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Expanding to Outward Foreign Direct Investment or not? A Multi-dimensional Analysis of Entry Mode Transformation of Chinese Private Exporting Firms¹²

Abstract

This research examines the factors determining whether or not exporting firms expand to outward foreign direct investment (OFDI) as part of their internationalisation strategy, using a recent survey of Chinese private-owned enterprises. We carry out a multi-dimensional analysis to investigate the impact of firm productivity, internal resources and the external environment on OFDI decisions, including both the decision to undertake OFDI and the volume of OFDI flows. It is found that productivity, technology-based capability, export experience, industry entry barriers, subnational institutions and intermediary institutional support affect firms' OFDI decisions. The findings have important policy and managerial implications.

Key words: OFDI, Chinese private-owned enterprises, productivity, heterogeneity theory, the integrated 'strategic tripod' framework.

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² We thank one of the referees for suggesting the term 'entry mode transformation'.

1. Introduction

As one of the fastest growing economies, China has recently accelerated its pace regarding outward foreign direct investment (OFDI). From a negligible annual average of US\$0.4bn in the 1980s, OFDI flows grew to an average of US\$2.3 billion in the 1990s, then further jumped to an average of US\$19.1 billion in the 2000s. By the end of 2011, around 13,500 Chinese firms had made an accumulative investment of US\$425 billion in 178 countries (China Ministry of Commerce, 2012). The rise of China's OFDI has drawn the attention of academics and policy-makers and has resulted in increasing research on this topic.

A review of the extant research on China's OFDI (see Table A1 in the Appendix for a summary of published research in English-language journals) shows that most studies have examined the patterns, motivations and determinants of the volume, location and entry mode choice and have adopted several theoretical perspectives, including the linkage-leverage-learning framework (LLL), investment development path theory (IDP), resource-based view (RBV), transaction costs theory (TC) and institutional theory (IT). Research findings indicate that OFDI strategic decisions are influenced by a variety of firm, industry, and country-related factors. These studies have shed light on the issues of China's OFDI. However, few studies have investigated the entry mode transformation of Chinese exporting firms and the role of subnational institutions in such a transformation. The internationalisation path of firms is by no means universally observed. Despite firms' export experience, not all exporting firms expand to OFDI entry mode. What are the

factors giving rise to the OFDI decision after exporting? What determines the volume of OFDI flows (VFDI)?

To address the research gaps, this study adopts a multi-dimensional approach based on productivity heterogeneity theory (Greenaway & Kneller, 2007) and the integrated 'strategic tripod' framework (Peng, Wang & Yi, 2008) to examine the roles of internal factors, industry conditions and institutional environments in the entry mode transformation of Chinese exporting firms. The international business (IB) literature has for some time emphasised the importance of adopting multi-dimensional or multi-level analysis (Buckley & Lessard, 2005). More recently, Jormanainen and Koveshnikov (2012), after critically assessed research into the internationalisation of emerging market firms (EMFs) published in fourteen top international management journals between 2000-2010, issued a similar guideline suggesting that "the development of multi-level models accounting for country, industry and firm-specific factors may shed some light on the observed plurality and allow for making more informed comparison of EMFs following different internationalization paths" (p. 719). One of the shortcomings of the extant China's OFDI literature is the attention paid to only one group of variables with a few exceptions (see Table A1). In response to the above calls, we consider firm characteristics, industry dynamics and macro-level factors and go on to develop corresponding hypotheses based on productivity heterogeneity theory (Greenaway & Kneller, 2007) and the integrated 'strategic tripod' framework (Peng et al., 2008).

Productivity heterogeneity theory in economics literature explains entry mode transformation from exports to OFDI by looking at the cost implications associated with exports and OFDI (Greenaway & Kneller, 2007). Both exports and OFDI involve sunk costs including, for example, market research, product research (leading to product modification or new development), distribution networks and advertising. OFDI eliminates variable transportation costs associated with exports but incurs higher fixed costs than exports; productivity heterogeneity therefore determines entry mode transformation. The more productive firms become exporters while the less productive ones sell domestically and only the most productive exporters undertake OFDI. Productivity heterogeneity theory has received empirical support in the studies of German, Italian, French, Irish, British, Japanese, and American firms (Arnold & Hussinger, 2010; Castellani & Zanfei, 2007; Engel & Procher, 2011; Girma, Görg & Strobl, 2004; Girma, Kneller & Pisu, 2005; Head & Ries, 2003; Helpman, Melitz & Yeaple, 2004; Kimura & Kiyota, 2006; Tomiura, 2007; Wagner, 2006). However there is no study that empirically tests this theory in the context of China.

Building on RBV (Barney, 1991) and the industry-based view (IBV) (Porter, 1980), IB literature traditionally argues that firms' strategic decisions are influenced by their internal resources and capabilities, and industrial conditions. More recently, Peng et al. (2008) suggest that IT is the third preminent perspective in helping to explain emerging economy (EE) firms' internationalisation, given the strong influence of governments in EEs and the fundamental change of institutions; they propose the strategic tripod framework, integrating RBV, IBV and IT. In this research, we broaden IT in the

framework by recognising the subnational-institutional variation across Chinese regions and taking account of both the national and subnational institutions in which the Chinese firms are embedded. A number of studies of Chinese OFDI (see Table A1) have narrowly focused on the impact of regulatory factors and state support. No research addresses the impact of subnational institutions, despite the reorganization of diverse subnational regions in China (Boisot & Meyer, 2008; Xu, 2011). Our focus on subnational institutions complements the studies of Yang, Jiang, Kang and Ke (2009) and Wang, Hong, Kafouros and Boateng (2012) and helps generate new insights into how and what institutions matter to Chinese exporting firms' OFDI decisions.

Another important feature of the study is our focus on Chinese private-owned enterprises (POEs). Existing studies have mainly focused on state-owned enterprises (SOEs), listed companies, or a mix of firms with different types of ownership (see Table A1). Only a few studies have centred explicitly on POEs despite the fact that POEs are an important driving force behind China's OFDI, in addition to export growth and economic development (Liu, Xiao & Huang, 2008). In 2012, POEs accounted for 9.5% of China's OFDI flows (The Economist, 2013), growing from less than 4% two years before, and their role in China's 'go global' strategy will continue to increase (Lin, 2010).

It is important to separate firms with different ownership as POEs differ from SOEs in a number of ways. POEs have been systematically discriminated against in China. They were not legitimate in China until the opening up in the late 1970s and were not allowed to invest overseas until 2003. The strategic behaviour of POEs differs from that of non-

POEs (Lin, 2010; Ramasamy, Yeung & Laforet, 2012; Rui & Yip, 2008). POEs are increasingly operating in a free market environment and are more likely to be influenced by market forces and to be commercially motivated (Liu et al., 2008; Ramasamy et al., 2012). They more closely resemble their developed economy (DE) counterparts (Liang, Lu & Wang, 2012). This is in contrast to SOEs' objectives which can be politically motivated and can be determined by the government's consideration of China's political and economic influence in the world. Examining POEs separately therefore enriches our understanding of their strategic behaviour in terms of their outward internationalisation strategy, enables us to differentiate the impact of different institutional dimensions from ownership effect, and enhances our understanding of these firms' outward internationalisation paths within the institutional context. Such a focus helps provide valuable empirical evidence on the relationship between the characteristics of POEs and their entry mode transformation.

2. Theoretical Background and Hypothesis Development

Firm internationalisation, in general, and entry mode transformation from exporting to OFDI, in particular, is a complex process and is affected by many factors. A single theoretical approach is inadequate to capture such complexity and to reflect the impact of multi-dimensional factors on strategic decisions relating to OFDI. Therefore, we take an integrative approach, drawing on productivity heterogeneity theory (Greenaway & Kneller, 2007) and the strategic tripod framework (Peng et al., 2008; Yamakawa, Peng & Deeds, 2008) which in turn comprises RBV, IBV and IT. Productivity heterogeneity

theory stresses the impact of productivity on internationalisation, which complements RBV, whereas IBV and IT enable us to explicitly examine the impact of industry and the institutional context in which firms are embedded. This integrated approach allows us to examine a wide range of factors affecting firms' strategic decisions on expanding from exporting to OFDI.

2.1 Productivity Heterogeneity Theory

In the economics literature, considerable attention has been paid to linking productivity heterogeneity to a firm's entry mode decision regarding exports and OFDI (Greenaway & Kneller, 2007). The mode shifts from exports to OFDI as firm productivity increases.

When serving international markets, a firm's choice is commonly between exports and OFDI. Firms entering the international market incur fixed costs relating to research into product compliance, setting up new distribution networks, advertising and so on.

