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Entry Mode Choice of Chinese Enterprises: The Impacts of Country Risk, Cultural Distance and Their Interactions

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Abstract Recent years have witnessed a phenomenal growth in the number of Chinese enterprises “going global.” Drawing on three leading theoretical perspectives including the transaction cost theory, organizational capability theory and eclectic theory, this paper develops hypotheses to test how country risk and cultural distance are associated with entry mode choices of enterprises from China. Based on a sample of 167 Chinese companies, an empirical investigation has been conducted employing logistic regression and hierarchical regression analyses. Our results show that country risk and cultural distance have significant impact on entry mode choice. With the increase of country risk or cultural distance, businesses prefer non-ownership-based entry modes such as trade and licensing. However, entry mode choice is also noticeably influenced by the interaction between country risk and cultural distance, which is a new finding of international entry mode research. Furthermore, private enterprises are more likely to adopt high-involvement entry mode than the state-owned enterprises, and service enterprises are less likely to use high-involvement entry mode, which suggests that different approaches are used to deal with country risk and cultural

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distance by various types of enterprises.

Keywords country risk, cultural distance, entry mode choice, international business

1 Introduction

Entry mode choice is one of the most critical strategic decisions for companies in pursuit of global expansion. Although the literature on entry mode is voluminous, much of the empirical research is focused on the behavior of multinational companies (MNCs) from developed countries, and there is a striking lack of studies on mode choices of enterprises from developing countries in general, and from China in particular (Cui and Jiang, 2009; Demirbag, Tatoglu and Glaister, 2009; Xu, Hu and Fan, 2009). In recent years, companies from developing countries have been playing an increasingly important role in international business, and Chinese enterprises are taking the lead. For example, in 2009 alone, Chinese enterprises made direct investment in 2 283 foreign firms located in 122 countries and regions (MOFCOM, 2010). Given the phenomenal growth in the number of Chinese enterprises “going global,” it is of both practical and theoretical significance to investigate the determinants of their international entry mode choices.

Foreign market entry mode is a kind of institutional arrangement, i.e., the way enterprises transfer products, technology, human resources, management expertise, and other resources to other countries (Root, 1994). In practice, there are four basic types of entry modes: foreign trade, contractual arrangements like licensing and franchising, joint venture and wholly-owned subsidiary (WOS). These entry modes represent different stages of international operations of the firms. The level of international involvement is the lowest in the case of foreign trade, and the highest in the case of WOS (Daniels, Radebaugh and Sullivan, 2010; Hu, 2006). It is well-known that the incompatibility between the entry mode and environments of the host country would inevitably lead to the failure of overseas expansion. The risks in a host country, and the cultural distance between the host country and home country, are two of the most prominent variables identified as environmental determinants of foreign market entry mode choice (Kogut and Singh, 1988; Agarwal and Ramaswami, 1992; Brouthers, Brouthers and Werner, 2002). However, the extant literature has not resolved the controversies over how entry mode choice is influenced by country risk and cultural distance.

When analyzing the relationship between entry mode choice and country risk, many researchers hold the view that, in the face of high risk in the host country, MNCs tend to reduce the amount of investment in order to limit their exposure to

such a risk (Kim and Hwang, 1992). In other words, enterprises prefer to input fewer resources in the presence of high-level country risk. This conjecture has been supported by a number of empirical studies. The survey by Contractor and Kundu (1998) on the world's largest hotels reveals that, when entering a country with a high level of political risk and economic risk, most enterprises in the hotel industry use non-ownership-based entry mode, such as licensing and management or service contracts, so that a considerable portion of risk in fixed assets and operation can be transferred to local investors. The studies of Brouthers et al. (2002), Pak and Park (2004), Quer, Claver and Rienda (2007) provide similar evidence that enterprises will choose the mode of WOS when entering into a low-risk market, but a low entry mode in the presence of high country risk. Despite all this, there are contrary findings that enterprises would prefer high entry modes in the presence of high country risk. For example, the empirical study of Taylor, Zou and Osland (2000) suggests that the high level of risk in host country would induce MNCs to seek more power to reduce uncertainty, which makes it feasible to choose WOS as an entry mode.

