their activities in foreign countries (e.g., Aw & Lee, 2008; Dunning, 1998; Kang & Jiang, 2012). The second perspective borrows from the institutional theory, which advocates the influence of formal (e.g., government regulatory) and informal (e.g., cultural) institutions on FDI inflows and MNEs' location preferences (e.g., Du et al., 2008; 2012; Flores & Aguilera, 2007; Globerman & Shapiro, 2003). The essential insight of this perspective is the uncertainty concern in firms' investments, which underlines the potential risks from the institutional aspect and firms' corresponding reactions to these risks. A third approach is rooted in behavioral and growth theories, which look into the internal structure of MNEs (e.g., Benito & Gripsrud, 1992; Davidson, 1980; Johanson & Vahlne, 1990, 2006). This organizational perspective focuses on the knowledge accumulation, including firms' learning, from their past experience, suggesting a path-dependent pattern in firms' foreign location choice (e.g., the Uppsala model).

One important implication of the organizational perspective and the Uppsala process of internationalization is the recognition of investors' lack of knowledge

[7] The OLI framework refers to the eclectic paradigm proposed by Dunning (1980, 2001), which emphasizes the ownership (O), location (L), and internalization (I) advantages in a firm's FDI.

and the consequent cognitive constraints on managerial decisions. However, they ignore other sources from which firms can learn and obtain necessary information besides experiential learning.

2.3.1 Interorganizational dynamics and FDI location choice.

Some scholars have observed mimetic behavior of MNEs (organizational isomorphism[8]) in international business. Guillén (2002, 2003) and Kang and Jiang (2012) found that a firm's rate of entry into a foreign location increases as other firms belonging to the same business group or from the same home country have already started operations in the country or FDI location. Lu (2002) found that firms have a greater propensity to use the same entry mode that other firms in the same environment have used. Why do firms tend to follow in others' footsteps in internationalization and show a similar foreign expansion pattern?

Guillén (2002) suggests interorganizational dynamics among firms and the effect of these interactions on firms' behavior. This approach is based on the ecological and neoinstitutional theories, which underline the potential mutual influence between organizations and the environment where they operate (Bronfenbrenner, 1979; DiMaggio & Powell, 1983; Scott, 2013). Firms operate and evolve in the environment consisting of other firms and organizations. They not only learn from their own experience or by other internal mechanisms but also by obtaining information from other organizations in their immediate environment. The behavior of others in the immediate environment raises firms' awareness of potential opportunities and gives them legitimacy to carry out similar activities (Deephouse, 1996). Investors may not readily realize by themselves the existence of opportunities or how to exploit them. However, they may be likely to engage in such strategic choice once they perceive it to be viable and legitimate via the action of other firms.

How do clusters form? Why do firms tend to choose similar locations and agglomerate in certain places? The seminal works by Michael Porter (1990) and

[8] See DiMaggio and Powell (1983).

Paul Krugman (1991) have motivated a large number of scholars to pay attention to agglomerations of firms in particular fields. Some scholars have preferred to call these agglomerations *clusters* (Porter, 1998), and others, *ecosystems* (Moore, 1996). Strategic management literature has traditionally focused on the industry cluster, which is defined by scholars as an array of related industries through buyer-supplier and supplier-buyer relationships, or by common technologies, common buyers or distribution channels, or by common labor pools (Becattini, 1990; Porter, 1990). Scholars have found that this kind of agglomeration boosts local start-ups and attracts foreign investors (Birkinshaw & Hood, 2000; Majocchi & Presutti, 2009; Sternberg & Litzenberger, 2004).

In the context of international business another kind of agglomeration can be observed, where a group of foreign investors from the same home country or of similar origin locate with each other. This *ethnic cluster* is often seen in FDI, especially in the case of FDI into countries with significant institutional and cultural difference to their home country. Belderbos and Carree (2002) show that Japanese MNEs, when investing in China, usually locate in the eastern region. On the other hand, Filatotchev et al. (2007) and Strange et al. (2009) found that Taiwanese MNEs are mainly interested in the southern region. The data from UNCTAD (2013) show that Chinese investors have crowded into the northern region (Hamburg region) and western region (Dusseldorf region) when entering Germany, while most prefer the Madrid and Catalonia communities when venturing into Spain.

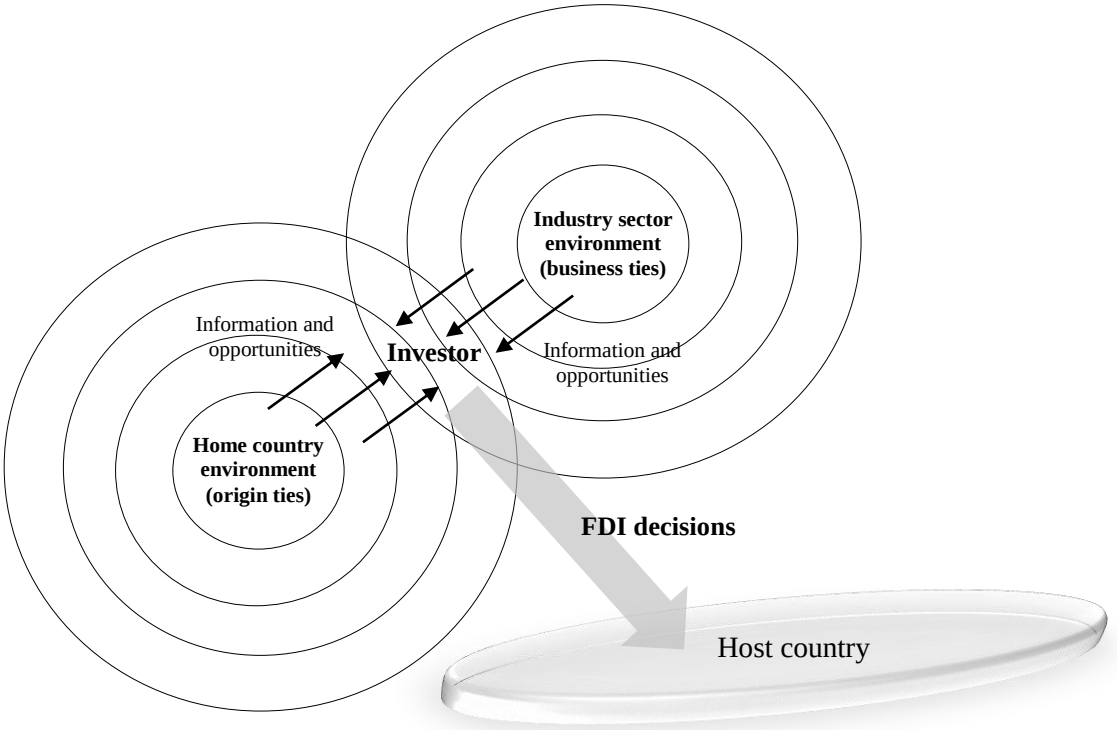
Though scholars focusing on agglomeration economies usually argue that new entrants are attracted by these benefits, it should however be noted that these effects are actually generated ex post facto, in other words, they are the "effect" of clusters not the "cause". As an alternative, the formation path of clusters may be closely related to the interorganizational dynamics. This interorganizational perspective explains why related firms may show mimetic behavior, and those belonging to the same group usually make similar decisions. Early entrants to a particular area driven by certain location advantages inform others in the immediate environment and encourage those with similar needs to this area. The

entry of these “pioneers” not only provides “examples”, namely, the possibility of doing business, to others with similar backgrounds but also creates legitimacy to latecomers carrying out similar activities in the same location. The increased numbers of entrants from the same environment even may cause a compliance (new “institutions”) of others in the environment. Such an isomorphism reinforces the appearance of concentrations of firms in the area.

2.3.2 Antecedents of FDI colocation strategies and MNE characteristics.

Firms are involved in two main immediate environments before entering a foreign country. The first is the home country context, in which firms grow together with other organizations of the same institutional background (not necessarily in the same industry) by ethnic or social ties. The other is related to the immediate competitive environment, the industry context, in which firms are linked with other firms in related activities, such as suppliers and distributors or even competitors doing the same activities (not necessarily from the same country) by business ties (Figure 2.2). Firms are tied to these two contexts for exchange, ownership, or control reasons, and interact with the constituents of each.

Figure 2.2: The interactions between investors and their immediate environments.



Source: own elaboration

These two environments influence investors simultaneously and provide them with different stimuli—mainly opportunities and legitimacy, because of the heterogeneity of their constituents. The two environments provide investors with two potentially different agglomeration tendencies: (1) into regions where other investors from the same home country have entered; and (2) into areas where other investors engaged in the same industry have preferred. However, foreign investors may not be influenced equally by these two contexts. Shaver and Flyer (2002) and Tan and Meyer's (2011) works have shown that firms differ in their exposure to the effects of environmental factors (dependencies, needs) as well as the propensity to change (strategic aims). These two aspects cause the agglomeration tendency to vary across firms.

1. Firm level characteristics and birds' "flying pattern".

Modern business practices and theoretical advances have underlined the importance of "insidership" in business networks to a firm's success (Johanson & Vahlne, 2009). It is through these networks that firms gain access to the information and resources that they need for their business operations. Thus, it is important to have relevant business networks in the host environment when firms internationalize and enter a foreign country (Axelsson & Johanson, 1992; Johanson & Vahlne, 1990). Investors who lack such ties in the foreign context (*liability of outsidership*) may find it difficult to develop their activities.

Another important issue that investors have to deal with once they decide to cross borders and carry out FDI in a foreign country is to gain legitimacy in the host context. New ventures in the market usually meet a "legitimacy threshold", which they need to reach to exist and to gain access to resources (Rutherford & Buller, 2007). In the context of international business this problem arises, on one hand, from the "liability of foreignness" (Zaheer, 1995), attributed to the lack of knowledge about the regulatory, normative, and cognitive contexts of the host environment (Scott, 2013). On the other hand, it may result from discrimination of these firms by being foreigners by local governments, consumers, and suppliers (Hymer, 1976), especially to those from countries with significant political, economic, and cultural differences to the host environment (Bangara, Freeman, & Schroder, 2012).

Small-sized firms have fewer financial and human resources. Consequently, they differ from larger firms in their independence and interaction with their environment (Shuman & Seeger, 1986; Brouthers & Nakos, 2004). First, resource limitation constrains small firms' ability to build external networks, especially those outside their country of origin, the process of which is usually costly. This impedes not only their access to the necessary resources for their overseas operations (e.g., local skilled labor) but also their approach to business information and the necessary knowledge of the foreign context ("forging"

ability), as they are likely only to be able to afford to acquire them through market transactions.

Second, SMEs usually find it difficult to diversify risk in response to challenges arising from the institutional context (Erramilli & Rao, 1993; Schwens, Eiche, & Kabst, 2011). Thus, they are less likely to prefer high-risk investment in FDI (i.e., "safety" issue). These make SMEs more dependent on their home base resources (including networks) and more likely to be influenced by others in the home context, who will share with them their information, experience, and legitimacy in the overseas markets. Consequently, SMEs are more likely to "fly" with compatriot firms—interact with other investors from the same home environment and act in concert.

Hypothesis 2.1. Smaller firms are more likely to "fly" with compatriots in FDI and tap into regions that these have preferred (ethnic cluster).

State-owned enterprises (SOEs) are an important force in worldwide overseas investments, especially those from emerging economies (Yeung & Liu, 2008; Kolstad & Wiig, 2012). SOEs usually have both political and economic concerns in their ideology and strategies (Cuervo-Cazurra et al., 2014). They are required to serve the political mandates of the state and align their interests with their home institutions while pursuing their business objectives (Scott, 2002; Zhang, Zhou, & Ebbers, 2011). Thus, SOEs are more tied to the home context and their behavior is usually influenced by the conditions and strategic needs of the home context, which make them more likely to appear to serve specific political aims in areas where there are a large numbers of inhabitants and firms from the home country.

On the other hand, the political affiliation of SOEs makes their interests less likely to be consistent with the expectations of the external institutions in the local context (Globerman & Shapiro, 2009). They are usually perceived by host country institutions not simply as business entities but also as political actors (He & Lyles, 2008), which results in a greater legitimacy problem and an extra entry

barrier, especially in an ideologically, politically, or diplomatically conflicted foreign country (Cui & Jiang, 2009, 2012). The strong ties with the home context and the greater perceived institutional pressure from the host context in FDI makes SOEs more likely to "fly" with compatriot firms than private investors.

Hypothesis 2.2. SOEs are more likely to "fly" with compatriots in FDI and tap into regions that these have preferred (ethnic cluster).

As explained above, the liability of foreignness constitutes a major obstacle for FDI investors. Unfamiliarity with the political, legislative, economic, market, and cultural environments of the host country hinders the development of an investor's business network and the achievement of legitimacy of business operations in the host context. Knowledge about the host environment required for FDI can be partly acquired through market transactions, however, such a kind of knowledge exchange lacks the richness and effectiveness of that based more on primary relationships, particularly when tacit knowledge is involved (Hernandez, 2014). Knowledge transfer of sensitive cultural or other institutional aspects of the host country is not easy to obtain (Miller et al., 2008; Tung, 1998). Moreover, new foreign entrants may find it difficult to develop trust with local business partners (e.g., inputs providers) in a culturally distant country (Tsui-Auch & Möllering, 2010). This raises additional challenges for those lacking prior experience in the host country to carry out their business operations. Thus, they are more likely to "fly" with compatriot firms to take advantage of the legitimacy that these prior entrants have generated in the local areas. Moreover, the interfirm relationship between firms of the same origin is characterized by a relatively high degree of trust (Tan & Meyer, 2011), which can help latecomers reduce investment uncertainty and facilitate development of their business networks.