Therefore, only firms with sufficiently high profits to cover the fixed costs could internationalise. Between exports and OFDI, exports involve lower fixed costs, but higher trade-related costs such as transportation costs, tariff and non-tariff barriers. OFDI, on the other hand, entails lower variable costs, but higher costs in maintaining capacity in multiple markets. Increasing returns to scale at plant level create incentives to concentrate production in one place and use exporting for internationalisation, while transportation and transaction costs associated with the distance between the locations of production and sales provide a countervailing pressure towards engaging in OFDI by producing closer to the foreign market. Firm productivity influences decisions concerning exporting and

OFDI. Of those firms that serve foreign markets, only the most productive find it profitable to meet the higher costs associated with OFDI. Exporting firms' expansion to OFDI therefore depends on their productivity. It is expected that the most productive exporting firms engage in OFDI and become multinational enterprises (MNEs) (Greenaway & Kneller, 2007). This predication has received empirical support in a number of recent studies of developed countries including Germany (Arnold & Hussinger, 2010; Wagner, 2006), Italy (Castellani & Zanfei, 2007), France (Engel & Procher, 2011), Ireland (Girma et al., 2004), UK (Girma et al., 2005), Japan (Head & Ries, 2003; Kimura & Kiyota, 2006; Tomiura, 2007) and US (Helpman et al., 2004). Thus, we hypothesise:

Hypothesis 1: Exporting firms with higher levels of productivity are more likely to expand to OFDI and undertake more VFDI.

2.2 Resource-based View (RBV)

The RBV rests on two fundamental assumptions: resource heterogeneity and resource immobility (Barney, Wright & Ketchen, 2001). The former refers to the different levels of resources and capabilities possessed by different firms, while the latter explains that this heterogeneity cannot be transferred from firm to firm without substantial costs (i.e. resources being 'sticky'). The rare, valuable, inimitable and non-substitutable firm specific assets/resources (FSRs) are a source of competitive advantage for internationalisation (Brouthers & Hennart, 2007). EE firms, though not possessing the sort of FSRs owned by DE MNEs (e.g. advanced technologies, marketing techniques and superior management know-how), still need to possess resource advantages in order to

overcome their liabilities of foreignness (Liu et al., 2008; Wang et al., 2012). These advantages are termed ‘comparative ownership advantages’ (COAs) by Sun, Peng, Ren and Yan (2012) and arise from internal FSRs or the interaction between country-specific advantages (CSAs) and FSRs. Zhang (2009), for example, asserts that FSRs possessed by China’s MNEs are “similar in kind to their developed country counterparts, but differ in proportion” (p. 92) and rely on advantages in production-process capabilities, cheap resources and institutional supports. Using case studies, Rui and Yip (2008) find that Chinese MNEs may lack product technology, globally recognised brands and international managerial experience, but they have innovative products for niche markets, and innovative and effective marketing and services. These FSRs are “relatively (not absolutely) valuable, rare, hard-to-imitate and organizationally embedded in comparison with MNEs from other countries” (Sun et al., 2012, p. 7).

Following COA logic, EE multinationals need to absorb and integrate the CSAs of a host country in location, and factor endowments into their FSRs (Sun et al., 2012). Hence, EE firms’ OFDI decisions are largely conditioned by their ability to obtain advanced technology and to learn how to operate internationally (Mathews, 2006). As a basis for competitive advantage and an important type of FSR, technology-based capability can help mobilising other FSRs into dynamic capabilities. It supports knowledge integration for firms operating in multiple markets and increases their level of absorptive capacity in understanding and adapting to international market opportunities (Lu, Liu & Wang, 2011; Yiu, Lau & Bruton, 2007). For example, strong domestic-based technological know-how has enabled Chinese firms like Midea (a leading manufacturer of refrigerators, air

conditioners, washing machines and other white goods), Ningbo Bird (a leading manufacturer of mobile phones) and Wanxiang (a leading manufacturer of auto parts) to absorb superior technologies from international industry leaders (Deng, 2004, 2007; Lin, 2010). Thus, we hypothesise:

Hypothesis 2: Exporting firms with technology-based capability are more likely to expand to OFDI and undertake more VFDI.

Extant literature emphasises the role of brands in a firm's FSR base (Anand & Delios, 2002; Morgan & Rego, 2009). As a valuable intangible asset, brands are important in distinguishing products by status, emotional characteristics and subjective qualities. They are pernicious barriers to entry. Brands are costly and require long time horizons to build. Strong brands, signifying deep and meaningful relationships with customers, can result in increased product sales and reduced customer price sensitivity. Firms can leverage them to reduce costs or increase profit margins. Brand recognition at a broader level (beyond national, and at the worldwide scale) constitutes a firm's competitive advantages and is essential for a firm's internationalization strategy (Strizhakova, Coulter & Price, 2008). Firms with brands, when serving international markets, need to establish both legitimacy and effective communication with customers in order to overcome the liabilities of foreignness and newness. It is relatively easier to achieve local acceptance through OFDI than exporting given the physical presence of OFDI in the host country markets (Yildiz & Fey, 2012). There is increasing evidence to suggest that Chinese firms are investing abroad to develop new markets and raise brand awareness. Cases in point include Huawei (Economist, 2012a), Bosideng (Economist, 2012b), Galanz (Lin, 2010) and Wanxiang

(Ramsey, 2012). Taking Galanz as an example, Galanz began the production of microwave ovens in 1992. Within six years, it became the biggest producer and largest exporter of microwave ovens in the world through OEM (original equipment manufacturing). It used its own brands at home but sold products under established MNEs' brands in overseas markets. However, since 2008, there has been a strategic shift to OBM (own brand manufacturing). The firm has set up manufacturing and R&D facilities around the world and developed global distribution networks. Hence, we suggest:

Hypothesis 3: Exporting firms with brands are more likely to expand to OFDI and undertake more VFDI.

It is well documented that most EE firms start their internationalisation with exports and this helps firms to gain experience and establish linkages in international markets (Mathews, 2006). From the RBV perspective, export experience represents a firm-specific tacit resource (Meyer, Wright & Pruthi, 2009b) that is important for OFDI. Such experience allows firms to improve their understanding of and competence in foreign markets, build relational assets and develop foreign market entry capability that helps mitigate information asymmetry and uncertainty, and thus overcome the liability of foreignness associated with OFDI. It also influences managers' perceptions regarding the costs of OFDI and enhances their confidence (Eriksson, Johanson, Majkgard & Sharma, 1997; Pedersen & Shaver, 2000). Hence, firms with more export experience are more likely to undertake OFDI to benefit from knowledge acquired through exporting. OFDI is also a way to overcome trade barriers and promote exports (Buckley, Cross, Tan, Xin &

Voss, 2008; Lu et al., 2011). Even with the WTO, EE firms still face non-tariff barriers, such as anti-dumping rules and countervailing duties. In order to bypass these trade barriers, firms with more export experience are more likely to engage in OFDI (Buckley et al., 2007; Buckley et al., 2008). One illustrative example is Wanxiang whose OFDI benefits from its accumulated export experiences (Lin, 2010). Wanxiang started its internationalisation through exports, then established manufacturing abroad, and finally used local resources to design, manufacture and distribute its products around the world. Another case in point is Galanz. Early development in the export market enabled the firm to participate in international joint ventures (IJVs) in DEs such as North America and Western Europe (Deng, 2007). These examples suggest that exporting firms benefit from their accumulated export experiences as they become more familiar with international business, improve their understanding of local customers' needs and more easily absorb useful information on host countries. As a consequence, this learning and experimentation can lead them to expand to OFDI. Hence, we propose:

Hypothesis 4: Exporting firms with more accumulated export experience are more likely to expand to OFDI and undertake more VFDI.

2.3 Industry-based View (IBV)

The IBV emphasizes the importance of the industry environment in which a firm operates. Industry conditions affect firms' strategic behaviour (Boter & Holmquist, 1996; Porter, 1980), including their internationalisation strategy (Yamakawa et al., 2008). These conditions, such as entry barriers and industry R&D, may shape the extent to which

exporting firms are likely to achieve COAs and expand to OFDI. Industry entry barriers have the effect of reducing or limiting competition. A firm's internationalisation decisions crucially depend on the level of an industry's entry barriers. A low level of entry barriers in an industry encourages new entrants, which increases competition (Arora & Gambardella, 1997; Porter, 1980). The competitive pressure pushes firms to cut prices and improve product performance, thus lowering profit in the domestic market. The offsetting force of competition places a ceiling or threshold on the equilibrium number of firms. This may pressurise firms to use OFDI as a means to search for new markets and seek further growth elsewhere (Lu et al., 2011). In contrast, an industry with a high level of entry barriers is characterised by a low level of competition. Established exporting firms operating in such an industry tend to comfortably enjoy strong market position and superior profits, therefore have limited incentives to expand to OFDI.