A parallel issue is the debate about the impact of cultural distance on entry mode selection. One camp of thought is represented by Kogut and Singh (1988). They argue that cultural distance can influence entry mode choice by affecting managers' perception of cost and uncertainty. High cultural distance usually leads to an increase in management cost. But in joint ventures, the task of coordination and control can be handed over to the local partners who are familiar with the culture, thereby reducing management costs. Furthermore, there exists much uncertainty when investment is made in a market where the culture is quite distinct from that of the home country. Enterprises can also reduce this kind of uncertainty through joint ventures (Kim and Hwang, 1992). The empirical studies by Kogut and Singh (1988), Erramilli and Rao (1993), Pak and Park (2004) all show that enterprises will be less likely to choose the mode of WOS when facing higher cultural distance. However, in another camp of thought, Brouthers and Brouthers (2001), and Klein, Frazier and Roth (1990) take an opposite stand. According to their argument, though high cultural distance may lead to the increase of transaction cost in the case of WOS, more transaction cost would incur in joint ventures due to the complexity of coordination. Therefore, enterprises often choose the mode of WOS when the culture of host country is quite different from that of home country, which allows them to reduce the communication cost and uncertainty of the external environment through direct control over operation, and which can also help them avoid the opportunistic behaviors of partners (Sutcliffe and Zaheer, 1998). In their empirical studies, Shane (1994) and Chen and Hu (2002) find evidence supporting the hypothesis that when cultural distance between home country and host country is large, the WOS mode will be preferred to joint venture. Besides these two opposite camps,

there are some findings that the relationship between cultural distance and entry mode choice is not statistically significant (Erramilli, 1996).

Given the controversy over the impact of cultural distance on entry mode choice, some researchers explain it with the moderating effect of risk (Agarwal, 1994; Sutcliffe and Zaheer, 1998). In their view, country-level factors, such as market potential and country risk, would induce enterprises to choose the mode of joint venture instead of WOS. The reason is that the country risk has a moderating effect on the assessment of transaction costs, which makes WOS mode suitable in high-risk situations. In their empirical study on enterprises from four Western European countries, Brouthers and Brouthers (2001) show that the coefficients for the interactions of investment risk with the overall cultural distance and with its four dimensions are all statistically significant. When the cultural distance is high and the investment risk is low, enterprises would prefer joint ventures; but when the cultural distance and investment are both high, enterprises would favor WOS. However, this study is limited to the moderating effects of investor's perceived investment risk, so the effects of other country-level variables still remain unknown. In addition, it discusses only two entry modes, i.e., joint ventures and WOS, of a sample of firms from four Western European countries, which makes it quite questionable whether the results can be generalized to Chinese enterprises, as the outward investment strategies of Chinese enterprises display a lot of distinctive characteristics (Buckley et al., 2007; Deng, 2007).

In summary, the controversy of existing empirical research in the field is focused on three questions: First, when the country risk is high, will enterprises choose an entry mode with a low level of international involvement? Second, when the cultural distance is high, is the WOS mode more likely to be used than low entry mode, such as trade or franchising? Third, is entry mode choice influenced by the moderating effect or interaction effect of country risk and cultural distance? In order to address these interrelated issues, this paper explores new evidences from the internationalization practice of Chinese enterprises. Based on a sample of 167 Chinese enterprises engaging in overseas expansion, it will examine how country risk and cultural distance are associated with entry mode choice of these enterprises. This study may represent the first attempt to investigate the host countries' environmental determinants of entry mode choice based on the global experiences of Chinese enterprises.

2 Theoretical Underpinnings and Hypotheses

A variety of theories can be used to analyze foreign market entry mode choice, such as the transaction cost theory, organizational capabilities theory, eclectic theory, evolution theory, contingency theory, and bargaining power theory.

Among them, the first three are most widely accepted. According to the transaction cost theory, different entry modes or institutional arrangements would involve different levels of transaction cost, and enterprises should choose an entry mode to minimize the transaction cost (Anderson and Gatignon, 1986). Although the transaction cost theory has strong explanatory power for entry mode choice, it ignores the role of corporate strategy in entry mode decisions, and thus it fails to account for why the entry mode selections of some enterprises are not based on transaction cost minimization. Besides, it is unconvincing to make the assumption that both parties of the transaction are opportunists.