Prior experience in the host country or in countries with a similar business environment can help investors learn about the host environment. Increased understanding of the host context enhances investors' ability to build legitimacy in the host environment and develop trust with local partners (Dhanaraj et al.,

2004). Consequently, foreign firms perceive less investment uncertainty and encounter fewer obstacles in developing their networks in the host context to access local inputs. Thus, they are more likely to be driven by the specific industrial conditions in the host country and be influenced by those engaged in similar activities to acquire business opportunities.

Hypothesis 2.3a. Investors lacking host environment experience are more likely to "fly" with compatriots in FDI and tap into regions that these have preferred (ethnic cluster).

Hypothesis 2.3b. Investors with more international experience are more likely to "fly" with other firms engaged in similar business activities in FDI and tap into regions that these have preferred (industry cluster).

2. Investment level characteristics and birds "flying pattern"

Firms usually have different aims when carrying out FDI. They cross borders not only to seek overseas markets but may also be driven by other strategic motivations, such as seeking efficiency or strategic assets (Dunning, 1998). While firms' structural characteristics cause investors to differ in their dependence on their immediate environment, their strategic motivations impact their propensity to interact with others in these contexts, which is consequently revealed in their location tendencies (Shaver and Flyer, 2002).

Scholars have found FDI firms with specific strategic motivations usually tend to agglomerate in specific countries (Dunning, 1998; Makino et al., 2002). Those seeking foreign markets are more likely to be "downstream" FDI (from developed economies into developing economies), while those seeking technologies or other strategic assets are more likely to be the "upstream" FDI (from developing countries into developed economies). This suggests that investors with different aims have quite different preferences and strategic considerations in FDI (Buckey, Clegg, Cross, Liu, Voss & Zheng, 2007).

Investors with the objective of seeking specific industry-related assets such as technologies, brands, and specific management know-how in FDI are more likely to interact with other firms engaged in related activities to acquire or create these assets by searching for skilled labor, by information spillover, or by direct purchase (Meyer, Mudambi & Narula, 2011). In contrast, lack of such target specific assets in the home country reduces their propensity to interact with others in the same context for this purpose. Consequently, firms seeking strategic assets in FDI are more likely to "fly" with others engaged in similar activities.

Investors seeking foreign markets have to compete directly with other firms with similar activities for the distribution channels and markets (Fan, Cui, Li, & Zhu, 2015). This competitive relationship reduces their propensity to interact with others in the same industry. Investors with this aim may perceive more rivalry from the host environment than those just seeking complementary resources. Thus, exploring the markets of developed economies such as the United States and the European Union, where industries or markets are in a more mature stage of development characterized by a high degree of competition, is particularly challenging, especially for EMEs. Such firms usually lack significant advantages to compete in the global market and the ability to design differentiated products (Deng, 2009; Luo & Tung, 2007). This disadvantage and the role of "foreigner" may make it more difficult for them to build trust in the market and develop their distribution channels. Thus, investors seeking foreign markets, especially EMEs, are more likely to "fly" with their compatriots to gain legitimacy in FDI and develop their business networks.

Hypothesis 2.4a. Investors seeking strategic assets are more likely to "fly" with other firms engaged in similar business activities in FDI and tap into regions that these have preferred (industry cluster).

Hypothesis 2.4b. Investors seeking overseas markets are more likely to "fly" with compatriots in FDI and tap into regions that these have preferred (ethnic cluster).

One benefit that firms can gain by colocating with other firms is knowledge or information spillover. However, geographic proximity increases competition and rivalry, and raises the expropriation hazard (Iammarino & McCann, 2006; Wang, Madhok, & Li, 2014). As has been suggested by authors such as Shaver and Flyer (2000), agglomeration can benefit investors with problems of investment uncertainty and costs, but may harm the performance of others without such problems. Leakage of specific knowledge and key business information, such as technologies and management know-how, to firms with similar activities erodes competitive advantages. Thus, investors with high specificity assets in their investments show propensity to be influenced by the industry context, but in a negative way. They may be unlikely to act in concert with other firms engaged in similar activities and follow in their footsteps.

Hypothesis 2.5. Investors with high specificity in their investments are less likely to "fly" with other firms engaged in similar business activities in FDI and tap into regions that these have preferred (industry cluster).

3. Knowledge transfer and birds "flying pattern"

The interorganizational perspective not only underlines the effect of the immediate environment on the constituents' behavior but also suggests potential reverse influence of the constituents' behavior (Martin, Swaminathan, & Mitchell, 1998). Firms and interorganizational effects mutually reinforce each other (Guillén, 2002). That is to say, firms are not just influenced by other group members, their behavior can also influence others in the group because of the interactions among them. These interactions are not static. The experiences of the constituents further enrich the group and increase the knowledge of the others inside.

As a result, the exploration of early entrants into a foreign country provides latecomers from the same group with more experience and knowledge about the

host context, which reduces latecomers' investment uncertainties (Lu, Liu, Wright, & Filatotchev, 2014). This transferred experience and knowledge may increase the likelihood of latecomers, either from the same home or industry context, tapping into new territories within the host country.

Hypothesis 2.6. Foreign investors tend to "fly" with other firms of similar background, however, such a tendency decreases as time passes.

2.4 Conclusions.

Through the insights into spatial clustering and agglomeration economies in FDI, we reviewed the literature on MNE strategies and we hypothesized the potential existence of spatial dependence in MNEs' foreign entry mode choices and their propensities of tapping into different kinds of agglomerations in the host country. The contributions of previous studies on investors' foreign expansion behaviours suggest that internationalized firms' strategies for entering a foreign market are not isolated but interdependent. These strategies are made by investors for breaking through the entry barriers and pursuing a better performance in the local market. Also, as investors are not homogeneous neither in their resources and capabilities nor in their investment aims, differences should show in their preferences of choosing one or another entry strategy in the entry.

Two groups of hypotheses are formed by us and the theoretical reasonings were explained in this section. Specifically, these hypotheses focus on the interrelationship between MNEs' entry mode and colocation strategies and the potential influence of other related firms (business groups) on their decision-makings. This resume of prior findings and the theoretical inferences extend the understanding of MNEs foreign expansion patterns in several ways. In the next chapter, empirical anlyses are given to test these hypotheses and prove the theoretical inferences.

CHAPTER 3

RESEARCH DESIGH AND METHODOLOGY

Introduction.

The literature and previous research contributions on the understanding of agglomeration economies and MNE FDI behaviors let us suspect there is potential association, or better said, interrelationship between foreign investors' colocation strategies and entry mode choices, as they can serve as alternative ways to overcome entry barriers that foreign investors may face in FDI. Moreover, owing to the differences in either the resoures and capabilities or the investment motivations of the foreign investors, the propensity to prefer one or another strategy may vary among firms.

To test the hypotheses constructed on the basis of these suspicions, an empirical analysis was carried out based on a sample of German firms which have been invested by Chinese MNEs in receny years. The empirical analysis consists of two stages. In the first stage, the two hypotheses focusing on the correlations between target MNEs' entry mode choices and the region where they located were tested. In the second stage, the six two hypotheses focusing on the structural and strategic characteristics of target MNEs which have located in two different concentration of groups of firms were tested. Two relatively independent tests were carried out due to statistical reasons. First, the dependent variables in these two tests are not equal, as the analytical focuses are diffrerent. Second, in these tests different predictor variables and control variables were introduced and operated in analysis.

The employment of a sample of Chinese FDIs into Germany in recent years not only has methodological values but also provide extra contributions to the research. First, as newcomers participating in the global market, outward FDIs from China have just increased significantly no more than one decade ago, especially those investments from private investors. Most of them are not

familiar with the international business environment and lack experience of carrying out FDI in foreign markets. This allows us to oberserve perfectly how these newly internationalized firms make decisions and choose strategies to overcome the entry barriers and survive in foreign markets. Moreover, Chinese MNEs generally are still in a relatively low degree of internationalization. Most of their business issues still rely on Chinese employees when expanding into foreign makets, and their business practices are based on the experience in the home market. In contrary, MNEs from occidental developed economies usually act more locally and have more percentage of local employees when they operate in foreign markets. These special characteristics isolate the potential interventions from other aspects in the analysis, i.e. influencing the sample firms' strategies to overcome the entry barriers.

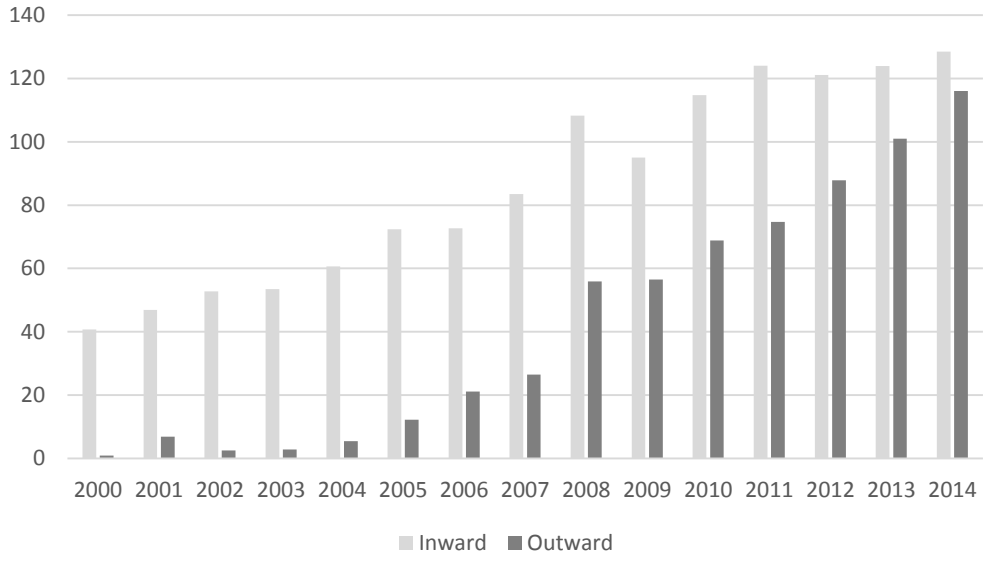
Second, analysis on such a special sample provides opportunity for the increase of knowledge on the foreign expansion behaviors of MNEs from those non-developed economies. As these countries, especially those emerging economies, are playing a more important role in nowadays' international business and the world economy, the understanding of their behaviors not only implicates academic contribution but also interest to policy makers who are concerned with attracting FDIs for the local economic development.

This chapter describes the methodology of this research. First, we introduce the background of Chinese FDIs worldwide and their entry in the EU. Second, we explain where we obtained the data for analysis and how we identified the final samples for each test. Later, the measurements and the statistical method employed for the two tests is described.

3.1 Chinese FDIs in Europe.

The domestic economic growth since the end of the last century in China encourages a rapid growth of outward FDI period. Following following the "go abroad" policy of the Government, many Chinese MNEs try to enter overseas markets by carrying out FDIs. Although the volume of outward FDI from China was trivial ten years ago compared with the volume of inward FDI in the same period, it nowadays has reached to the same level of inward FDI. According to the data from UNCTAD and the Ministry of Commerce of China (MOFCOM), the FDI flow from China has increased up to 116.0 billion USD in 2014, and the outward FDI stock has accumulated up to 729.6 billion USD (Figure 3.1). Among them most of the investments are the non-financial position, which account for 87.46% (60.18 billions USD) in the total amount (Table 3.1). In 2012 35.42 billion USD of non-financial direct investment from China in entered 116 countries and regions establishing 2,163 overseas enterprises. Although the growth speed of Chinese outward FDIs slows down due to the world unfavorable financial environment, it's still up by 48.2% year-on-year.

Figure 3.1: Chinese inward and outward FDI flows in the new century (billions USD).



Source: UNCTAD (2015a)

From 2002 to 2006, China's outward FDI volume recorded an average annual growth of 60% (MOFCOM, 2007). By the end of 2010, more than 13,000 Chinese firms have gone out to 178 countries, eout 16,000 their overseas enterprises (MOFCOM, 2011).