Economies of scale can act as an entry barrier when the output level at which all potential economies of scale have been exploited (minimum of efficient scale) is large relative to the total size of the market and when the average costs associated with a production level below the minimum of efficient scale are greater than the average costs at minimum efficient scale. For most of their international market forays, Chinese firms' internationalisation is still at an early stage and is primarily dominated by exporting (Child & Rodrigues, 2005; Liu, Buck & Shu, 2005). Exporting is a relatively lower business risk activity, requires fewer resource commitments, and has greater flexibility for managerial actions than OFDI. Given the home country CSRs, such as low labour costs and low production costs, firms may benefit from economies of scale by

concentrating production at home, then exporting their products to foreign markets. Expanding to OFDI implies costs arising from producing at different locations, therefore new entrants face cost disadvantages because they do not produce at the low-cost position on the economies of scale curve (Lipczynski, Wilson & Goddard, 2009). In addition, there are learning-curve cost advantages, i.e. the costs of production fall with the cumulative volume of production. Firms that successfully move along the learning curve can obtain cost advantages over rivals. Therefore, exporting firms have incentives to pursue exporting activities continuously and enjoy the cost advantages when they operate in an industry characterised by high entry barriers. Thus, we hypothesise:

Hypothesis 5: Exporting firms operating in an industry characterised by high entry barriers are less likely to expand to OFDI and undertake less VFDI.

Besides the impact of entry barriers on OFDI, industry R&D may influence the transformation from exporting to OFDI (Yamakawa et al., 2008). Specifically, industry R&D captures technical dimensions within which firms compete. High industry R&D provides the potential for a large degree of product differentiation and signifies the need for continuous knowledge acquisition. Firms operating in such an industry need to update their innovation capability and tap into cutting-edge technology in foreign countries, given that technological development in emerging economies still lags behind that of developed countries. Constrained by a low knowledge base at home, EE firms have strong incentives to acquire knowledge from international markets. Direct personal contacts between parties and lengthy communication are essential to acquire external knowledge (Makino & Delios, 1996) and therefore exporting firms in R&D intensive

industries may seek to expand to OFDI rather than solely focusing on exports. The mode of transformation enables exporting firms to expose themselves to advanced technologies through physical proximity. Subsidiaries in a host country can gain direct access to new knowledge and research skills which cannot be effectively achieved without the local presence. Existing research has found that motives for acquiring external knowledge affects the path of internationalisation, and OFDI activities provide a means of knowledge exploitation and exploration in foreign countries (Lu et al., 2011; Meyer et al., 2009b). In comparison, exporting activities only allow firms to have limited interaction with foreign buyers and suppliers, representing limited learning opportunities in international markets (Liu et al., 2005). Thus, we hypothesise

Hypothesis 6: Exporting firms operating in an industry characterised by high R&D are more likely to expand to OFDI and undertake more VFDI.

2.4 Institutional Theory (IT)

North (1990, p.3) defines an institution as “the humanly-devised constraints that structure human interaction”. It sets the “rules of the game” to govern firm behaviour. It is recognised that institutions play an important role in supporting the effective functioning of market mechanisms and help firms and individuals to engage in market transactions (Meyer, Estrin, Bhaumik & Peng, 2009a). A country’s institutions form the conditions for doing business there and determine the transaction costs of business activities. As repositories of knowledge and information, well-established institutions facilitate the development of the competitive capabilities of firms that embed in the institutions, help

reduce information asymmetries and serve to disseminate information about what and how to gain or deepen new and existing capabilities. They induce firms to create particular resources and capabilities and ensure transparency and contract enforcement. Institutions significantly shape firms' behaviours and encourage them to make long-term strategic decisions such as OFDI (Buckley et al., 2007). Institutions can make an important contribution to the international competitiveness of indigenous firms. The ownership advantages from the possession of resources and capabilities that Chinese firms enjoy are mainly home-country based (Boisot & Meyer, 2008; Rugman & Li, 2007). This makes home country institutions particularly important. The literature has repeatedly stressed, for example, the role of a supportive policy by the government (e.g. Child & Rodrigues, 2005; Deng, 2004, 2009; Luo, Xue & Han, 2010; Voss, Buckley & Cross, 2010). Since China's formulation of the 'Go Global' policy, central and provincial governments have perceived OFDI positively and actively attempted to provide an institutional environment that enables Chinese firms to engage in OFDI.

While noting that national institutions play an important role in OFDI, it is important to point out that subnational institutions also have a strong bearing. With 31 provinces, China is well-known for its fragmented domestic economy, regional disparity and considerable institutional variation across regions (Boisot & Meyer, 2008; Meyer, 2008; Xu, 2011). Though the central government's control is substantial, provincial governments play a pivotal role in shaping the regional institutional environment (Boisot & Meyer, 2008). This is in part associated with administrative decentralization including fiscal decentralization, the delegation of responsibility for economic performance, the

delegation of control of SOEs from central government to provincial governments and the delegation of the local implementation of intellectual property laws (Boisot & Meyer, 2008). Provincial governments are granted authority over and responsibility for economic development in general, and internationalisation strategy in particular at the regional level. They implement policies which affect the development of product markets, factor markets and markets of intermediate goods and services, and legal systems. For example, provincial governments have policy-making authority in spending on strategic assets, public finance, tax exemptions and subsidies (Chan, Makino & Isobe, 2010). In regions where government interference in business activities or regulatory uncertainty is high, non-market forces prevail and there is a lack of effective contract enforcement, which increases business costs and reduces the competitiveness of the local firms (Boisot & Meyer, 2008). Previous findings based on interviews with firms and government officials show that OFDI approval was quicker in certain provinces than others (Voss et al., 2010), for example.

Such variations in sub-national institutional environments provide an appropriate context to examine the impact of regional institutions on OFDI. Chinese firms face the same national institutional environment but different sub-national institutional environments. Their practices in different regions are inherently imprinted by regional institutional environments. Such regional institutional environments may constrain or encourage firm internationalisation. A quality regional institutional environment helps ensure transparency, reduces transaction costs for OFDI, reduces information asymmetries and facilitates OFDI. Thus, we propose:

Hypothesis 7: Exporting firms from provinces with better institutional environments are more likely to expand to OFDI and undertake more VFDI.

Institutions consist not only of regulatory environments and government policy, but also intermediary organisations. Support from industry associations and intermediary organisations also acts as an important motivator in Chinese firms' OFDI. Professional associations can be seen as institutional actors that help shape the perceptions of managers and their responses to business opportunities (Nordqvist, Picard & Pesämaa, 2010). "Links with domestic trade associations and professional bodies can provide intelligence on different markets and access to those markets for international operations" (Yiu et al., 2007, p. 524). In other words, the institutional supports provided by professional associations may help reduce information asymmetry and uncertainty about foreign markets and may encourage firms to undertake OFDI. These organisations also influence industry norms and practices through which firms may consider internationalisation a strategic choice in their industry. For example, if the industry associations and intermediary organisations can provide sufficient training to employees, and updated information on host countries' culture, language, accounting systems and legal systems, exporting firms may be in better position to move on to the next level of internationalisation. Our focus on professional associations and intermediary organisations helps to capture the impact of the different dimensions of institutions on firms' internationalisation strategies and complements prior studies which have mainly examined the impact of regulatory environments and government policy (Cui & Jiang, 2012; Lu et al., 2011; Wang et al., 2012). Thus, we propose

Hypothesis 8: Exporting firms receiving sufficient support from industry associations and intermediary organisations are more likely to expand to OFDI and undertake more VFDI.

3. Data and Methodology

3.1 Estimation Method

Our hypotheses were tested based on the following equations that capture two decisions in the OFDI strategy by exporting firms. First, firms' decisions whether or not to expand to OFDI and, second, how much OFDI to undertake.

$$OFDI_i^* = \gamma X_i + v_i \quad (1)$$

$$VFDI_i^* = \beta Z_i + u_i \quad (2)$$

with

$$\begin{aligned} VFDI_i &= VFDI_i^* & \text{if } OFDI_i &= 1 & \text{and} & OFDI_i &= 1 & \text{if } OFDI_i^* > 0 \\ VFDI_i &= 0 & \text{if } OFDI_i &= 0 & & OFDI_i &= 0 & \text{if } OFDI_i^* \leq 0 \end{aligned}$$

where $OFDI^*$ represents choices between the decision to engage in FDI and $VFDI^*$ stands for the volume of FDI that firm i undertook. The observed OFDI decision ($OFDI$) is a dummy variable that equals 1 if firm i reported engaging in OFDI. The observed volume of FDI ($VFDI$) is zero when the firm decides not to invest abroad ($OFDI = 0$) and takes a positive value when the firm decides to invest abroad ($OFDI = 1$). Since $OFDI^*$ and $VFDI^*$ are unobserved, we assume that they are functions of multi-dimensional variables at firm- (f), industry- (i) and country-level (c) as outlined in our hypotheses. The

X and Z are matrices of the relevant explanatory variables measured at the three levels. The same set of explanatory variables has been used to explain both the decision to undertake FDI and the decision of the volume of FDI. β and γ are the parameters to be estimated. The distribution of the error terms (u, v) is assumed to be bivariate normal. The OFDI decision is estimated using the binary Logit model. Building upon the OFDI decision equation, we then estimate a Tobit model using $VFDI$ as a dependent variable. One attractive feature of estimating two equations separately is that it allows us to identify whether variables have an identical impact on two decisions of OFDI.