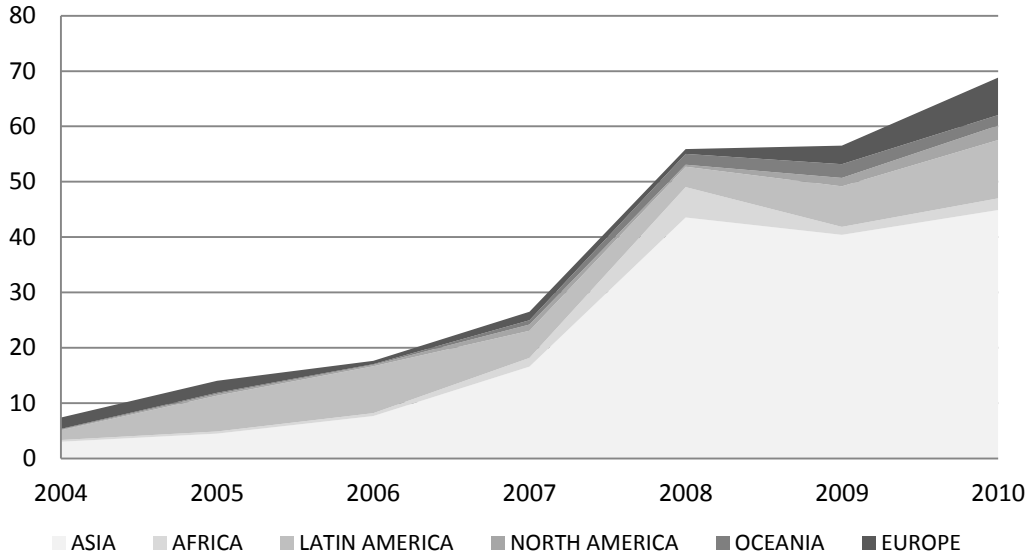
Table 3.1: Structure of Chinese outward FDI flow and stock in 2010 (billions USD).

	Outward FDI flows			**Outward FDI stocks**	
	Sum	Change	Share (%)	Sum	Share (%)
Total	68.81	+21.7%	100.0%	317.21	100.0%
Financial	8.63	-1.1%	12.5%	55.25	17.4%
Non-financial	60.18	+25.9%	87.5%	261.96	82.6%

Source: Adjusted from MOOFCOM (2011)

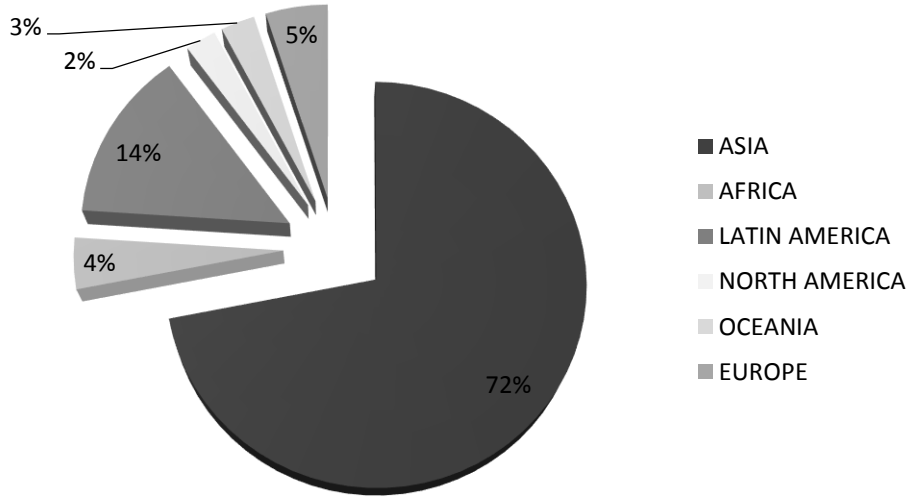
Europe is one of the most important destinations for the world FDI, especially the EU countries. In 2011, Chinese FDIs into the EU has risen to 420.7 billions USD, which present more than one quarter (27.6%) of the world FDIs into this region (UNCTAD, 2015a). According to MOOFCOM (2012), Asia countries have received the largest part of Chinese outward FDIs in recent years, which accumulated to 72% of the total stock of China's outward FDI. Even that Europe has lost the second position of most preferred destinations for China's outward FDI since 2005, due to the rise of the economy of Latin America (Figure 3.2 and Figure 3.3).

Figure 3.2: Chinese outward FDI flows into the world (billions USD).



Source: Own elaboration based on data from MOOFCOM (2012)

Figure 3.3: Distribution of Chinese outward FDI stocks in the world.

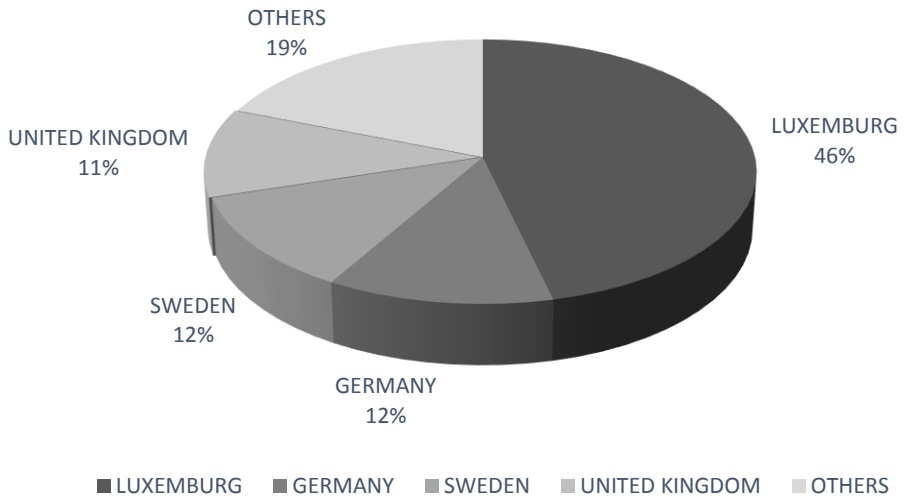


Source: Own elaboration based on data from MOOFCOM (2012)

However, Europe is still one of the most important destitnations of China's outward FDIs. According to the data, although in the earlier of the new century most of China's outward FDI went to non-European countries (91.3% of China's outward FDI flows in 2005 went to non-European countries), in the last five years China's outward FDI began to crowd into European countries. Luxemburg,

Germany, Sweden and United Kingdom have been the countries which received most Chinese outward FDI (Luxemburg, 46%; Germany, 12%; Sweden, 12%; United Kingdom, 11%) (Figure 3.4).

Figure 3.4: Chinese outward FDI stocks in the EU.

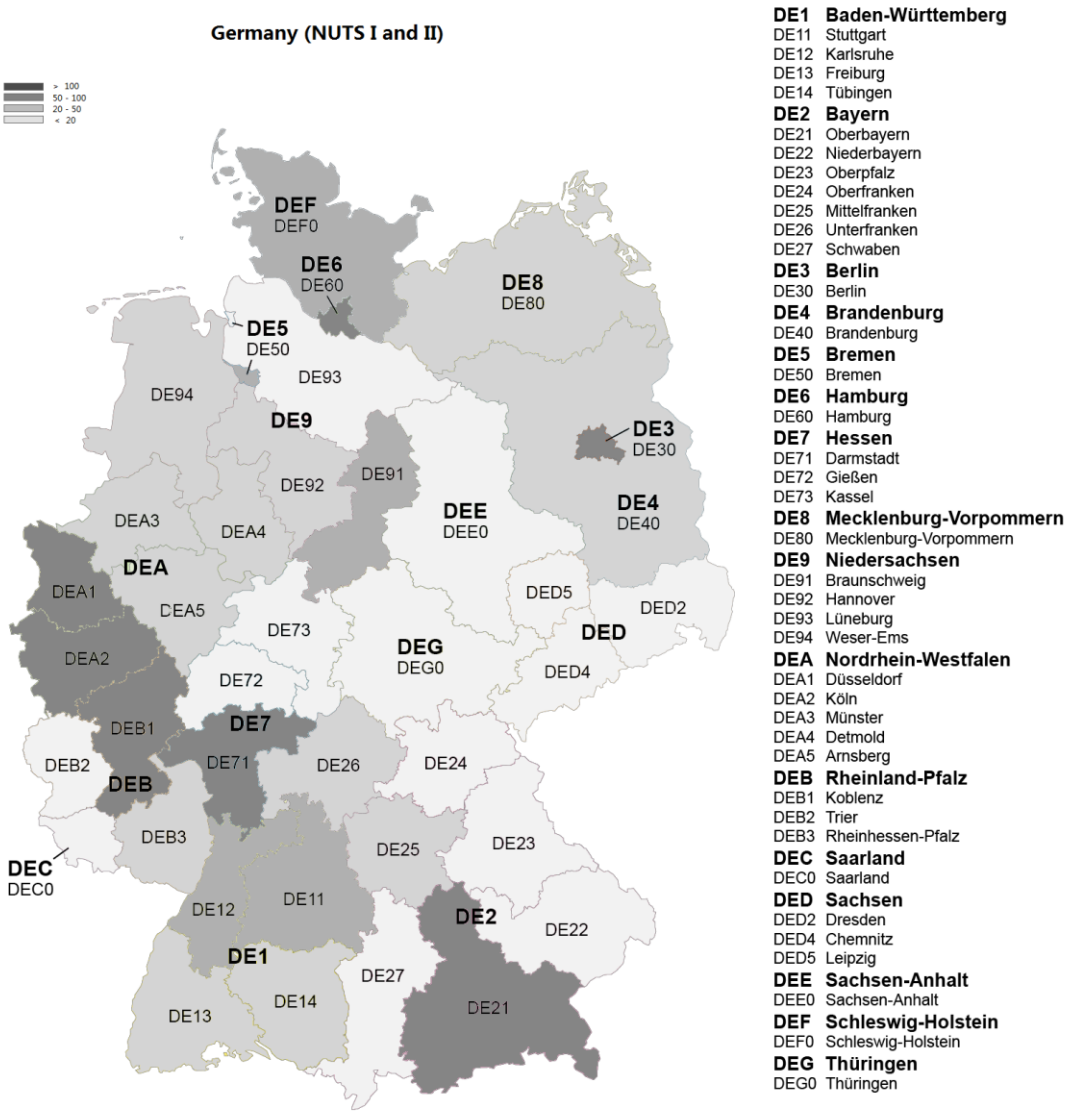


Source: Own elaboration based on data from MOOFCOM (2012)

3.1.1 The distribution of Chinese FDIs in Germany.

Germany is becoming more important for Chinese outward FDIs in recent years. Although the market size is relatively not large and difficult to enter because it is one of the most mature markets in the world. Many Chinese MNEs invested in it for seeking technologies and innovations, as there are very developed industries and advances technologies. That is to say, Chinese MNEs entering Germany not only for market expansion, they treat the German market as a sprindboard to enhance their competivitive advantages for competing in both the home and global market. Figure 3.5 shows the distributions of Chinese investors who have carried out business activities in Germany in 2014.

Figure 3.5: Distribution of Chinese FDIs in Germany.



Source: own laboration based on data from AMADEUS

They seem to have mainly preferred the western (around Dusseldorf and Frankfurt) and southeastern (around Munich) Regions of Germany. This indicates that there is significant difference in investors' FDI location preference within the foreign country, where there exists "invisible hands" behind.

3.2 Data collection and empirical analysis sample.

The empirical analysis draws on data gathered from mainland Chinese MNEs that have invested in Germany in recent years. A single host country and single host country was chosen in the analysis for methodological reasons. It helps remove in the analysis the influences of other important factors that affect MNEs' strategic decisions, such as cultural distance, regulatory restrictions, and diplomatic relations between the home and host countries. Previous IM literature has suggested that these factors can significantly influence foreign investors' behaviors (e.g., Cui & Jiang, 2012; Cuypers & Martin, 2010; Pan & Tse, 2000). These conditions may vary among different countries. The adoption of multi-nations in either the home or host FDI countries in the analysis without control may result in analytical bias in research.

Using the AMADEUS database, which is considered to be an important secondary research source that has a high degree of reliability, we identified firms in Germany that have owners from China. Combining the information of AMADEUS with those extracted from firms' reports[9] and web sites, as well as government publications, we created a database composed of 282 local firms in Germany which have been invested by Chinese-owned firms. Owing to the completeness of information that we could access to, 162 firms were extracted from the database for the test focusing on the interdependence of MNEs' colocation strategies and entry mode choices; 269 firms were extracted from the database for the analysis looking at MNEs characteristics and their colocation patterns in FDI.

We checked the foreign investment information for the target firms, as well as the information at firm level related to both the German local firms and the Chinese investing firm, such as their locations, ownership structures, activities, and financial statuses. The samples represent the main Chinese outward FDIs

[9] Mainly their annual and semiannual reports, investment announcements, and other kinds of internal documents.

carried out by enterprises from 2005 to 2013 in Germany (UNCTAD, 2013). Similar information sources and collection method have been employed in other IM studies (e.g., Siedschlag, Smith, Turcu, & Zhang, 2013; Dikova & Witteloostuijn, 2007)

Table 3.2 and 3.3 show the geographic distribution and the industry distribution of the sampled firms in test I.

Table 3.2: Geographic distribution of the investments in sample.

Region	Firm number	Percentage
Dusseldorf	28	17.3%
Darmstadt	18	11.1%
Oberbayern	14	8.6%
Köln	12	7.4%
Stuttgart	10	6.2%
Unterfranken	10	6.2%
Hamburg, Freie und Hansestadt	7	4.3%
Others	63	38.9%
Total	**162**	**100%**

Source: own elaboration

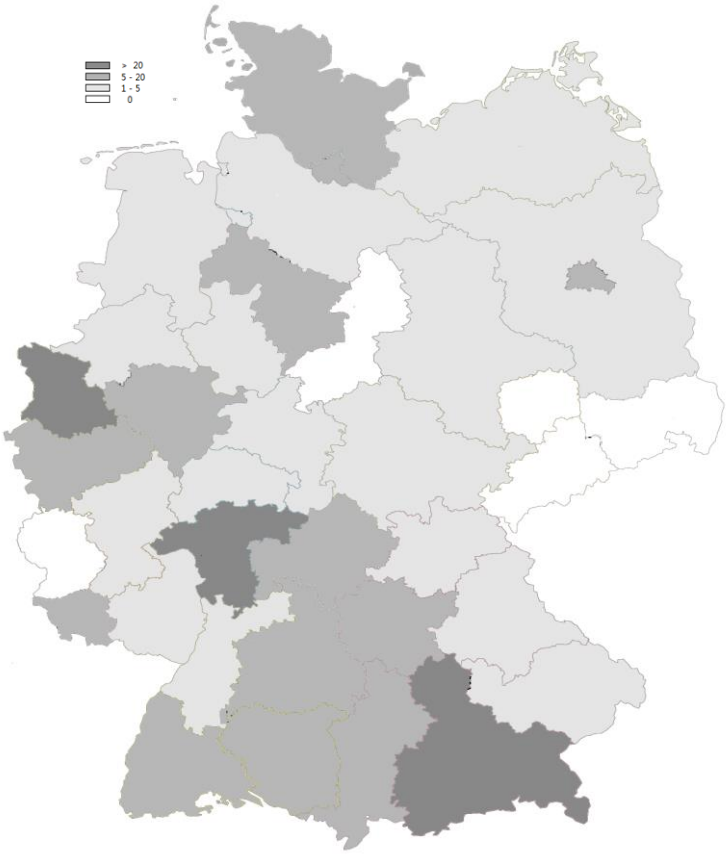
Table 3.3: Industry distribution of the investments in sample.

Subsector	Firm number	Percentage
Wholesale and retail trade	65	40.1%
Manufacturing	63	38.9%
Professional, scientific and technical activities	20	12.3%
Information and communication	4	2.5%
Transportation and storage	4	2.5%
Others	6	3.7%
Total	**162**	**100%**

Source: own elaboration

Figure 3.6 shows the geographic distribution of the sampled Chinese investors' FDI in Germany in test II.

Figure 3.6: Distribution of sample firms in Germany.



Source: own elaboration based on data from AMADEUS.

This map shows that the distribution of the sampled local firms is very similar to the distribution of Chinese FDIs in Germany (see Figure 3.5), which indicates that the selection of sample in test has not significant deviation.

3.3 Analysis measurements.

1. Test I.

The dependent variables in the analysis are the entry mode that Chinese investors used into the German local firms, which includes *establishment mode* and *ownership structure*. We followed Chen's (2008, 2010) 2×2 scheme (Figure 3.7) and distinguished the choice of the establishment mode (acquisition vs. greenfield) and the ownership structure (JV vs. WOS). Following previous entry mode empirical research (e.g., Chang et al., 2012; López-Duarte & Vidal-Suárez, 2013), in this analysis a WOS was defined as a subsidiary with at least 95% of shares owned by one Chinese investor, either it is a greenfield one or an acquired firm. It was considered as a JV, when there is more than one investor and each has less than 95% of shares (10%–94%, both included), either it is a greenfield one or an acquired firm. A greenfield investment was considered one that involves starting a new operation from scratch, while an acquisition was considered one that involves the purchase of an existing company in host country, either by full or partial acquisition.

Figure 3.7: FDI entry modes.

Establishment mode \ Ownership structure	WOS	JV
Greenfield	Greenfield WOS	Greenfield JV
Acquisition	Full acquisition	Partial acquisition

Source: adjusted from Chen (2008, 2010)

The independent variable included in our study is the investors' location choice of whether they have tapped into an ethnic or industry cluster when entering

Germany. As there is no agreed method for identifying and mapping clusters, either in terms of the measurements or the procedures by which the geographical boundaries of the clusters should be determined, we followed some previous authors and used a proxy of the location quotation (LQ)[10] of the two types of clustering on the basis of the number of firms to define the locations that are of one kind of agglomeration or the other in the target country (Martin & Sunley, 2003; Cader & Leatherman, 2011).

In the analysis, we included a set of control variables: *investment sector*, *investor size*, *investment size*, *investment motivation* and *tech-knowledge* (both matrix and subsidiary) according to the literature.

Manufacturing FDI is characterized by capital-intensity while service FDI is more knowledge-intensive in nature based on people (Brouthers & Brouthers, 2003; Sanchez-Peinado & Pla-Barber, 2006). This difference may affect investors' uncertainties perception, which results in a difference in their reactions (entry strategies). *Investment sector* was created in our study to capture differences between manufacturing and service investments.

The availability of resources plays a significant role in firms' FDIs (Maekelburger et al., 2012). Larger firms have more resources and are more likely to be able to adopt an entry with higher resource commitment (Brouthers & Brouthers, 2003). We included *investor size* as a proxy for investors' resources base according to the data of employee number, operating revenue, and total assets of the year before their entry. We also measured the subsidiary size as the log of the *investment size* that investors undertake. A larger investment motivates investors to prefer a lower equity level to share risks while maintain the flexibility (Li & Li, 2010).

10 Following Cromley and Hanink (2012), the LQ with reference to Chinese firms at observation point (or location) i is a ratio of ratios. For example, the ratio for the local unit of observation (origin cluster) can be written as e_i/E_i, where e_i is the number of Chinese firms at city i, and E_i is the total of firms at city i. The ratio for the aggregate reference can be written as e/E, where e and E are the total firms in Germany and the total of the overall firms in the reference economy, respectively. Then: $LQi = (e_i/E_i)/(e/E)$.

Many Chinese MNEs pursue FDI with the intent to acquire strategic assets, rather than exploit the overseas markets (Cui et al., 2013; Liu & Woywode, 2013). Luo (2002) and Sanchez-Peinado et al. (2007) showed that firms which seek strategic assets act differently to those that seek market expansion in the FDI. By including *investment motivation* we aim to capture this difference.

Tech-knowledge (both matrix and subsidiary) measured the R&D and knowledge[11] intensity of the investors and their investments, which focuses on transaction cost concern. TCE has been one of the most important theories applied in entry mode strategy (Brouthers, 2013). More control is required when such specificity is high (Bouthers & Bouthers, 2003; Maekelburger et al., 2012). Authors found that it also influences firms' establishment mode (Slangen & Hennart, 2008; Harzing, 2002). Due to the limitation of information we can access, we used a proxy of industry average level where investor are. We followed the classification of manufacturing industries and service industries according to their technology and knowledge intensities based on NACE Rev. 2 published by Eurostat (2014).

We controlled *matrix ownership* and *entry period* for the specific sample context that we chose. Many outward FDIs from China are undertaken by SOEs. Cui and Jiang (2012) and Duanmu (2012) suggest that SOEs usually have to take into consideration some factors which private firms do not have. *Matrix ownership* was created according to the participation percentage of the Chinese government and its agencies in the investor to capture the difference of the perception of institutional pressures and investment uncertainties. We included *entry period* to examine if the entry mode preference of Chinese firms varies with time. An increased number of acquisitions has been observed by Chinese investors worldwide in recent years. We took 2010 when the Eurozone debet crisis happed as the turning point.

Additionally, a moderating variable *experience* was created according to whether the investor had previous FDI experience in the host country to contrast

[11] In case of a service firm.

two groups of firms in the sample. A summary of the dependent, independent, and control variables is given in Table 3.4.

Table 3.4: Description of the variables (Test I).

Name	Description	Values
Establishment mode	FDI establishment strategy	0 = Acquisition (44.4%) 1 = Greenfield (55.6%)
Ownership structure	FDI equity percentage	0 = JV (26.5%) 1 = WOS (73.5%)
Ethnic cluster	Concentration degree of investors from the same origin	0 = No (53.7%) 1 = Yes (46.3%)
Industry cluster	Concentration degree of investors from the related industries	0 = No (38.9%) 1 = Yes (61.1%)
Investment sector	Investment activity in host country	0 = Manufacturing activity (38.9%) 1 = Trading and service activity (61.1%)
Entry period	Year entered the investor in host country	0 = 2005–2009 (29.6%) 1 = 2010–2013 (70.4%)
Matrix ownership	State-owned percentage	0 = Private (62.3%) 1 = Mix (5.0%) 2 = SOE (32.7%)
Investment motivation	Investment strategic objective in the host country	0 = Exploitation (53.7%) 1 = Mix (21.0%) 2 = Exploration (25.3%)
Investor size	Investor size (group)	1 = SME (12.3%) 2 = Large company (24.7%) 3 = Very large company (63.0%)
Investment size	Subsidiary size in host country	0 = Small company (37.7%) 1 = Medium size company (26.5%) 2 = Large company (21.0%) 3 = Very large company (14.8%)
Matrix tech-knowledge intensity	Technology and knowledge intensity of the investor	0 = Low & medium-low (31.5%) 1 = High & medium-high (68.5%)
Subsidiary tech-knowledge intensity	Technology and knowledge intensity of the subsidiary	0 = Low & medium-low (58.0%) 1 = High & medium-high (42.0%)
Experience	Previous FDI experience in the host country	0 = No (79.6%) 1 = Yes (20.4%)

Source: own elaboration

1. Test II.

The dependent variable in the analysis is the FDI location tendency of the Chinese MNEs within the host country. We created three dummy variables. *Ethnic cluster* measures the decision as to whether these MNEs invested in

regions where there is a high concentration of firms from the same home country. *Industry cluster* measures the decision as to whether these MNEs invested in regions where there is a high concentration of firms with similar activities. *Agglomerated* measures the decision as to whether these MNEs invested in either an ethnic cluster or an industry cluster without distinguishing which of them is.

Consistent with some previous authors (e.g., Porter, 2003; Cader & Leatherman, 2011), we used a proxy of the location quotation (LQ) [12] to define the agglomerations, as there is no agreed method for identifying and mapping clusters, either in terms of the measurements or the procedures by which the geographical boundaries of the clusters should be determined (Martin & Sunley, 2003):

$$\text{L.Q. (ethnic agglomeration)} = \frac{\text{Number of firms with Chinese shareholder(s) in a particular region / Number of all firms in the region}}{\text{Number of all firms with Chinese shareholder(s) in Germany / Number of all firms in Germany}}$$

$$\text{L.Q. (industrial agglomeration)} = \frac{\text{Number of firms of a particular sector in a particular region / Number of all firms in the region}}{\text{Number of all firms of a particular sector in Germany / Number of all firms in Germany}}$$

As the administrative divisions may isolate one firm from a corresponding cluster region, we compared both the LQs in city and in NUTS II[13] of Germany to increase the accuracy of measurement. The NACE Rev. 2 (Statistical Classification of Economic Activities in the European Community) is used as industry definition. We also controlled the number of target firms to avoid

[12] Following Cromley and Hanink (2012), the LQ with reference to Chinese firms at observation point (or location) i is a ratio of ratios. For example, the ratio for the local unit of observation (country-of-origin cluster) can be written as e_i/E_i, where e_i is the number of Chinese firms at city i, and E_i is the total of firms at city i. The ratio for the aggregate reference can be written as e/E, where e and E are the total firms in Germany and the total of the overall firms in the reference economy, respectively. Then: $LQi = (e_i/E_i)/(e/E)$.

[13] The NUTS classification (Nomenclature of territorial units for statistics) is a hierarchical system for dividing up the economic territory of the EU, which has three layers.

potential measurement bias such as the case that there is a high LQ but actually few target firms in the area.

The independent variables in the study were defined according to the hypotheses, which focus on five structural and strategic characteristics of the investors and the year when they entered the host country. The corresponding variables that we created are *investor size*, *investor ownership*, *investor experience*, *investment motivation*, *investment tech & knowledge intensity*, and *entry period*.

- *Investor size* was captured by a rating scale using the log of the operating revenue, total assets, and number of employees of the investors in the year prior to their FDI entry; this scale has been widely adopted in IM empirical studies (e.g., Aw & Lee, 2008; Demirbag, Tatoglu, & Glaister, 2008). We followed the classification provided by Bureau Van Dijk. We didn't use a single criterion for the measurement to avoid potential bias in analysis resulting from some cases where there are large operation revenue but with few total assets or employees, or there are large number of employees but not disproportionate operational revenue due to their specific business-related situations.
- *Investor ownership* was measured according to the ownership structure of the investor. Following some prior authors such as Duanmu (2012) and Cui and Jiang (2012), we calculated the total percentage of the equity owned by the Chinese government and its agencies in the investing firms. As we hypothesize the effects of the home institutional dependence and host context, we created an ordinal variable, assuming that their dependence on their home institution context and perceived institutional pressures from the host environment increase from private investors to those controlled by the central government. Private investors were coded "0". We distinguished investors controlled by local governments and the central government (coded "2" and "3" respectively) due to the specific political situation in China. Where an investing firm has both government and private equity owners but none of them has a dominant

level of control we treated this as an investor with mixed ownership and coded it "1".