3.2 Sample and Data Collection

Most of the data were collected through a questionnaire survey by the Chinese Academy of Social Sciences (CASS) and the All-China Federation of Industry and Commerce (ACFIC) in 2008. CASS and ACFIC have a government background, where CASS is the largest government-funded research institute of social science, and ACFIC is the largest association of firms in China. The advantages of conducting the survey by cooperating with government agencies included gaining “legitimacy” and improving the response rate. The drawbacks include the possibility of biased responses, especially related to any questions about the role of government. However, as argued by Lu et al. (2011) and Bai, Lu and Tao (2006), seriously biased responses are not likely to be a problem when using this set of survey data because both CASS and ACFIC are public institutes with a role in facilitating communication between firms and administrative authorities, and both are

reputable, with extensive experience in conducting surveys and collaborating with international institutes.

The survey was conducted in the following Chinese provinces: Beijing, Chongqing, Fujian, Hebei Jiangsu, Shanghai, Sichuan and Zhejiang in July 2008. Collectively, these provinces accounted for 84.7% of exports and 55.7% of OFDI in 2007 (National Bureau of Statistics of China, 2008). The survey focused on private manufacturing firms with exporting activities. A total of 1,200 questionnaires were sent to randomly selected POEs and 868 questionnaires were returned. However, only 225 received questionnaires contained valid information for this study, representing a 19% of response rate. In the survey, most of the respondents identified themselves as owners or senior managers and therefore had a good understanding of their firms' strategic decisions. To supplement missing information and check data reliability, company websites and annual company reports were used. Data for some industry variables were obtained from *China Industry Economy Statistical Yearbook 2008*. For subnational institutional variables, we used the NERI institutional environment index constructed by National Economic Research Institution (NERI) of China (Fan, Wang & Zhu, 2010).

3.3 Variable Measurements

The dependent variables include, *OFDI*, representing the dichotomous choice of whether exporting firms were engaging in OFDI and *VFDI*, the volume of outward investments.

For independent variables, three-dimensions of analysis are used in our empirical model: firm, industry and institution-level variables.

The first set includes productivity, technology-based capability (*TC*), *Brands* and export experience (*Export_exp*), *Size*, *Age* and *Born_global*. The first four variables correspond to Hypotheses 1-4. Productivity is measured by total factor productivity (*TFP*) calculated as the residual of the production function, with sales as the dependent variable, and total assets and the number of employees as independent variables. *TC* is measured by three items, following Lu et al. (2011). Firms were asked to evaluate whether or not: (1) they have the capacity to produce unique products and services; (2) their products and technologies can be easily imitated by their competitors; (3) their customers can easily switch to another supplier. Principal-component factor analysis is used to extract a factor to reflect a firm's technological capability. *Export_exp* is measured as the ratio of a firm's exports to sales as in Lu et al. (2011) and Yiu et al. (2007). To measure *Brands*, we use the question in the questionnaire: whether the firm owns internationally registered brand names.

Following the existing literature, we include three control variables at the firm level that are important in a firm's internationalisation decision. Firm size is related to a firm's ability to fulfil the resource commitments associated with internationalisation, and age reflects a firm's accumulation of knowledge and experience (Cui, Jiang & Stening, 2011; Deng, 2012; Wang et al., 2012). *Size* is measured by the logarithm transformation of a

firm's total assets, following Chen and Young (2010), and *Age* by the number of years since it was founded, similar to Yiu et al. (2007).

Many firms have been observed to expand into foreign markets and exhibit international business prowess from or near their founding (Knight & Cavusgil, 2004; Moen & Servais, 2002)³. To capture the phenomenon of Chinese 'born-globals' POEs, we classify the firms based on the time between establishment and the first year of exporting and the share of their sales to foreign countries. Knight and Cavusgil (2004) define 'born-globals' as firms with at least 25% of their sales to foreign countries within three years after their inception. This is a fairly stringent definition. Given China's large domestic market size, we choose a more modest threshold of 10% for the variable *Born_global*. But different threshold levels are tested during robustness tests.

Industry-level variables are entry barriers and industry R&D. The *entry barrier* variable is included to test Hypotheses 5 and 6. The survey asked firms to evaluate whether or not, in the industry to which they belong, it was difficult for new firms to enter, with 1 indicating yes and 0 otherwise. *Industry R&D* is measured by the R&D expenditure of the industry in which firms operate.

There has yet to be a conclusive list of all dimensions of institutions. Three key components are considered here: reduction in regulatory uncertainty (*RRU*), intellectual property rights protection (*IPRP*), and reduction in government interference (*RGI*). Our

³ We thank one of the referees for suggesting the investigation of 'born global' firms.

measurement of subnational institutional environments is derived from the NERI indices. RRU refers to the reduction of a firm's burden besides taxes and is constructed on the basis of the ratio of non-tax levies to sales. IPRP index is constructed from two ratios; the ratio of the number of patent applications to the number of R&D personnel and the ratio of the number of approved patent applications to the number of R&D personnel. RGI refers to the reduced role of government in business and is constructed based on the percentage of time that firm managers spent dealing with government agencies and government officials. Each of the three indicators is valued by a score between 0 and 10, with a large score meaning a high level of institutional development.

To test Hypothesis 8, we use firms' perceptions of *institutional supports*. Firms were asked whether or not, in their internationalisation process, industry associations and intermediary organisations had provided relevant services, with 1 indicating yes and 0 otherwise. As argued by Santangelo and Meyer (2011), the subjectivity of perceptual measures can be an advantage, because it is the decision-makers' views of their environment that influence their decision-making process.

3.4 Non-response Bias Test and Common Method Variance (CMV)

To assess potential non-response bias, we compare the respondents and the original sample with respect to the number of employees and the age of the firm. The *t* statistics were statistically insignificant, suggesting that there are no significant differences between these two groups. Thus, non-response bias is unlikely to be a significant problem.

As the data were collected from the same respondents of an organization, therefore CMV, which creates a false internal consistency, could potentially be a problem. Several methods are employed to minimise the effect of CMV (Podsakoff, MacKenzie, Lee & Podsakoff, 2003; Podsakoff & Organ, 1986). First, the dependent variables, *OFDI* and *VFDI*, can be independently verified from other sources and thus are ‘objective’ in nature. Second, the dependent, independent and control variables are not similar in content. Finally, Harmon’s factor test is conducted and all the measurement items are loaded into an exploratory factor (Podsakoff et al., 2003). The results show an eight-factor solution in which the largest factor explains only 24% of the total variance, indicating that CMV is not a major concern in our data.

4. Research Findings

4.1 Descriptive Analysis

Table 1 reports the industrial distribution of the sample firms. On average our sample firms are less than 11 years old and have less than 7 years of exporting experience. A total of 40 out of the 225 Chinese private exporting firms undertook OFDI in 2007. Table 2 presents the OFDI firms’ motives. Existing literature shows Chinese POEs undertaking OFDI are more likely to be strategic asset-seeking and market-seeking (Buckley et al., 2008; Lu et al., 2011). In our sample, all OFDI firms pursued either strategic asset-seeking and/or market-seeking strategies. Over 70% of MNEs adopted both strategies. It shows that the majority of Chinese private exporting firms with OFDI aim to achieve

asset exploration and market expansion simultaneously by expanding to OFDI. Three MNEs' motives are more strategic-seeking than market-seeking and one is more market-seeking than strategic-asset seeking.

Insert Tables 1&2 here

Table 3 reports descriptive statistics and correlation matrix for the main variables. All correlation coefficients are low except that between IPRP and RGI. We further check the variance inflation factors (VIF) scores. The mean VIF is 1.96 with no single VIF score greater than 7 (less than the threshold level of 10), suggesting that multicollinearity is not a serious issue.

4.2 Econometric Results

Table 4 presents the estimation results. Models (1.1) and (1.2) contain all variables that are related to hypotheses developed in Section 2 and are the results of Logit and Tobit models, respectively. Models (2.1) and (2.2) add control variables in the estimation. We use Pseudo R^2 for model-fit. The figures range between 0.121 and 0.205, which are to be expected for cross-sectional survey analysis and are comparable to other studies of Chinese OFDI using survey data, e.g. Duanmu (2012), Yiu et al. (2007) and Lu et al. (2011) and those using cross-sectional data, e.g. Wang et al. (2012).

Insert Tables 3&4 here

We can now turn to the results of hypothesis testing and control variables. The coefficients on TFP are negative and statistically significant. Thus, Hypothesis 1 is not supported. Three hypotheses are linked to RBV. The coefficients on technology-based capability (*TC*) and export experience (*Export_exp*) are positive and statistically significant, thus supporting Hypotheses 2 and 4. The variable of *Brands* appears to be statistically insignificant, indicating that Chinese private firms are less likely to exploit firm-specific assets such as brands through OFDI. Hypothesis 3 therefore is not supported.

Three firm-level control variables are *Size*, *Age* and *Born_global*. *Size* is positive and statistically significant. As firm size is often considered to be a proxy for tangible and intangible resources (Deng, 2012), the findings suggest that exporting POEs with more resources are more likely to undertake OFDI. Firm age is statistically insignificant in both *OFDI* and *VFDI* models. *Born_global* is statistically significant in both *OFDI* and *VFDI* models, suggesting that for the group of ‘born globals’, they may have FDI in their mind from the beginning of their inception rather than expanding to FDI. However, this finding has to be interpreted with caution as the number of firms which belong to the ‘born global’ category is very small⁴.

Industry conditions are captured by *Entry barriers* and *Industry R&D*. The former has a negative sign and is statistically significant, corroborating Hypothesis 5. *Industry R&D* is

⁴ Out of 225 firms in the sample, only 4 started exporting within 3 years of founding and exported more than 10% of their output. If we use 25% as the threshold level, following Knight and Cavusgil (2004), only 1 firm meets the criteria. This is why the variable is only included here as a control variable.

statistically insignificant and hence Hypothesis 6 is not supported. Three variables pertaining to home subnational institutions are used – reduction of regulatory uncertainty (*RRU*), intellectual property rights protection (*IPRP*) and reduction of government interference (*RGI*). High-quality institutions characterised by strong intellectual property rights protection are associated with more OFDI, thus providing support to Hypothesis 7. On the other hand, weak institutions characterised by more regulatory uncertainty and government interference are linked to more OFDI, thus contradicting Hypothesis 7. The results of these subnational institutional variables provide fresh empirical evidence of the effects of different dimensions of subnational institutions. Finally, at the intermediary level, a firm’s perception of industry association support has a positive and significant effect on OFDI and VFDI, thus supporting Hypothesis 8.

4.3 Robustness Check⁵

To further check the robustness of our results, we use alternative measures for *Productivity*, *Export experience*, *Industry R&D*, *Size* and *Born_global*. *Productivity* is measured by labour productivity calculated as the logarithm transformation of the ratio of sales to the number of employees. *Export experience* is the number of years since firms started exporting (He & Wei, 2011). The number of R&D personnel in the industry is used to reflect *Industry R&D*. For *Size*, the logarithm transformation of a firm’s sales (Cui & Jiang, 2009) or the number of employees (Chen & Young, 2010; Yiu et al., 2007) is used. Two broad definitions of ‘born global’ firms are chosen: POEs with at least 10%

⁵ The results are available upon request.

of sales in exports within five years from inception and POEs who started exporting within three years of inception. The results are broadly consistent with those presented in Table 4, though sometimes the coefficients of productivity and export experience variables have the same sign but are statistically marginally insignificant. To take into account the possible endogeneity of productivity and the lagged effect of productivity, we also estimate regressions using firm productivity (both labour productivity and TFP) in the previous year. The results again are broadly in line with those in Table 4. The robustness of the models is therefore deemed satisfactory.

5. Discussion

This study examines factors affecting the entry mode transformation of Chinese exporting POEs and conducts a detailed multi-dimensional analysis of how firm-level factors, industry conditions and institutional contexts determine strategic decisions for expanding to OFDI. The findings associated with productivity variables contradict our theoretical prediction and are inconsistent with evidence in existing studies as shown in previous sections. However, prior studies all focus on DE firms that have ownership advantages and whose internationalisation activities seek to exploit FSRs which they already possess. EE firms in general, and Chinese firms in particular, do not have that sort of ownership advantage and their OFDI decisions are largely motivated by seeking strategic assets (Child & Rodrigues, 2005). In other words, Chinese firms invest overseas not mainly to exploit competitive advantages, but to redress their competitive disadvantages against their DE counterparts and engage in a catch-up strategy (Cui &

Jiang, 2009, 2010) or to upgrade their position in the value chain or global production network.

Our results may reflect the fact that OFDI is an effective way for Chinese firms to access the strategic resources that they need (Mathews, 2006). The ‘late development’ countries are still lagging behind developed economies and there is a need to use a high control mode (i.e. OFDI) to acquire strategic assets to compensate for competitive disadvantages (Buckley et al., 2007; Buckley et al., 2008; Cui & Jiang, 2009; Deng, 2007) as “exporting cannot fulfil the need of upgrading their capabilities”, but OFDI “is more likely to facilitate learning through extensive involvement in the international operations” (Liang et al., 2012, p.137). This implies that Chinese exporting firms engage in OFDI in order to acquire strategic assets and capabilities to improve their future profitability and maximize global synergy effects, but their productivity level may not be as high as those firms that are confident enough to focus on exports only. OFDI therefore is a means to tap into strategic know-how in the host country. This is in line with the empirical evidence of existing studies (Cui & Jiang, 2009; Lu et al., 2011; Rui & Yip, 2008). This shows that resource exploration is dominant over resource exploitation in the outward internationalisation process of Chinese exporting POEs.

From the RBV perspective, technology-based comparative ownership advantages derived from firms’ specific internal resources and capabilities, or the interaction between country-specific advantages and firm-specific resources, are the determinants of Chinese firms’ entry mode. Our finding indicates that firms that possess technology-based

ownership advantages are more likely to undertake OFDI. This may suggest that a large domestic market and highly competitive industry conditions have enabled Chinese firms to develop competitive advantages. In particular, private firms are under competitive pressure from both SOEs and foreign-invested firms. The survivors of this fierce competition have established the internal capability needed for OFDI. Hence, the competitive domestic market has served as a training ground for private firms and represents the foundation for expanding to OFDI. In addition, private firms that have developed a strong domestic base in technological knowledge have a greater absorptive capacity to learn superior technologies from developed countries through venturing abroad.

Chinese private firms with a short internationalisation history are less likely to exploit firm-specific marketing assets such as brands. This finding corroborates Wang et al. (2012) which shows advertising does not make an important contribution to OFDI volume decisions by Chinese firms. Thus, Chinese firms, though recognising the importance of brand names, understand the newness of their brands, which they are still in the process of building up internationally, and are aware that it will take time to develop brand awareness in international markets. The result may also suggest that brands tend to be location-bound (Anand & Delios, 2002), and Chinese private firms may encounter difficulty transferring their brands to new markets. Under the circumstances, possession of internationally-registered brands may not result in OFDI.

Firms with accumulated export experience are more likely to choose OFDI. These findings are consistent with Yiu et al. (2007) who reveal that exporting firms can benefit from learning in foreign markets, accumulating local knowledge, gaining legitimacy and developing local networks. Lu et al. (2011) also find that Chinese POEs with higher export experience are more likely to engage in OFDI for the purpose of defensive market seeking. Thus, experienced exporting firms have the capability to participate in the international market and have a better fit with the host country conditions. Taken together, the findings suggest RBV in the integrated strategic tripod framework provides theoretical underpinnings for Chinese exporting POEs' entry mode transformation.

Firms in industries that are characterized by a low level of entry barriers to the home country industry are more likely to choose OFDI. This shows that a Chinese firm's entry mode decision is contingent on the level of home country industry competition (Lu et al., 2011; Yiu et al., 2007). Industry R&D does not appear to affect a firm's OFDI decisions.

One key motivation of the study is to examine the role of the subnational institutions in Chinese firms' outward internationalisation. Although a number of recent studies have recognised the pre-eminence of home country institutional factors in helping to explain Chinese firms' internationalisation, given the strong influence of the government in the economy and the fundamental change of institutions (Buckley et al., 2008; Child & Rodrigues, 2005; Deng, 2007, 2009; Lu et al., 2011; Wang et al., 2012; Yang et al., 2009), they generally assume that institutional environments are homogenous within a country and overlook subnational effects. The evidence here demonstrates that subnational

institutions represent another dimension of analysis for OFDI. China, with a large geographic area and multiple administrative regions, has heterogeneous subnational institutions, and regional differences affect Chinese POEs' internationalisation strategies. More specifically, strong intellectual property rights protection helps firms to expand to OFDI. However, the results also show that Chinese POEs go abroad in order to escape from government interference and regulatory uncertainty as these decrease firms' freedom of operation and increase their business costs. This finding is in line with the view of 'institutional escapism' which suggests that a principle motive for POEs to go abroad is to seek a better institutional environment for their businesses (Boisot & Meyer, 2008; Luo et al., 2010). It suggests that poor institutional factors at home may push firms to undertake OFDI in pursuit of more efficient institutions (Boisot & Meyer, 2008; Child & Rodrigues, 2005; Luo et al., 2010; Yamakawa et al., 2008). In contrast, strong institutional factors in the home region help to support firms to remain as exporters operating in the region. These findings on subnational institutions complement the existing studies as summarised in Table A, and reveal a complex role of regional institutions in entry mode transformation.