- *Investor experience* focuses on investors' experience related to the host context, which was defined by a dummy variable. The code "1" was used when the investing firm has had prior FDI experience in the EU, and "0" otherwise. Similar measurements related to MNEs' experience have been employed in research by authors such as Makino et al. (2002).
- *Investment motivation* measures the Chinese investors' primary purpose for undertaking their investment. Some prior studies have shown that investment motivation has a significant impact on MNEs' location preference (e.g., Chung & Alcácer, 2002; Makino et al., 2002). Following these authors, we distinguished and contrasted two main investment motivations in the sampled firms. *Market seeking investment* (coded "0") includes activities related to overseas market expansion, either by wholesaling or retailing products or services, and other sales-support activities. *Strategic-asset seeking investment* (coded "2") includes activities such as design, research and development, and the acquisition of assets such as technology, patents, and some intangible know-how with the aim of enhancing the home-based capability. An intermediate category was created for those who have a mixed objective for their investments, taking a value of "1".
- *Investment tech & knowledge intensity* measures the intensity of technology or knowledge involved in the investments of the Chinese MNEs. Due to the limitations of the information that we can access, we followed the *Aggregations of Manufacturing Based on NACE Rev. 2* and *Aggregations of Services Based on NACE Rev. 2* provided by Eurostat (2014) as proxies, which indicates the average level of the technology or knowledge intensity in each sector. Where MNEs' subsidiaries in the host country operate in higher technology or knowledge intensity industries we evaluated these as having a relatively higher asset specificity in their investments (coded "1").
- *Entry year* was created to capture the period when the sampled firms entered the host country. As we noticed that there are sometimes

discrepancies between the registered constitution date of the subsidiary or the announced investment date and when they really started business activities in the host country according to the information from the database and their reports, we created a dummy variable slicing the time span from the middle to avoid potential bias in the analysis.

We also included a set of control variables in our analysis. The *Investment sector* was created to capture the differences between manufacturing investments and service investments. Some previous FDI studies have suggested that manufacturing sector investors and service sector investors perceive environmental uncertainties differently, which results in a difference in their entry strategies (e.g., Brouthers & Brouthers, 2003; Sanchez-Peinado & Pla-Barber, 2006). We also measured the *investment size* as the log of the size of the subsidiary used by the foreign investors in the host country. A larger investment is considered to be more risky in FDI and is likely to receive more institutional pressure from the local institutions (e.g., Li & Li, 2010). A summary of the measurement of the independent, dependent, and control variables and their operated values is given in Table 3.5.

Table 3.5: Description of the variables (Test II).

Name	Description	Values (% in sample)
Agglomerated	Located in agglomeration or not	0 = No (22.6%) 1 = Yes (77.4%)
Ethnic cluster	Concentration degree of investors from the same origin	0 = No (51.4%) 1 = Yes (48.6%)
Industry cluster	Concentration degree of investors from the related industries	0 = No (54.9%) 1 = Yes (45.1%)
Investor size	Investor size (group)	1 = SME[14] (11.7%) 2 = Large company (28.0%) 3 = Very large company (60.3%)
Investor ownership	Owners of the investor	0 = Private (65.4%) 1 = Mix (3.7%) 2 = Local SOE (19.0%) 3 = Central SOE (11.9%)
Experience	Previous FDIs in the EU	0 = No (67.0%) 1 = Yes (33.0%)
Investment motivation	Investment strategic objective in the host country	0 = Market seeking (48.5%) 1 = Mix (23.0%) 2 = Strategic asset seeking (28.5%)
Investment tech & knowledge intensity	Technology and knowledge intensity of the subsidiary	0 = Low & medium-low (55.6%) 1 = High & medium-high (44.4%)
Entry year	Year entered the investor in host country	0 = 2005–2009 (28.1%) 1 = 2010–2013 (71.9%)
Investment sector	Investment activity in host country	0 = Manufacturing activity (36.3%) 1 = Trading & service activity (63.7%)
Investment size	Subsidiary size in host country	0 = Small company (41.8%) 1 = Medium size company (25.0%) 2 = Large company (17.5%) 3 = Very large company (15.7%)

Source: own elaboration

[14] SMEs refer to small- and medium-sized firms.

3.4 Statistical methods.

Binary logistic regression was used in both of these two tests. It was employed to assess respectively the effects of the key determinants in FDI entry strategies on the probability of choosing a specific entry mode and the effects of the FDI determinants on the probability of choosing a specific location within the host country. Specifically, we used them in order to predict respectively MNEs' entry mode as a function of the independent and control variables and MNEs' location tendencies as a function of the independent and control variables.

Binary logistic regression analysis was used due to the characteristics of the dependent variables (categorical and dichotomous) and the mix of ordinal and categorical independent and control variables. This statistical method is able to incorporate a wide range of diagnostics and has been widely used in previous IM studies (e.g., Dunning, Pak, & Beldona, 2007; Cui & Jiang, 2012; Maekelburger et al., 2012; Pan & Tse, 2000).

3.5 Conclusions.

With the aim to confirm our suspicions and test the hypotheses focusing on the relationship between MNE's foreign market entry mode strategy and location decision and their tendency of colocation strategy in FDI, we carried out two empirical analyses.

We chose outward FDIs come from China and entering Germany during the period 2005-2013 as the analytical setting. Germany has been one of the most important destination for Chinese outward FDIs in the EU. Choosing such a FDI context we want to shed light on the foreign market expansion pattern and strategic behaviors of EMEs. Increasing attention has been given to outward FDIs from non-developed economies in recent years (Cuervo-Cazurra, 2012). Entering Europe, China's outward FDIs are characterized by both market-seeking and asset-seeking intentions, which are different to their traditional resource-seeking FDIs in other countries in the past. The analysis provides evidence of the strategic behaviors of China's neo-outward FDI and fills a research context gap of FDIs from non-developed economies investing in developed economies in literature.

We created a database which includes 282 local firms in Germany invested by Chinese MNEs. 162 of them entered the first test and 269 were run in the second test according to the variables analyzed in each test and the access to the information required for analysis. Binary logistic regression was employed in the statistical analyses.

CHAPTER 4

ANALYSES, RESULTS AND DISCUSSIONS

Introduction.

This chapter describes the findings of the empirical analysis carried out in the research. It is structured in three sections. In the first and second sections, we display the operation of the variables employed in the analysis and the corresponding statistical results in each stage during the process. In the third section, we reveal the main findings drawn from the analyses and discuss their implications to the study.

By this way, we want not only to give answer to the hypotheses constructed concerning the two research focuses, i.e., the interrelationship between entry mode decision and location choice in FDI and the association between investors' characteristics and their colocation tendencies, but also to tap the potential value in these empirical results and extend the extant knowledge on MNE's foreign expansion patterns and FDI strategies.

4.1 Analytical results test I.

Before we ran the logistic regressions in the first test, we checked means, standard deviations, and correlations between the variables. Table 4.1 shows the results of the correlation analysis. The correlations between the independent and control variables were generally lower except, for justifiable reasons, the one between *investment motivation* and *subsidiary tech-knowledge intensity*. We further tested the variance inflation factors (VIFs) to examine the severity the multicollinearity of the explanatory variables. The VIF values for all the variables were close to 1, lower than the commonly accepted multicollinearity threshold, and with tolerance values greater than 0.5. These results indicated that multicollinearity was not a concern in the analysis (Hair et al., 2006).

Table 4.1: Descriptive statistics and correlation coefficients (Test I).

Name	Mean	S.D.	1	2	3	4	5	6	7	8	9	10	11
1. Establishment mode	0.56	0.50											
2. Ownership structure	0.73	0.44	0.25**										
3. Origin cluster	0.46	0.50	0.51**	0.17*									
4. Industry cluster	0.61	0.49	-0.31**	-0.19*	-0.30**								
5. Investment sector	0.61	0.49	0.56**	-0.02	0.36**	-0.12							
6. Entry period	0.70	0.46	-0.15	0.01	-0.02	-0.05	0.01						
7. Matrix ownership	0.70	0.93	-0.06	-0.03	0.02	0.11	-0.08	0.04					
8. Investment motivation	0.72	0.85	-0.60**	-0.09	-0.38**	0.24**	-0.36**	0.15	0.17*				
9. Investor size	2.51	0.71	-0.33**	0.02	-0.18*	0.14	-0.20	0.12	0.38**	0.28**			
10. Investment size	1.13	1.08	-0.57**	-0.15	-0.31**	0.19*	-0.48**	-0.06	0.14	0.30**	0.43**		
11. Matrix tech-knowledge intensity	0.69	0.47	0.06	0.04	- 0.06	0.06	0.01	0.03	-0.16*	-0.09	0.02	-0.04	
12. Subsidiary tech-knowledge intensity	0.42	0.50	-0.30**	0.03	-0.19*	0.01	-0.45**	-0.11	0.07	0.50**	0.28**	0.34**	0.15

Note: *$p < 0.05$; **$p < 0.01$

As expected, there are numerous significant correlations between the dependent variables and the independent and control variables (table 4). However, while the dummy variables *establishment mode* is strongly related with most of the predictor variables, *ownership structure* seems to be less affected by them.

The results of the regression analyses are reported in the table 4.2. To display them we defined six different models that were divided into two groups. In the first group, which includes Models 1–3, we tested the effects of the predictor variables on foreign investors' establishment mode decisions. In the second group, which includes Models 4–6, we tested foreign investors' ownership structure choices in their FDIs. In this table, for each explanatory variable we include the estimated coefficient (βi), its significance (*), and the standard error (SE) to interpret the magnitude of the relationship between this variable and the dependent variable. In Models 1–3 (Acquisition vs. Greenfield) a positive and significant regression coefficient indicates the existence of a greater likelihood of the firm's choosing a greenfield investment over an acquisition mode in its FDI. In the same vein, a positive and significant regression coefficient in Models 4–6 (JV vs. WOS) means that the corresponding category of an explanatory variable leads to a greater likelihood of the firm's choosing a full ownership level over a JV.

Table 4.2: Binary regression results-entry mode choice in clustering.

	ESTABLISHMENT Acquisition vs. Greenfield			STRUCTURE JV vs. WOS		
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
(a) Ethnic cluster		1.64*** (0.59)			0.82* (0.44)	
(b) Industry cluster			-1.48** (0.63)			-0.92** (0.44)
(c) Investment Sector	2.70*** (0.71)	2.41*** (0.75)	2.94*** (0.77)	-0.63 (0.47)	-0.86* (0.50)	-0.75 (0.50)
(d) Entry period	-0.96 (0.66)	-1.23* (0.70)	-1.33* (0.71)	0.04 (0.42)	-0.01 (0.42)	-0.09 (0.43)
(e) Matrix ownership	0.61* (0.33)	0.48 (035)	0.66* (0.34)	-0.08 (0.22)	-0.14 (0.22)	-0.06 (0.22)
(f) Investment motivation	-2.06*** (0.42)	-1.84*** (0.44)	-1.91*** (0.42)	-0.38 (0.27)	-0.21 (0.29)	-0.26 (0.28)
(g) Investor size	-0.45 (0.45)	-0.44 (0.47)	-0.47 (0.46)	0.41 (0.32)	0.45 (0.33)	0.46 (0.33)
(h) Investment size	-1.43*** (0.36)	-1.47*** (0.38)	-1.45*** (0.36)	-0.55** (0.22)	-0.52** (0.23)	-0.53** (0.23)
(i) Matrix tech-knowledge intensity	-0.04 (0.61)	-0.05 (0.65)	-0.02 (0.62)	0.00 (0.41)	0.09 (0.42)	0.12 (0.42)
(j) Subsidiary tech-knowledge intensity	2.13*** (0.81)	1.89** (0.85)	1.86** (0.80)	0.49 (0.49)	0.32 (0.50)	0.29 (0.51)
Constant	2.15* (1.26)	1.76 (1.38)	3.17** (1.43)	1.17 (0.86)	0.77 (0.91)	1.70* (0.93)
Observation (*N*)	162	162	162	162	162	162
R^2 (Cox and Snell)	0.55	0.57	0.57	0.06	0.08	0.08
R^2 (Nagelkerke)	0.74	0.77	0.76	0.08	0.11	0.12
Chi square	130.09***	138.34***	136.17***	9.34	12.91	14.03
Correctly classified (%)	87.7	88.3	90.1	72.8	72.2	73.5

Note: *p< 0.10; **p < 0.05; ***p < 0.01.

Models 1 and 4 include only the control variables. In Models 2–3 and 5–6, we add the independent variables. The regression coefficients of the control variables in Models 2–3 maintained constant and their signs were consistent with those of Model 1. Similarly, the regression coefficients of the control variables in Models 5–6 maintained constant and their signs were consistent with the sign of Model 3. These results indicate that the selection of the explanatory variables

and the constructed models do not have serious problems.

Generally, the models of the first group, which focus on the establishment modes of target firms in the sample, have all very high explanatory power with highly significant chi squares (Model 1: 130.09, $p<0.01$; Model 2: 138.34, $p<0.01$; Model 3: 136.17, $p<0.01$) and high correctly classified percentages (Model 1: 87.7%; Model 2: 88.3%; Model 3: 90.1%). However, these variables seem to be less effective to predict the ownership structures of the firms in the sample. In the first group, except *investor size* and *matrix tech-knowledge intensity*, all the control variables were significantly associated with the dependent variable *establishment mode*. In the second group, only *investment size* (Model 4: -0.55, $p<0.05$; Model 5: -0.52, $p<0.05$; Model 6: -0.53, $p<0.05$) among the control variables seemed to have contributed to the prediction of *ownership structure*. All the independent variables were significant in the models and with expected signs. The R^2s of *Nagelkerke* and *Cox and Snell*, the *chi squares*, and the *correctly classified percentages* of the models show that the explanatory ability of these models increased when we added independent variables.