We find intermediary institutional support is significant. This indicates that industry associations and intermediary organisations play an important role in POEs' strategic decision to expand to OFDI. Existing literature has established that in China, governments and industry associations and intermediary organisations play a crucial role in shaping China's OFDI (Buckley et al., 2008; Cui & Jiang, 2010; Deng, 2004; Wang et al., 2012; Yiu et al., 2007). The government sets up the outward FDI directive and

encourages specific investments to promote exports, to improve firms' capability in terms of technology and R&D activities and to create internationally-recognized brands. This is in line with existing evidence that the Chinese government has supported some selected POEs through instruments such as financial support, favourable tax regimes and overseas investment insurance.

6. Conclusion

Entry mode transformation is a phenomenon that manifests itself at firm, industry and country levels. Recourse is made to a variety of theories to explain the OFDI decisions of Chinese private exporting firms. This paper is one of the first to explore a largely neglected issue related to factors affecting POEs' entry mode transformation from exporting only to include OFDI. Adopting an integrated framework that combines productivity heterogeneity theory and the strategic tripod framework, we have empirically examined the impact of multi-dimensional factors on firms' decisions about whether to engage in OFDI and how much OFDI to carry out using a unique data set for Chinese POEs. Our findings suggest the importance of internal factors including productivity, technological capabilities and export experience, industry conditions including entry barriers, subnational institutions and intermediate institutional support.

Focusing on POEs, our study contributes to the existing literature in several ways. First, this research helps to improve our understanding of the outward internationalisation strategy of Chinese POEs by carrying out a multi-dimensional analysis to examine how

they expand their internationalisation strategies to OFDI. This fills a research gap in existing studies that have taken the shift from exporting to OFDI as given when examining the determinants of entry mode choices by focusing on the comparison of two OFDI entry modes: wholly-owned subsidiaries (WOS) vs joint ventures (JV) (Cui & Jiang, 2009, 2010; Cui et al., 2011). The findings show that all three aspects of the strategic tripod framework are the determinants of firms' entry mode transformation and help enhance our understanding of factors affecting the internationalisation path of firms. Second, it complements existing research by including productivity heterogeneity theory in the analytical framework. Our study is one of the first to extend this theory to the context of China and reveals that this theory is not supported in the case of China's POEs. This implicitly indicates that Chinese POEs' entry mode transformation cannot be adequately explained by productivity, showing that our multi-dimensional analysis is important. Finally, we extend institutional theory by investigating subnational institutional factors, thus broadening the institution-based view in the strategic tripod framework by recognising the subnational-institutional variation across Chinese regions.

Our research highlights the importance of the subnational institutions, including the elements of regulatory uncertainty, government interference and intellectual property protection which are key units of analysis for firms' outward internationalisation strategy. Such an analysis helps to capture the impact of regional institutional diversity on OFDI decisions and moves beyond existing studies that merely treat institutions within a country as homogenous entities.

Our findings have practical implications for managers and policy makers. First, it is clear that internal resources and capabilities are still the backbone for firms undertaking OFDI, and firms need to leverage a bundle of internal resources and capabilities in entry mode transformation. In particular, technology-based capabilities are a necessary condition under which firms aim to seek strategic assets, explore international markets or achieve resource exploration through undertaking OFDI. Second, strategic choices, including entry mode transformation, are not only driven by firm productivity, internal resources and capabilities and industry conditions but are also a reflection of home national and subnational institutional frameworks. Firms' commercial success hinges on how well their intellectual property rights are protected and how much government intervention and regulatory uncertainty they experience. Both national and regional governments need to ensure transparent, predictable, sound and well-enforced rules, regulations and policies in order to reduce interference and provide sufficient institutional supports for POEs' outward internationalisation.

The study has a few limitations. First, due to data availability, industry factors and institutional contextual factors in the host countries are not included in our research design. In particular, the customer needs, industry life cycle and location attractiveness of host countries should be incorporated in future work. Another set of missing variables at the firm level includes senior executives' 'global leadership', entrepreneurship and networks. Future studies should examine the impact of such factors to enrich our understanding of the OFDI decisions of Chinese firms. Second, our measure for industry entry barriers is based on managers' perception of whether it is difficult for new entrants

to enter the industry in which their firms operate. This is a broad measure. Future studies should examine the impact of entry barriers, such as tariffs imposed on host country industries. Third, we have followed the existing literature to measure the impact of international experience. However, such a measure may not fully reflect the fact that firms may engage in internationalisation in various ways, such as using their own distribution networks or doing contracted manufacturing/OEM. Future studies are awaited examining the impact of international experience gained through a variety of channels. Finally, Peng et al. (2008) suggest paying attention to the interactions among firm resources, industry dynamics and institutional factors. For example, firms are motivated to gain or enhance their legitimacy and performance by becoming isomorphic within their industry and institutions. They, therefore, adjust FSRs and implement strategy accordingly in response to the competitive pressure of the industrial environment and institutional change. Industrial and institutional forces can promote or hinder the further development of existing FSRs and capabilities, and the access of new strategic assets. A deeper level of internationalisation might be warranted by the interplay of a firm's internal resources with industrial and institutional factors. An extension to this study therefore could explore how the interaction among firms, industries and institutions influences firms' strategic decisions and could address the contingency impact of these factors on internal capabilities in shaping firms' internationalization strategies.

Appendix

Table A1: Summary of Studies of China's OFDI

Authors	Research theme	Theoretical foundation	Setting	Key arguments/findings
Agyenim, Wang and Yang (2008)	Motives and performance implication	RBV, TC, learning perspective, efficiency theory	27 listed firms between 2000-04	Cross-border M&A (CBMA) by Chinese firms is motivated by market seeking and strategic assets seeking, i.e. fast entry into new markets, diversification and the acquisition of foreign advanced technologies and other resources. CBMA creates value for acquiring firms.
Athreye and Kapur (2009)	Patterns, motivates and strategies of Chinese vs. Indian firms	OLI, LLL	Literature review	Outlines the quantitative and qualitative patterns of internationalisation activities of Chinese and Indian firms, identifying factors that motivate these firms to invest overseas, and describes the internationalisation strategies they have adopted.
Boisot and Meyer (2008)	The internationalization of SMEs	TC, IT	Conceptual paper	Explains that the internationalisation of many Chinese firms is because of a strategic exit from the home country because of high transaction costs associated with local protectionism and inefficient domestic logistics rather than strategic entry into foreign markets.
Buckley et al. (2007)	Determinants	OLI, three special explanations	Macro data between 1984-2001	Tests the extent to which mainstream theory OLI is applicable to the emerging country context, and whether special explanations (capital market imperfections, special ownership advantages and institutional factors) nested within general theory are needed. Chinese OFDI is found to be associated with host country variables including political risk, market size, and natural resources endowments and culture and geographical proximity with China, though the degree of the impact of these variables varies during different sample periods. The special explanations help to explain the behaviour of Chinese MNEs.

Buckley et al. (2008)	Patterns and motives	Firm-, industry- and institution-level analysis	Macro data between 1990-2004	Identifies historic and emergent trends of Chinese OFDI with regard to investment destinations, activity types, entry mode choices and investment motivations.
Cai (1999)	Patterns and motives	IDP, OLI	Macro data between 1979-97	Outlines the development of Chinese OFDI, characteristics and motives, OFDI regime, government policies and existing problems, and the prospects for the future trends of Chinese OFDI.
Cardoza and Fornes (2011)	Internationalization of SMEs	LLL	125 surveys of SMEs in Ningxia, China	Barriers (7 internal + 5 external) hinder firms' international expansion. State ownership does not play an important role, and support from the state in the form of funds is helpful in the first stages of expansion (regional level) and the funds from private sources are key to crossing country borders.
Chen and Young (2010)	Performance implication of CBMAs	Principal-principle perspective	39 transactions by 32 Chinese publicly-listed firms during 2000-08	Government ownership in the acquiring firm is negatively related to the favourability of investor perceptions of a proposed CBMA deal. The moderating effect of environmental complexity is not supported.
Child and Rodrigues (2005)	Determinants and motives	OLI, latecomer perspective, catch-up perspective, IT	Cases of firms including Galanz, Huawei, Ningbo bird, Holly group, SAIC, Lenovo, TCL and Haier	Examines the patterns and motives of internationalisation by prominent market-seeking Chinese firms. Concludes that the Chinese case offers an opportunity to extend present theorizing in four primary areas concerning the latecomer perspective and catch-up strategies, institutional analysis with reference to the role of government, the relations between entrepreneurs and institutions, and the liability of foreignness.
Chou, Chen and Mai (2011)	Determinants	Economics perspective	Macro-level panel data between 1993-2008	The pattern of China's OFDI tends towards a complex FDI without third-country effects. A high level of economic integration and political risk are not conducive to China's OFDI. Culture proximity and per capita income have significant benefits and the host country's market opportunity has a significant negative effect on China's OFDI.

Cui and Jiang (2009)	Entry mode choice –WOS vs. JV	Strategic behaviour perspective	Survey data of 138 Chinese firms	Chinese firms are likely to choose WOS if they enter a competition-intensive host country industry, seek complementary assets overseas, and pursue a global strategy. A joint venture entry mode is more likely to be chosen when Chinese firms enter high growth foreign markets to establish first or early-mover advantages.
Cui and Jiang (2010)	Entry mode choice – WOS vs. JV	RBV, IBV	10 multiple case studies	On the resource side, Chinese OFDI is both asset-exploiting and asset-augmenting. On the institution side, Chinese firms adjust their entry strategies to attain regulative and normative institutional legitimacy in host countries.
Cui et al. (2011)	Entry mode choice – WOS vs. JV	RBV, IBV, IT	Survey data of 138 Chinese firms	The cost advantage of the investing firm and learning opportunities in the host industry have positive effects on the likelihood of a firm opting for WOS against JV, while the market attractiveness of the host industry, host country restrictions, cultural barriers and cognitive pressures have negative effects.
Deng (2004)	Motivates and implications	Business perspective	Macro (UNCTAD) and micro data (firm-level data and cases)	There are five motivations for Chinese firms to invest abroad: to gain resources, technology, strategic assets, and markets, and diversification. Outlines the unique features of China's OFDI.
Deng (2007)	Trends and strategic-assets seeking motives	IT, asset-seeking perspective	Cases of firms including Haier, Galanz, Huawei, Lenovo, Ningbo Birdier and TCL	Chinese MNEs are motivated primarily by the quest for strategic resources and capabilities, and the underlying rationale for such asset-seeking FDI is strategic needs.
Deng (2009)	Motives	IT	Cases of TCL, BOE and Lenovo	CBMAs by Chinese firms represent a means to acquire strategic assets, which is the logic of China's unique institutional environment. The factors under consideration

				include the role of government (respond to the government's national development strategy, political and financial incentives provided by the government, escape response to institutional constraints (institutional constraints at home, difficulty in internally distinctive capabilities), corporate values and norms (entrepreneurial orientation, going global orientation) and inward FDI as stimulus to overseas M&A.
Deng (2010)	Performance implication of CBMA	Absorptive capacity perspective	Cases of Lenovo and TCL	Performance of Chinese firms' overseas acquisitions is affected by the acquiring firms' absorptive capacity at multiple dimensions. The factors under consideration include prior related knowledge (international experience, R&D intensity), combinative capabilities (organ, mechanisms & training, knowledge sharing/learning) and strategy execution/effect (complementary resources, business environment).
Deng (2012)	Antecedents, processes and outcomes of the internationalization of Chinese firms.	RBV, IBV, IT, TC	Survey paper. Qualitative content analysis	Review articles published in major scholarly journals during the period 1991–2010. Within the reviewed literature, three primary streams of enquiry are identified which focus on the antecedents, processes and outcomes of the internationalization of Chinese firms.
Duanmu (2012)	Location choice		194 location choices in 32 countries between 1999-2008	SOEs and non-SOEs react differently to host country factors. SOEs respond to political risks in the host country less negatively and favourable exchange rates more positively. Economic risk and natural resources are found to be unimportant for both SOEs and non-SOEs. At the firm level, manufacturing-oriented investment projects respond to the host market size and cost structure more strongly than trading-oriented projects.
Duysters, Jacob, Lemmens	Internationalization strategies of China' Haier vs. India'		Haier and Tata	Examines several aspects of two firm's internationalisation including the mode of internationalisation and the choice of overseas destinations. Explores the importance of, among

and Jintian (2009)	Tata			others, conglomerate structure, prior experience, the state, and entrepreneurship in internationalisation.
Gao, Liu and Zou (2012)	Human mobility in promoting OFDI	IDP	Macro data between 1979-2010	The two-way mobility of highly-skilled Chinese students and scholars significantly promotes Chinese OFDI. Chinese OFDI is also driven by domestic economic development, but substitutes exports.
Ge and Ding (2008)	Internationalization strategies	LLL	Galanz	Examines the process of Galanz's integration into the global market.
Globerman and Shapiro (2009)	Acquisition vs. Greenfield by Chinese OFDI in US	Strategic perspective	Evidence from existing literature	Discusses the economic and strategic implications of OFDI from China to US from the perspective of both Chinese investors and US policymakers. Argues that Chinese FDI in US is more likely to take the form of Acquisition than Greenfield.
He and Lyles (2008)	Opportunities and challenges of China's OFDI in US	Business perspective	Cases of CNOOC, Lenovo, and TCL	Proposes that Chinese firms' lack of experience in foreign operations creates a high liability of foreignness, specifically in political, culture, marketing, and technological aspects. Explores how Chinese firms might deal with these inherent disadvantages of competitiveness.
(Hong & Sun, 2006)	Dynamics of investment strategies	IT, strategic seeking perspective	Macro data, firm-level data and cases	Assesses the progress and strategic orientation of China's OFDI.
Kang and Jiang (2012)	Location choices	IT, traditional economic factors	Macro-level panel data of Chinese OFDI to 8 economies in East and Southeast Asia during 1995-2007	Traditional economic factors of host countries have a major role to play in affecting Chinese MNEs' OFDI location decisions. Institutional factors also matter.

Kolstad and Wiig (2012)	Determinants	IT, locational advantage in OLI	Macro-level panel data of Chinese OFDI in 142 host countries during 2003-06	Chinese OFDI is attracted to large markets, and to countries with a combination of large natural resources and poor institutions.
Liang et al. (2012)	Determinants	RBV	553 Chinese POEs	Chinese private firm's likelihood of venturing abroad is associated with resource endowment advantages vis-à-vis foreign-invested enterprises, organisation capability advantages vis-à-vis state-owned enterprises. These same advantages (or disadvantages) in organisation capabilities also increase a firm's likelihood of choosing a high-risk entry mode. A firm's resource endowment and organisation capabilities interact with each other and mutually enhance each other's effect on the likelihood of outward internationalization.
Liu et al. (2005)	Patterns and determinants	IDP	Macro-level data between 1979-2002	The level of economic development, proxied by GDP per capita plus refinements, is the main factor explaining China's OFDI, a finding consistent with the refined IDP hypothesis.
Liu and Li (2002)	Driving forces and constraints for Haier's internationalization		Haier	Addresses the internationalisation strategy that has made Haier successful, the factors influencing the strategy, and the strategic implications for both Western and Chinese firms.
Lu et al. (2011)	Determinants of the motives for Chinese OFDI	RBV, IBV, IT	Survey data of 198 Chinese POEs	Supportive government policies are important motivators for both strategic asset-seeking and market-seeking OFDI. Firms' technology-based competitive advantages and a high level of industry R&D intensity tend to motivate strategic asset-seeking OFDI, whereas firm's export experience and higher level of domestic industry competition tend to induce market-seeking OFDI.

Luo et al. (2010)	The role of governments in facilitating OFDI	Political perspective, IT	Theoretical paper	Investigates governmental institutions' impact on Chinese OFDI. Discusses evolutionary changes of OFDI policies, and describes current policies and measures that stimulate Chinese companies to expand into the global market.
Morck, Yeung and Zhao (2008)	Patterns and determinants	Economy and firm-level perspective	Macro data between 2003-06	Investigates the trend and driving forces of China's OFDI growth from both the economy and firm level. Chinese OFDI is biased towards tax havens and South Asian countries and is mostly conducted by state-controlled enterprises with government-sanctioned monopoly status.
Quer, Claver and Rienda (2012)	Location choice	IT	139 location choices by 29 Chinese MNEs in 52 countries from 2005-09.	Investigates the role of host country variables. Host country political risk is found not to be associated with the location of Chinese OFDI and culture distance does not have a strong negative influence on such decision.
Ramasamy et al. (2012)	Location choice		1,350 location choices by 63 Chinese MNEs investing in 59 countries from 2006-2008 out of 137 countries considered	Locational determinants of Chinese OFDI differ by firm ownership. SOEs are attracted to countries with large natural resources, risky political environments and strategic assets advantages in technology, brand names and know-how. POEs are market-seekers.
Rui and Yip (2008)	Determinants and motives	Strategic intent perspective	Cases of Lenovo, Nanjing, Automobile and Huawei	Chinese firms have a strategic intent perspective when making acquisition decisions. They use CBMA to achieve goals of acquiring strategic assets, leveraging competitive advantages, making strategic choice and growing entrepreneurship and management skills.