The results show that the dependent variable *ethnic cluster* is significantly associated with the establishment mode and ownership structure of Chinese investors' entry mode strategy in Germany. The coefficients of it were significant at 0.01 level with a positive sign in Model 2 (1.64, $p<0.01$) and at 0.10 level and with a positive sign in Model 5 (0.82, $p<0.10$). These results suggest that the higher the concentration of the compatriot firms located in an area within the host country the more likely Chinese MNEs located in it may choose a greenfield mode and a higher control level for their subsidiaries. Regarding *industry cluster*, all the coefficients were significant at 0.05 level with the expected negative sign in Model 3 (-1.48, $p<0.05$) and 6 (-0.92, $p<0.05$), which suggest that the higher the concentration of firms in related industries located in an area within the host country the more likely Chinese MNEs located in it may choose an acquisition entry mode and a joint governance structure for their business. Hence, Hypothesis 1.1a and 1.1b and Hypothesis 1.2a and 1.2b were supported.

Some interesting results can be found about the control variables. The coefficients of the six models show that the most significant predictor variables are *investment sector*, *investment motivation*, *investment size*, and *subsidiary tech-knowledge intensity*. The coefficients of most of them were significant at the 0.01 level. While *investment sector* and *subsidiary tech-knowledge intensity* was positively associated with *establishment mode, investment motivation* and *investment size* are negatively associated with it. *Investment size* is also significantly but negatively associated with *ownership structure*. These results indicate that 1) manufacturing firms are more likely to undergo acquisitions than service firms in FDIs; 2) Chinese firms seeking technology or other kinds of strategic assets are more likely to choose acquisitions in Germany; 3) the larger the investment size has to be, the more likely the investment to be an acquisition or a JV; 4) only the technology and knowledge intensity of the investment (subsidiaries) is associated with Chinese MNEs' establishment mode: they are more likely to use greenfield entry modes when their investments involve high R&D and knowledge intensity, however, surprisingly, neither investors' technology and knowledge level nor the subsidiaries' technology and knowledge level seem to affect their ownership structures; 5) the two special variables—*entry period* and *matrix ownership*—that we added in analysis, which characterize the Chinese FDIs, seem to be weakly associated their establishment modes: after the Eurozone financial crisis Chinese MNEs are more like to undergo acquisitions when entering Germany, while SOEs are more likely to establish the subsidiaries by their own.

Table 6 shows the regression results of the moderating effect of MNEs' host country FDI experience. They show that the tendencies of Chinese MNEs with previous FDI experience and those without such experience are quite different. The coefficients of the two types of clustering on entry mode strategy were only significant in the first group of models (Model 1 to 4). In the second group (Models 5 to 8) where the sampled MNEs have already carried out FDI in the host country, the coefficients were not significant. These indicate that the effect of clustering are not significant on the entry mode strategy of firms which have entered the host country before. The Hypothesis 1.3 was supported.

Table 4.3: Binary regression results-moderating effect of "experience".

	No experience				With experience			
	Acquisition vs. Greenfield		JV vs. WOS		Acquisition vs. Greenfield		JV vs. WOS	
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
(a) Ethnic cluster	3.22*** (0.93)		0.99** (0.46)		1.93 (2.04)		-8.29* (4.74)	
(b) Industry cluster		-2.04** (0.80)		-1.10** (0.47)		0.78 (2.13)		1.52 (2.17)
(c) Investment Sector	2.29** (0.94)	2.90*** (0.91)	-0.66 (0.55)	-0.56 (0.55)	2.34 (2.04)	2.68 (2.36)	0.52 (2.24)	-2.50* (1.49)
(d) Entry period	-1.74* (0.98)	-1.39 (0.87)	-0.18 (0.46)	-0.29 (0.47)	-3.68 (2.56)	-3.29 (3.48)	4.31 (3.07)	2.00 (1.89)
(e) Matrix ownership	1.09* (0.64)	0.98** (0.48)	-0.22 (0.25)	-0.13 (0.25)	1.58* (0.83)	0.77 (0.90)	0.84 (1.06)	-0.25 (0.70)
(f) Investment motivation	-2.58*** (0.78)	-2.29*** (0.58)	-0.09 (0.32)	-0.17 (0.32)	-0.48 (1.10)	-1.87* (1.11)	-7.21** (3.65)	-2.48* (1.31)
(g) Investor size	0.24 (0.61)	-0.10 (0.56)	0.54 (0.36)	0.51 (0.36)	-2.11* (1.13)	0.09 (1.56)	-2.88 (3.17)	-0.27 (1.50)
(h) Investment size	-2.42*** (0.71)	-1.72*** (0.49)	-0.42 (0.26)	-0.41 (0.25)	-0.83 (0.75)	-2.22 (1.52)	-3.64** (1.55)	-2.11** (0.89)
(i) Matrix tech-knowledge intensity	1.69* (1.01)	0.73 (0.77)	0.20 (0.47)	0.14 (0.47)	-1.94 (2.09)	-4.10 (3.07)	-0.35 (1.46)	-1.13 (1.65)
(j) Subsidiary tech-knowledge intensity	1.76 (1.14)	1.52 (0.98)	0.10 (0.56)	0.03 (0.57)	0.61 (1.87)	2.11 (2.73)	4.16 (2.83)	1.73 (1.61)
Constant	0.16 (1.77)	2.77* (1.68)	0.24 (0.97)	1.50 (0.98)	6.17 (5.01)	4.94 (6.25)	21.50* (12.70)	7.06 (5.08)
Observation (*N*)	129	129	129	129	33	33	33	33
R^2 (Cox and Snell)	0.61	0.58	0.08	0.09	0.51	0.51	0.39	0.30
R^2 (Nagelkerke)	0.83	0.79	0.11	0.12	0.73	0.73	0.61	0.46
Chi square	121.95***	112.12***	10.39	11.62	23.69***	23.75***	16.31*	11.55
Correctly classified (%)	91.5	93.0	72.1	72.1	84.8	81.8	87.9	90.9

Note: *p< 0.10; **p < 0.05; ***p < 0.01.

4.2 Analytical results test II.

Table 4.4 presents the means, standard deviations, and correlations between variables in the second section of analysis. The correlations between the independent variables and control variables were generally lower than 0.4 except for, for justifiable reasons, the ones between the variables of agglomerations and between the intention of strategic-asset seeking and high asset specificity of the subsidiary. Especially, the correlation between the dependent variables exists because of the potential overlaps between the defined categories in the analysis (i.e., a firm can simultaneously locate in more than one kind of agglomeration). To further examine the degree of multicollinearity, we tested the variance inflation factors (VIFs). The VIF values for all the variables were within acceptable tolerances, indicating that the correlated independent variables did not have undue influence on the regression estimates (Hair et al., 2006).

Table 4.4: Descriptive statistics and correlation coefficients (Test II).

Name	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1. Agglomerated	0.78	0.42										
2. Origin cluster	0.49	0.50	0.51**									
3. Industry cluster	0.45	0.50	0.49**	-0.19**								
4. Investor size	2.48	0.70	-0.14*	-0.22**	0.15*							
5. Investor ownership	0.77	1.13	-0.02	-0.03	0.05	0.34**						
7. Investor experience	0.33	0.47	-0.04	-0.26**	0.24**	0.33**	0.05					
6. Investment motivation	0.80	0.86	0.01	-0.37**	0.29**	0.28**	0.12	0.26**				
8. Investment tech & knowledge intensity	0.44	0.50	-0.10	-0.25**	0.05	0.26**	0.00	0.19**	0.49**			
9. Entry year	0.72	0.45	-0.16*	-0.09	-0.01	0.11	-0.09	0.29**	0.06	-0.05		
10. Investment Sector	0.64	0.48	0.02	0.35**	-0.13	-0.12	-0.06	-0.15*	-0.25**	-0.36**	0.04	
11. Investment size	1.07	1.10	-0.08	-0.32**	0.17**	0.40**	0.23**	0.27**	0.24**	0.23**	-0.05	-0.37**

Note: *$p < 0.05$; **$p < 0.01$

Table 4.5 shows the results of the regression analyses. To interpret the magnitude of the relationship between an independent variable and the dependent variable in logistic regression, this table includes for each independent variable the estimated coefficient (βi), its significance (*), and the standard error (SE). To display the results we defined six models. Establishing different models makes it possible to compare alternative models by isolating changes in model fit and determining the explanatory power of the variables (Aiken & West, 1991). This method has been applied in various IM studies (e.g., Strange et al., 2009). In the first analysis, which includes Models 1 and 2, we tested the characteristics and backgrounds of foreign investors tending to colocate with other firms without distinguishing type of agglomeration. In the second and third analyses, which include Models 3 and 4, and Models 5 and 6, respectively, we compared the characteristics and backgrounds of foreign investors preferring ethnic clusters and industry clusters. Models 1, 3, and 5 only include the control variables and their effects on MNEs' location decision. In these models a positive and significant regression coefficient indicates that the corresponding category of an explanatory variable leads to a greater likelihood of the investor entering an agglomeration location.

Table 4.5: MNE characteristics in clusterings.

	Agglomerated		Ethnic cluster		Industry cluster	
	Model 1	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**
(a) Investor size		-0.53 (0.33)		-0.57** (0.28)		0.23 (0.26)
(b) Investor ownership		0.06 (0.16)		0.32** (0.16)		-0.06 (0.14)
(c) Investor experience		0.08 (0.42)		-0.97** (0.41)		0.78** (0.37)
(d) Investment motivation		0.49* (0.27)		-0.69*** (0.23)		0.73*** (0.21)
(e) Investment tech & knowledge intensity		-1.00** (0.46)		0.22 (0.42)		-0.77** (0.39)
(f) Entry year		- 1.30** (0.50)		-0.18 (0.38)		-0.47 (0.35)
(g) Investment Sector	-0.04 (0.35)	-0.49 (0.43)	1.26*** (0.32)	1.02*** (0.40)	-0.31 (0.30)	-0.35 (0.36)
(h) Investment size	-0.18 (0.16)	-0.16 (0.19)	-0.43*** (0.14)	-0.14 (0.19)	0.25* (0.13)	0.03 (0.17)
Constant	1.46*** (3,73)	4.19*** (0.92)	-0.49 (0.33)	1.30* (0.69)	-2.70 (0.31)	-0.63 (0.64)
Observation (*N*)	269	269	269	269	269	269
R^2 (Cox and Snell)	0.01	0.09	0.16	0.26	0.03	0.12
R^2 (Nagelkerke)	0.01	0.14	0.21	0.35	0.04	0.16
Chi square	1.37	19.60**	39.28***	65.31***	7.08**	28.01***
Correctly classified (%)	77.4	80.0	65.8	73.3	59.7	66.2

Note: *p< 0.10; **p < 0.05; ***p < 0.01.

The regression results show that all these models have a significant explanatory power. Also, when adding the independent variables, the chi squares and correctly classified percentages of these models increased. However, except for *investment tech & knowledge intensity* (-1.00, p<0.05) and *entry year* (-1.30, p<0.05), the dependent variables seem not statistically significantly correlated with firms' tendency towards high concentration areas (Models 1 and 2). As expected, if we ignore the different agglomeration structures, this suggests on the one hand that the independent variables in the study have a significant explanatory ability in respect of firms' tendency towards locating in one kind of agglomeration but not in their tendency to tap into agglomerations; and, on the

other hand, it reveals that investors whose investments have high asset specificity are likely to avoid agglomeration regions.

In line with the objectives of this research, we distinguished the agglomeration of firms with the same origin and that of firms in the same industry in Models 3–6. Following our hypotheses, we expected *investor size, investor experience,* and *investment motivation* to have statistically significant and negative regression coefficients and *investor ownership* to have a significant and positive coefficient in Model 4, while in Model 6 we expected *investor experience* and *investment motivation* to have significant and positive coefficients and *investment tech & knowledge intensity* to have a significant and negative coefficient. The results show that all our hypotheses are confirmed. In Model 4, the coefficient of *investor size* was significant at the 0.05 level and with a negative sign (-0.57), while *investor ownership* was significantly positively associated with the decision of entering an ethnic cluster (0.32, $p<0.05$). *Investor experience* was significantly and negatively correlated with the choice of entering an ethnic cluster but significantly and positively correlated with the choice of entering an industry cluster. Similarly, *investment motivation* was significant in both Models 4 and 6 but with a contrary direction: in Model 4 the correlation was negative (-0.69, $p<0.01$) whereas in Model 6 it was positive (0.73, $p<0.01$). *Investment tech & knowledge intensity* was only significant in Model 6 (-0.77, $p<0.05$).

Other noteworthy results were observed in the analyses as follows. *Investor size* and *investor ownership* were not significantly associated with location tendency in Model 6. Although these results were as expected, they had opposite signs to their coefficients in Model 4. Moreover, the control variable *investment sector* was significantly and positively correlated with the choice of entering an ethnic cluster (1.02, $p<0.01$), indicating that when investing in trading and service sectors, foreign investors are more likely to colocate with their compatriots in the host country. Conversely, such a tendency seemed to be the opposite outcome in the case of industry clusters (Model 6), indicating that manufacturing firms are more likely to colocate with those engaged in similar activities than

trading or service firms. The coefficients of *entry year* were negatively correlated to the decision of colocating in the two models of *Agglomerated*. These results show that the tendency of colocation of Chinese enterprises decreases as time passes. Although the coefficients of this variable were not significant in other models when distinguishing the type of agglomeration, their signs show that such a tendency was maintained.

In conclusion, these empirical results support our hypotheses. Together, they indicate that China's FDI firms have tended to penetrate from particular high concentration regions into other areas within Germany. Investors who prefer colocation and those not have significant structural and strategic characteristics. Moreover, differences also exist in those preferring to colocate with different groups of firms. From a more structural point of view, the Chinese FDI flows undertaken by smaller firms and those with a state-owned background tend to colocate with other same nationality firms. Moreover, firms with less host context experience prefer an area where there are other Chinese investors; however, once they are familiar with the host environment they are more likely to locate in regions closely related to their business operations in the host country. From a strategic perspective, these FDI flows are more likely to tap into ethnic cluster locations when the investors' objective is to explore overseas markets. On the other hand, they are more likely to access industry clusters when they aim to acquire strategic assets in the host country. Furthermore, they tend to avoid locating near other firms with the same business activity when their investments involve high asset specificity.

4.3 Discussions.

4.3.1 The trade-off of entry mode-location strategies.

The empirical results of the first test show the spatial dependence of entry mode strategy of MNEs in FDIs. Investors' entry modes seem to be significantly associated with the region where they located in the host country. Locating in regions where there is a high degree of concentration of firm from the same home country within the host country, investors are more likely to establish the subsidiaries by themselves and have a higher percentage in the ownership structure of their subsidiaries, while they are more likely to prefer to acquire an incumbent local firm and a JV ownership structure when tapping into locations where there is a high degree of concentration of firms in related industries. These findings add a geo-strategic perspective to the mainstreams in entry mode literature. They show that MNEs' entry strategies are heterogeneous when entering a foreign country. Scholars cannot take the host country as a whole in study. Attention is required focusing on the "micro-environments" to understand MNEs' behaviors.

What is the essence of the effect of the region where firms locate, specifically the spatial clustering, on MNEs' entry mode choice? In FDI foreign investors need "local inputs" to offset the disadvantages and overcome the entry barriers. The location decision where to invest decides what "local inputs" that they can access and what competition environment that they have to face. Colocating with different groups of firms, investors tap into different networks, through which they gain access to different tangible and intangible resources. Thus, the FDI location decision is not just related to the specific local institutional or market environment, but a strategic concern on what they have, what they need, and the level of risk they would like to assume, to ensure their investments success. These concerns consequently affect their attitude in other decision-makings, especially those which involve the same considerations such as the entry mode choice (Hill et al., 1990; Brouthers & Hennart, 2007). These common

consideration aspects make that the choosing one strategy weakens foreign investors' tendency of choosing another alternative strategy considering the costs and risks involved in them. For example, MNEs' use the colocation way in ethnic clusters to acquire the knowledge about the local context and reduce their investment uncertainties may increase their possibility to maintain a higher governance structure, while the intention of seeking specific assets by locating industry clusters may let them have to reduce their investment uncertainties at the expense of their entry mode strategy.

This view suggests a strategy combination or strategy bundling view in MNEs' FDI decision-makings. Entry mode decision and location choice can be two alternative strategies for foreign investors to overcome the entry barriers and deal with investment uncertainties that they may encounter in the host context. However, the knowledge level of the investors modifies such a combination because the disadvantages and the entry barriers to different entrants are not same. That's why we observed a moderating effect of experience in this relationship. That is to say, these entry mode tendencies in the agglomeration locations expected by our hypotheses are temporary and actually "transition" forms. This is consistent with the assumptions of our hypotheses in the study and the classic Uppsala internationalization framework (Johanson & Vahlne, 1977; 2006) that views firms' internationalization process as a gradual development and their behaviors follow their knowledge pool.

It is notable that although the constructed models in the study have a quite good explanatory power in predicting Chinese FDIs' establishment modes, they show only limited effectiveness in their ownership structure prediction. Except the proposed dependent variables, most of the control variables proposed by prior literature were not significantly associated with the decision in the models. Future study is required to focus on this issue. Many scholars have tried to compare the behaviors of EMEs to investors from developed economies and re-evaluate the extant IM theories (e.g., Cui & Jiang, 2012; Wang et al., 2012). Some empirical evidences challenge the extant theories and frameworks

(Berning & Holtbrügge, 2012). Can all the strategic behaviors be predicted by the mainstream theories?

One potential way to give answer to it maybe test their entry performance. There are significant differences in institutional environments, business practices, and markets conditions between developed economies and emerging economies (Lebedev et al., 2014). China, as a typical transition economy, has been changing gradually in recent years from a centrally planned economy to a market economy, while the institutions in the EU are totally market-based. Many Chinese MNEs lack FDI experience. The limitation of knowledge about liberalized market competitive environment and business practices may influence their risk perceptions and the evaluation of their plans, and consequently, affect their decision-makings. Have they made the most appropriate decision for their FDIs? Exists there any other factor behind the ownership structure decision of FDIs from China?

4.3.2 The interorganizational dynamics and MNE's colocation strategies.

The analyses and results of the second test describe foreign investors' location patterns within the host country. The findings reveal the potential effect of firms' immediate environment on their behavior tendencies. Their immediate environment includes two important contexts: one is the home country context where the firms are established, which is mainly institution-related; the other is the specific industry context where the firms are engaged in business. These two environments endow firms with different resources and information. This focus provides a different perspective on MNEs' foreign market location choice outside of the traditional economic, institutional, and organizational concerns, which usually looks into specific location advantages, regulatory or normative uncertainties in the host country, and investors' capability.

This new perspective is, to some extent, similar to the network approach suggested by some prior studies (e.g., Chen & Chen, 1998; Ge & Wang, 2013; Jean, Tan, & Sinkovics, 2011). Both our findings and those of these prior studies

recognize that firms are opportunity-seeking in nature and their behavior is likely to be influenced by other related firms. Their "rational choices" are based on limited information and resources (bounded rationality in decision making). The network approach treats firms' random linkages, through which firms identify opportunities, as the driver of their behavior tendencies. On the other hand, the interorganizational approach suggests scattered external ties as the reason for the potential homogeneity and heterogeneity of firms' behavior in foreign expansion.

The ecological theory underlines the context in which an individual develops (Bronfenbrenner, 1979; Kail & Cavanaugh, 2010). Similarly, a firm also grows and evolves in the same environmental context. The same context provides them with similar resources and knowledge inputs, which let them identify similar opportunities and perceive similar uncertainties. This explains the potential homogeneity tendency of firms' behavior from the same context. An intangible but pervasive influence from the institutional aspect should also be noted. Firms usually have to do more than succeed economically (Rutherford & Buller, 2007). They need to gain "acceptance" in the context where they operate, requiring compliance in many circumstances (Scott, 2013). The behavior of the constituents considered "legitimate" in each context may require the compliance of other members in same context. That is to say, in the context of international business foreign investors not only have to deal with the legitimacy issue in the host environment, but they also receive a similar institutional influence from the home context or other contexts in which they operate. Such "routines" in these contexts may lead them to similar behavior tendencies.

The potential behavior homogeneity is demonstrated in firms in the same context. However, firms are not only involved in one single context. Firms are impacted by several contexts simultaneously, each of which consequently reveals different behavioral tendencies. This explains the appearance of overlapping areas in our analysis. The map of the distributions of Chinese firms in Germany overlaps in many German industrial regions. Additionally, the two dependent variables—*ethnic cluster* and *industry cluster*—seem closely associated with each other.

Apart from the conditions of the different contexts that firms are involved in, the heterogeneity is also attributed to the firms' own structural and investment characteristics. Guillén (2002) has pointed out this potential discrepancy in firms' exposure to external influences. Differences in the resource base, capabilities, background, and needs (i.e., strategic motivations) means firms are not equally impacted by their immediate environment, which consequently affects the likelihood of their behavior similarities. Studies such as Chen and Chen (1998) and Shaver and Flyer (2000) suggest how firms benefit from and are threatened by other firms and consequently how they may act differently.

4.3.3 MNE's foreign expansion patterns.

The results of our study suggest a path dependence of foreign investors' expansion in a foreign country. At the initial stage of FDI, foreign investors tend to "fly" with their compatriots and tap into areas that firms from the same home country have preferred within the host country. Once they obtain experience and are familiar with the host environment, they are more likely to be driven by the specific industry-related networks in the host context and tap into the regions where firms engaged in similar activities have preferred. Latecomers from a certain country are likely to explore new areas in the host country after establishing their initial foothold—their location tendency seems to turn gradually from preferred and highly concentrated areas to disperse to other regions. This location expansion route within the foreign country is similar to that suggested in the classic Uppsala internationalization process model (Johanson & Vahlne, 1977, 2006). Such a gradual development process seems not only to take place in MNEs' commitment to foreign expansion but also in their international location pattern, either across countries (i.e., the selection of a foreign country) or within the host country. In the initial stage of investing in a host country, foreign investors prefer areas where prior entrants from the same home country have explored for the reasons of knowledge and uncertainty. Their tendency may change once they are familiar with the host environment. Subsequently, they are more likely to tap into other areas according to the specific business-related conditions and needs.

The traditional Uppsala model explains the characteristics of the internationalization process of a firm based on uncertainty and bounded rationality. It underlines investors' knowledge and experience. The internationalization pattern described by this model follows the order in which firms enter foreign countries—they tend to start their foreign operations from more familiar and culturally similar areas and move gradually to more geographically and environmentally distant countries or regions. What the interorganizational perspective improves in the understanding of MNEs' foreign expansion behavior is the potential knowledge transmission in the interactions among firms and the legitimacy issue aroused by the institutional environment in cross-border investment. The Uppsala model emphasizes the accumulation of knowledge in firms' diversification and the learning from their past experience. However, firms' knowledge or legitimacy to carry out business is not only gained from inside, but also from outside. They can acquire information and capture opportunities from the behavior of firms within the same FDI group and other constituents in their immediate environment.

4.3.4 The formation of clustering and agglomeration economies.

The findings of this study explain how foreign investors are influenced both by their immediate environment and its constituent members. They reveal how firms' concerted actions give rise to specific agglomerations in the context of international business. Biologists attribute birds' flocking behavior to the seeking of safety and foraging efficiency (Hutto, 1988; Sridhar, Beauchamp, & Shanker, 2009). Such flock-like behavior is not only observed in birds but also in other animals, and even in humans (Helbing, Keltsch, & Molnar, 1997) as well as firms. These findings are very similar to what strategic management scholars have found in the agglomerating behavior of firms. Chang et al. (2013) and Miller et al. (2008) suggest that colocation can significantly reduce investors' perception of risks, and increases new entrants' chances of survival. Tan and Meyer (2011) conclude that foreign investors can enjoy the knowledge spillover by locating in clusters, which reduces their liability as outsiders and gains them

legitimacy in the new environment.

These prior studies have enhanced knowledge on the benefits that firms can obtain from agglomeration, i.e., agglomeration economies and why clusters attract investors. However, two issues remained outstanding. First, studies on firms' agglomerations seem to be ex post facto. Do agglomeration economies exist before agglomerations form? How are investors attracted at the initial stage of cluster formation? Second, agglomerations have been studied in both national and international contexts. Are local investors and foreign entrants influenced and attracted in the same way?

This study provides insights into and evidence to these two issues. Firms not only benefit from agglomeration economies, but also contribute to agglomeration economies (Shaver & Flyer, 2000). The interorganizational perspective suggests that firms gain information and legitimacy of the behavior of others in the same environment. The location of firms in a certain area informs others with similar background of the potential business opportunities and the legitimacy of operating in that area. This is important for the arrival of other firms in the same area, especially in the international context, where investors from a foreign country may lack knowledge of the local context and suffer from lack of legitimacy. Unlike studies which focus mainly on factors such as knowledge spillover, specialized labor, and input providers (e.g., Marshall, 1920; Porter, 1990, 1998), this information and legitimacy focus helps explain how investors are encouraged to colocate with other firms of similar background, especially before agglomeration following which agglomeration economies are created.

Moreover, the empirical evidence of this study shows national and foreign investors seem not equally attracted by colocation. Scholars have pointed out that firms vary in the benefits that they receive from colocation because of heterogeneity (e.g., Chang & Park, 2005; Shaver & Flyer, 2000). In this study we showed two different "flocking" patterns of MNEs—that of "a feather of the same color" (from the same home country) and that of "the same needs" (similar

or related business activities). Similar to studies focusing on agglomerations within a national scope, the empirical evidence of this study suggests that investors seeking specific industry-related assets tend to agglomerate with those engaged in similar activities, whereas those with high specificity assets are less likely to colocate. However, unlike these prior authors and those biologists, our study shows that "small weak birds" (SMEs) do not present a greater "flocking" tendency to colocate than large firms with "the same needs" (firms engaged in similar activities) within the international scope, but with those of "a feather of the same color" (compatriot firms). Moreover, inexperienced firms do not show greater likelihood of colocation than experienced ones with "the same needs" (firms engaged in similar activities) within the international scope, but prefer to colocate with those of "a feather of the same color" (compatriot firms).