Sun (2009)	Internationalisation strategy and firm's international development	RBV, OLI, Uppsala process theory, international entrepreneurship theory	Huawei	EE MNEs' competitive advantages are based on the domestic market. Faced with the challenges of internationalisation, they prefer markets with low barriers and low distances in cultural, technological, economic and institutional dimensions. They use inward and outward linkages to complement their strength and overcome weakness in the global market.
Voss et al. (2010)	Impact of home country institutional effects on internationalization	Network perspective, IT	Interviews (Chinese firms and government)	Larger, well-connected Chinese firms benefit most from institutional advantages, but smaller firms internationalize because of institutional constraints.
Wang et al. (2012)	Determinants of the volume of OFDI	RBV, IBV, IT	1,231 Chinese manufacturing firms with OFDI in 2006-07	Government support (proxied by a dummy which indicates whether a sector is classified by government as one that should be "encouraged" for international expansion) and the industrial structure of the home country of the investing firms play a crucial role in explaining OFDI. By contrast, technological and advertising resources tend to be less important.
Wu and Chen (2001)	Patterns and motives of China's OFDI		Macro data between 1976-99	Examines the progress of China's OFDI with special attention to motivations, sector distribution, scale of operation and geographical distribution, overall benefits and problems, and future prospects.
Yang et al. (2009)	Patterns and motives of OFDI, Chinese vs. Japanese firms	RBV, IBV, IT	Case studies of Haier and Matsushita	How firms internationalize is influenced by the industry-, resource-and institutional frameworks governing these endeavours.
Yiu et al. (2007)	Motives and processes of international venturing	RBV, IT, corporate entrepreneurship perspective	Survey data of 274 firms	The relationship between firm-specific ownership advantages and international venturing is moderated by the degree of home industry competition and export intensity. Such a relationship is mediated by the intensity of corporate entrepreneurial transformation in the form of innovation, new

				business creation, and strategic renewal.
Zhang (2009)	Patterns and motives	OLI, IDP	Macro data between 1980-2006	Four motivations of Chinese ODI are to maintain and expand international markets, to secure a supply of key resources, to obtain firm assets from advanced economies, and to seek overseas opportunities with an international version.
Zhang and Daly (2011)	Determinants		Macro-level panel data between 2003-09	China's overseas investments are positively related to host country factors including international trade, market size, economy growth, the degree of openness and endowments of natural resources.
Zhao, Liu and Zhao (2010)	Productivity implication	Technology sourcing (technology spillover) perspective	Macro-level panel data of Chinese OFDI in 8 developed countries between 1991-2007	China's OFDI has beneficial spill-over effects in improving home country's TFP growth, and that gains in efficiency have been the chief reason for this.

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Table 1: Profile of Sample Firms

<i>Industry</i>	<i>Firm No. without FDI</i>	<i>Firm No. with FDI</i>	<i>Age</i>	<i>Years of Exporting</i>	<i>No. of Employees</i>
Food & Beverage Production and Processing	11	0	9.1	7.9	1,171
Textile and Clothing	27	8	8.9	7.3	1,706
Leather, Fur, Feather and Related Products	2	3	11.8	7.8	3,156
Timber Processing, Wood, Bamboo, Rattan, Palm and Cane Products	7	5	7.3	5.5	720
Printing and Record Processing	1	0	18	7	961
Stationery, Education and Sports Goods	2	0	12	3	410
Processing of Petroleum, Coking, Processing of Nucleus Fuel	1	1	20.5	17.5	3,342
Raw Chemical Materials and Chemical Products	10	1	15.4	7.1	814
Medical and Pharmaceutical Products	7	1	8.5	9.3	1,247
Rubber & Plastic Products	11	1	8.8	6.4	487
Nonmetal Mineral Products	7	2	11.8	4.9	710
Smelting & Processing of Metals	5	1	11.3	4.2	5,185
Metal Products	13	3	12.1	8.1	711
Manufacture of General Purpose Machinery	7	3	9.6	6.1	1,149
Electric Equipment and Machinery	18	1	14.4	6.3	1,719
Equipment for Special Purposes	17	2	11.1	8.5	934
Automobiles	4	0	11	6.8	1,003
Other Transportation Equipment Manufacturing	9	4	11.1	7.1	1,241
Home Appliances	3	0	15.7	6	503
Communication Equipment, Computer and Other Electronic Equipment	8	1	10.2	5.9	893
Instruments, Meters, Cultural and Office Machinery	3	1	14.5	6.3	4,573
Manufacture of Artwork, Other Manufacture	9	1	7.1	5.7	564
Others	3	1	8.5	2	10,390
Average			10.8	6.9	1494

Table 2: Motives of OFDI Firms

		Strategic-asset seeking			<i>Total</i>
		< 3	= 3	> 3	
Market-seeking	< 3	0	0	1	1
	= 3	0	3	1	4
	> 3	3	4	28	35
Total		3	7	30	40

Notes: The questionnaires contain six questions that are related to Chinese firms' outward FDI motives. For the strategic asset-seeking motive, the respondents were asked, along a five-point scale (1=not important, 5=very important), to assess the importance of outward FDI in terms of (1) obtaining advanced technologies, (2) acquiring high-quality brands, and (3) attracting high-end human resources. We construct an ordinal measure that equals the average of the three items to reflect firms' market seeking motive. For the market-seeking motives, the respondents evaluated the importance of outward FDI: (1) to avoid market competition in the domestic market, (2) to enter new foreign markets, (3) to increase market share in host countries. Similarly, an ordinal measure that average the above three items is calculated to reflect firms' market-seeking motive.

Table 3: Descriptive Statistics and Correlation Matrix

<i>Variable</i>	<i>Mean</i>	<i>s.d.</i>	<i>1.</i>	<i>2.</i>	<i>3.</i>	<i>4.</i>	<i>5.</i>	<i>6.</i>	<i>7.</i>	<i>8.</i>	<i>9.</i>	<i>10.</i>	<i>11.</i>	<i>12.</i>	<i>13.</i>	<i>14.</i>
1. VFDI (x10 ⁸)	0.058	0.251														
2. OFDI	0.178	0.383														
3. TFP	0.131	0.664	-0.152	-0.102												
4. TC	0.024	1.037	0.084	0.111	-0.108											
5. Brands	0.466	0.500	0.150	0.150	0.007											
6. Export_exp	0.090	0.158	0.053	0.092	-0.030	-0.064	0.033									
7. Entry barriers	0.453	0.499	-0.006	-0.027	-0.113	0.172	-0.001	-0.057								
8. Industry R&D	4.065	1.911	-0.040	-0.080	-0.030	0.083	-0.005	-0.099	0.106							
9. RRU	15.126	0.433	-0.013	0.045	-0.011	0.026	-0.028	0.137	0.068	0.026						
10. IPRP	27.140	9.533	0.058	0.076	0.091	-0.120	-0.018	0.185	-0.037	-0.012	0.380					
11. RGI	10.434	1.757	0.022	0.074	0.098	-0.108	-0.017	0.140	-0.035	0.018	0.173	0.894				
12. Institutional support	0.689	0.464	0.093	0.061	-0.026	0.011	0.191	-0.120	0.014	-0.015	-0.142	-0.130	-0.065			
13. Size	5.170	1.673	0.187	0.138	-0.161	0.007	0.207	-0.311	-0.064	0.134	-0.131	0.054	0.104	0.063		
14. Age	10.760	7.088	0.076	0.039	-0.016	0.039	0.226	-0.186	-0.015	0.007	-0.098	-0.045	-0.002	0.101	0.319	
15. Born_global	0.178	0.132	0.020	0.024	0.061	-0.032	-0.059	0.172	0.080	-0.052	0.074	0.099	0.099	-0.057	-0.182	-0.200

Table 4: Regression Results

	(1.1)	(1.2)	(2.1)	(2.2)
	<i>OFDI</i>	<i>VFDI</i>	<i>OFDI</i>	<i>VFDI</i>
<i>TFP</i>	-0.616***	-0.281***	-0.665**	-0.282**
	(0.223)	(0.099)	(0.317)	(0.132)
<i>TC</i>	0.464***	0.186***	0.507***	0.190***
	(0.079)	(0.032)	(0.086)	(0.036)
<i>Brands</i>			0.563	0.188
			(0.486)	(0.144)
<i>Export_exp</i>	1.740***	0.463***	2.499***	0.844***
	(0.338)	(0.092)	(0.377)	(0.133)
<i>Entry barriers</i>	-0.389**	-0.144**	-0.480***	-0.162**
	(0.171)	(0.061)	(0.175)	(0.072)
<i>Industry R&D</i>			-0.038	-0.012
			(0.048)	(0.011)
<i>RRU</i>	-1.777*	-0.687*	-1.577*	-0.617**
	(1.037)	(0.361)	(0.862)	(0.286)
<i>IPRP</i>	0.241**	0.093***	0.251***	0.096***
	(0.100)	(0.034)	(0.078)	(0.025)
<i>RGI</i>	-0.999***	-0.374***	-1.111***	-0.406**
	(0.368)	(0.129)	(0.269)	(0.093)
<i>Institutional support</i>	0.470**	0.221***	0.416**	0.189***
	(0.202)	(0.050)	(0.183)	(0.039)
<i>Size</i>			0.359***	0.158***
			(0.075)	(0.036)
<i>Age</i>			-0.007	0.001
			(0.022)	(0.008)
<i>Born_global</i>			1.104***	0.472***
			(0.314)	(0.155)
<i>N</i>	225	225	221	221
<i>Pseudo R²</i>	0.121	0.126	0.176	0.205

Notes: Robust standard errors clustered by region in brackets. * p < 0.10, ** p < 0.05, *** p < 0.01