These differences in colocation tendency within the national and international scopes may be attributed to the "cohesion"[15] exhibited between "birds". The cultural and ideological distance between foreign investors and local firms (birds of a different feather) hampers their communications and cooperation, which makes it difficult to achieve the expected level of colocation benefits. In conclusion, these empirical results confirm firms' asymmetric contributions to agglomeration economies owing to their heterogeneity and the potential adverse selection of which of them colocate (Shaver & Flyer, 2000). They also show that the same kind of agglomeration does not influence equally local and foreign investors, which increases the knowledge on agglomeration economies and firms' colocation strategy in the both national and international scopes.

From the analyses we can observe significant differences in the reasons and motives of foreign investors' colocation tendencies. The findings show the difference in benefits that these two types of agglomeration in FDI can offer foreign investors. Unlike the traditionally studied industry clusters, in which firms colocate for the sharing of skilled labor, infrastructure, distributor and provider networks, and industry-related knowledge, firms from the same home country colocate and agglomerate in some regions because of knowledge and

[15] See the three rules of flocking behavior (Reynolds, 1987).

legitimacy issues. Thus, the benefit of colocation and agglomeration of firms from the same country is in essence uncertainty-related. Entrants' investment uncertainty is reduced on the one hand, while the benefit of the colocation and agglomeration of firms engaged in similar activities is cost-related, significantly alleviating the entrants' cost pressure of gaining access to necessary resources and developing their business networks.

Agglomeration of firms of the same origin seems to serve as a "foothold" for MNEs, similar to the ethnic enclave of immigrants in a foreign country (Auster & Aldrich, 1984), who spread outwards once they have obtained greater knowledge and have strengthened the networks in their host environment. Those with more international experience and lower reliance on home resource support are more likely to make bold strategic choices. These firms' behavior and tendencies are very similar to the immigration patterns of individuals. This similarity between MNEs and immigrants' behavior may be explained by the Upper Echelon theory, which suggests that organizational behavior and outcome are directly impacted by the knowledge, experiences, and expertise of those individuals occupying prominent managerial roles in an organization (Hambrick & Mason, 1984). In FDI firm's decisions are made by managers who are effectively immigrants. Scholars have suggested that the potential influence of immigrants should not be neglected when focusing on FDI from the same country (Hernandez, 2014; Zaheer, Lamin, & Subramani, 2009). Such ethnic ties become unique channels of knowledge and resources for entrants. This could be a focus for future research, that is, looking into firms' behaviors from a sociological perspective and studying the relationship between MNEs' behavior and immigration from the same country.

4.3.5 Implications to practitioners.

The study results also have practical value for policy makers and managers. The sample of FDI firms from China into Germany in this study provides an ideal analytical background to approach MNEs' foreign expansion pattern in a foreign country, especially in terms of observing the evolution and change of MNEs'

tendencies from the initial stage of entry of FDI from one country to another. Outward FDI from China has increased significantly in recent years following the government's "go abroad" policy (Luo, Xue, & Han, 2010). As new entrants in the international market, many Chinese investors lack the experience of competing in overseas markets. However, there are significant differences in institutional environments, business practices, and market conditions between developed economies and transition economies such as China (Lebedev et al., 2014). The unfamiliarity of the new entrants with the political, legislative, economic, market, and cultural environments of the host country and lack of international experience are major obstacles for their entry. The results suggest that managers need to improve their knowledge base when they decide to explore foreign markets, although there are potential ways to simplify these efforts by imitating others. Their decisions should be made according to the firms' resources and the investment conditions in the host country. This empirical study on their behavior not only increases the knowledge on MNEs' expansion pattern within a foreign country but also has great implications for the understanding of FDI behavior from other emerging economies. Outward FDI from these economies has been changing the world's economic structure in recent years (Mathews, 2006; Ramasamy, Yeung, & Laforet, 2012). Management scholars are curious about how EMEs, especially those without significant ownership advantages in their host environment, explore foreign markets and how they act to overcome the entry barriers to achieve their strategic goals (e.g., Berning & Holtbrügge, 2012; Demirbag, Tatoglu, & Glaister, 2009; Luo & Tung, 2007). The empirical evidence in our study provides some answers to these questions. The understanding of the differences of investors' FDI behaviors can help the authorities to adjust their policies to attract and promote foreign investments.

4.4 Conclusions.

In this chapter we demostrate the analytical results and discuss the findings. These empirical evidences generally show that foreign investors have quite different entry mode tendencies when tapping into regions where there is a concentration of related firms. Locating in ethnic clusters, investors are more likely to prefer a greenfield investment and have a higher percentage of ownership structure, while they are more likely to acquire an incumbent local firm and adopt a JV ownership structure when tapping into industry clusters. We also observed a moderating effect of investors' experience and a limited explanatory ability of extant theories in the ownership structure prediction of the sampled firms. Moreover, MNEs' location decisions were heterogeneous within the host country according to their internal characteristics and backgrounds.

These results suggest 1) foreign investor's FDI strategies accommodate conditions that vary not only across countries, but within the host economy; 2) entry mode and location choices can be alternative strategies to overcome entry barriers in FDIs, a tradeoff between which is required; 3) there is a path dependence in MNE's FDI location pattern within the host country; 4) foreign entrants' colocation behaviors are not only attributed to the "colocation externalties" but the potential interorganizational dynamics between firms, which are closely associated with the knowledge and legitimacy issues in the foreign market expansion; 5) more efforts are still needed to interpret EMEs' FDI decisions.

CHAPTER 5

CONCLUSIONS, RESEARCH LIMITATIONS AND FUTURE STUDIES

1. Conclusions.

The technology advances and collaborations between countries promote the globalization and economic integration worldwide. The overwhelming increase in international trade and cross-border business draw scholars' attention to IM. Great efforts have been made looking at international business enviroments, MNE strategies, and individuals involved in cross-border business activities, either the shareholders, or managers, or employees of the internationalized firms. Among these issues, MNE strategies may be the most essential research aspect in IM. The increased knowledge on MNEs' behaviors, i.e., how they make decisions, and the consequences of these decisions, either to their investment performance or to home and host countries' economic development and social stability, has invaluable implications to both internationalized firms' managers and policy makers.

In this study, we look into the relationship between MNE's entry mode decision and the location where it establishs business activities within the foreign country in FDI. Entry mode choice has been one of the most fundamental decisions in firms' foreign expansion, as well as the location choice. Specifically, we try to give answers to the issues that orient our work: how a colocation strategy may influence foreign investors' entry mode tendency? Under what circumstances this influence exists?. Previous IM studies have shown that MNEs' foreign entry mode choices vary among the host countries where they enter, which suggests that there is a close correlation between foreign entry mode choice and location choice in FDI. Based on prior contributions in IM literature, we go beyong the national level and look into the agglomeration economies in FDI. Also, we compared the structural and strategic characteristic of foreign investors who have tapped into agglomerations. Specifically, we distinguished two kinds of agglomerations in FDI in this research—*industry cluster* and *ethnic cluster*. We tested a series of hypotheses focusing on MNEs' colocation tendencies.

We tested the related hypotheses on a sample of Chinese-owned subsidiaries in Germany. The empirical results supported our hypotheses and show that, first, investors' entry modes seem to be significantly associated with the region where they located in the host country. Locating in regions where there is a high degree of concentration of firm from the same home country within the host country, investors are more likely to establish the subsidiaries by themselves and have a higher percentage in the ownership structure of their subsidiaries, while they are more likely to prefer to acquire an incumbent local firm and a JV ownership structure when tapping into locations where there is a high degree of concentration of firms in related industries. Second, investors' FDI location choices are not homogeneous within the host country. Investors who tend to locate in areas preferred by others compatriots (ethnic cluster) have different characteristics to those who decide to tap into regions preferred by others with similar activities (industrial cluster). Smaller investors, SOEs, and those who aim to explore the foreign market but have less experience are likely to "fly" with those from the same country and tend to agglomerate with them in certain regions within the host country; investors seeking strategic assets and having prior FDI experience in the host country or neighboring countries but without high specificity assets in their investments are likely to "fly" with those engaged in similar activities and tend to agglomerate with them in certain regions within the host country.

2. Research implications and contributions.

Empirical evidence in general suggests, first, the existence of a trade-off of entry mode-location strategies. MNEs' FDI entry mode choices seems to be associated with their colocation strategies, as both of them can help the investors overcome the entry barriers of carrying out business activities in a foreign market. Second, foreign investors' foreign expansion patterns are strongly influenced by their immediate environments (could be more than one). They tend to follow prior entrants from the same contexts and tap into regions where the prior entrants have preferred in FDI. Third, firms' colocation behavior is not necessarily

attributed to the "colocation benefits", but their limitation on the knowledge about the foreign country and the legitimacy of their FDI activities. Fourth, similar to the Uppsala internationalization model and immigration behavior, these results show path dependence in firms' FDI location pattern within the foreign country: they are likely to be driven by the ethnic or social ties and agglomerate in particular regions of the host country at the initial stage of FDI; however, once they have acquired experience and become familiar with the host environment, they are more likely to be driven by business ties and tend to tap into areas where others from the same industry have preferred within the host country. However, such "flocking" tendencies weaken as time passes, and latecomers tend to gradually disperse into other regions of the host country.

This study offers two breakthroughs. Literature on MNEs' foreign expansion strategies have traditionally taken the host country environment as a whole and rarely paid attention to firms' foreign expansion patterns and strategic decisions at the subnational level. In this research we provide evidence and explanation as to how foreign investors are likely to behave upon deciding to set up operations in a foreign economy. Also, we go beyond the economic and institutional concerns focused on the host context conditions, and provide insight into the potential influence of investors' interactions within their immediate operation environment on their FDI behavior tendencies.

These findings have several contributions. From a theoretical aspect, first, they contribute to the literature on FDI strategies by going beyond the general national conditions and looking into the micro-environments within the foreign country. Also, we bridge two fundamental decisions when firms carry out FDIs by focusing on the influence of where investors locate on their entry mode tendencies. Second, they improve the knowledge of agglomerations economies in the context of international business, as they explain how firms can benefit through a colocation strategy and what problem they may face by selecting it. Third, they provide empirical evidence on EMEs, which call for reflections and even re-evaluation about the extant theories and frameworks on FDIs strategies to interpret the behaviors of FDIs from non-developed economies. From a

practical aspect, these findings also provide great value. They demonstrated that firms' strategies should not be isolated and a trade-off between different plans is needed in decision-makings by balancing the costs and risks involved in selecting one or another plan. For policy makers, the better understanding of the behaviors and strategic decision of MNEs can help to improve their regulatory work and adjust their policy to attract foreign investments.

Another aspect of contribution made by this research which should be underlined is the review carried out focusing on previous foreign entry mode literature. In the intent to understand better the literature background, we reviewed studies centered on the prediction of entry mode choice, which are published on the top entry mode journals from 1980 to 2013. We compared and synthesized the findings of these works on the potential determinant of this strategic decision, and also looked into the analysis contexts of these works.

This retrospective look shows that research on the prediction of foreign entry mode is still far away from perfection. First, paradoxes are shown on the effects of several determining factors (e.g., cultural distance, investment risk, and experience). The disputes on them still have not been settled. Second, recent studies have begun to pay attention to the moderating effects when analyze the effect of one determinant factor. However, scholars have not been aware that the influences of many entry mode determinants are not isolated and unidirectional. The interrelationships between them are still unknown. Third, research on the strategy dimension and economic dimension (i.e., the market/industry-related conditions) in foreign entry mode choice has not been well developed. Some contradicting effects have been suggested and many past works lack solid theoretical bases. Fourth, we identified a potential sample hazard in prior entry mode studies. Scholars have not tested all the investment context. It is unknown that if the behaviors of MNEs from non-developed economies are similar to those of firms from developed markets, and if new determinants and theories are needed to explain their foreign entry mode decisions. This effort not only refines the understanding of MNE’s foreign entry mode decision, but also suggests future study directions in this research field.

3. Limitations and future studies.

This search has several limitations concerning the data and measurement of some variables. Due to the limitation of data sources, we created several dummy variables. Future studies need to improve this if more data becomes available. Also, the study is based on a context of FDIs from an emerging economy invested in a developed economy. We call for research in other FDI contexts focusing on MNEs' behaviors within the host country and strategies, such as FDI from developed economies into developing economies. It would also be interesting to identify other specific contexts that firms are involved in, and examine the effects, which may yield further useful insights into international business issues.

We also argue that research efforts should be given to these issues focusing especially on foreign entry mode research in future. First, scholars need to improve theoretically and empirically the study of factors related to the strategic and market/industry conditions and conclude their influences on entry mode choice. Second, the interrelationships and potential interactions between the suggested entry mode determinants should be figured out. Moreover, analysis should be given to the investment context of firms from non-developed economies entering developed economies. Additionally, in this literature review, we tried to provide reflections on these identified research limitations and suggested three core concerns and four dimensions to conclude and refine prior research contributions. These original ideas may give inspirations to scholars and be helpful for the future research. Scholars can discuss and carry out empirical analysis focusing on these issues.

Additionally, we argue that the consequences of MNE strategies should be underlined in research. We call for more attention in future to the influences of MNEs' decisions on their investment performance and home and host countries' economic development and socal issues, as one of the main purposes of doing IM research is to improve the decision-makings (Shaver, 2013). We suggest that

the study of MNEs' performance and their influences to the environments should be linked to the antecedent decisions and strategies. It will be a better way than studying the consequence issue isolately to test what have been found on these decisions and extend the extrant knowledge on them.

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