Organizational capabilities theory emphasizes that the development and exploitation of organizational capabilities are the driving forces in entry mode decisions. An enterprise will select an entry mode that can utilize and develop its capabilities most effectively (Madhok, 1997). The main factors incorporated into this theory are knowledge implicitness and cultural differences. Compared with the transaction cost theory, this competence theory is more dynamic, but it also disregards the impact of corporate strategy.

Eclectic theory identifies three characteristics of various entry modes, i.e., control, resource commitment and dissemination risk (Hill, Hwang and Kim, 1990). According to the theory, three different kinds of factors, i.e., strategic factors, transaction cost factors and external factors, can affect entry mode choice through control, dissemination risk, and resource commitment respectively. With a more integrated approach, the eclectic theory provides a wider perspective than the other two leading theories. However, its generality restricts its empirical applicability of formalized modeling.

From the discussion above, we can see that these three leading theories, though persuasive in their own way, have their apparent limitations, and they can complement and strengthen each other in certain areas. Moreover, a single theory cannot fully explain the transnational business activities of developing countries (Buckley et al., 2007; Demirbag et al., 2009). Therefore, this paper will integrate these three leading theories to analyze the impacts of both country risk and cultural distance on entry mode choice of Chinese enterprises.

2.1 Country Risk and Entry Mode Choice

When making selection decisions on foreign market entry mode, enterprises should first consider country risk in the target country. That is a possibility of economic loss caused by the changes in country-level environmental factors, such as politics, laws and economy. The transaction cost theory suggests that environmental uncertainty and complexity would cause an increase in transaction cost (Williamson, 1975). Based on this theory, the internalization level of an enterprise in pursuit of overseas expansion is determined by the comparison

between the cost saved by internalization and the cost of internalization (Buckley and Casson, 1976). Since host country risk is a type of transaction cost in internalization, other transaction costs being constant, the enterprise would have a higher total transaction cost when the host country risk is high rather than low, which reduces the incentive of the enterprise to enter a host country with high risk. Moreover, high-risk business environment tends to increase the probability of potential loss. If a low entry mode is selected, the enterprise can commit fewer resources so as to reduce its potential loss. But in high entry mode, the input of various resources would be relatively large, and thus potential loss would be greater. Therefore, to avoid substantial loss, low entry mode is a preferred strategy in a host country with high risk.

Organizational capabilities theory can also shed light on this issue. Since an enterprise is unlikely to have all the capabilities needed for international expansion, it may need the help of local partners in order to quickly acquire the necessary knowledge for business operations in the target country (Madhok, 1997). Besides, by cooperating with local partners, the enterprise expanding abroad can also transfer some of its business risks to them (Brouthers et al., 2002). When a non-ownership-based entry mode like trade is adopted, the “going global” enterprise is primarily involved with import and export activities, and almost all the other operations related to the host countries are managed by trading partners in the host country, so most of the business risks have been transferred out of the “going global” enterprise. If a joint venture is used as an entry mode, although only part of the risks has been transferred out, the “going global” enterprise can learn from its partners, and obtain the necessary knowledge to enhance its own abilities to cope with the host country risks. If the WOS mode is used, the enterprise has to rely only on its own capabilities and resources to deal with all of host country risks. Thus, when target country risk is high, a low entry mode would be more suitable for enterprises aimed at expanding overseas.

Based on the above analysis, we propose the following hypothesis:

H1 As host country risk increases, Chinese enterprises tend to choose an entry mode with lower level of international involvement.

2.2 Cultural Distance and Entry Mode Choice

As the shared value system of a country, national culture reflects the acceptable behavior pattern or the customary way of doing things in the country. The differences in the national cultures of two countries can be measured by cultural distance. National cultural distance affects the transfer efficiency of work methods and operation patterns from one country to another (Quer et al., 2007).

According to the transaction cost theory, a MNC must bear the cost of

information to monitor and evaluate its overseas subsidiaries. A larger cultural distance between home country and host country will increase the cost of obtaining information, and as a result, monitoring cost will rise. Moreover, given its foreignness to the host country, the MNC has to commit more resources for personnel training, which increases the cost of internalization. That is the reason why enterprises may prefer low entry mode in the presence of large cultural distance (Randoy and Dibrell, 2002). Besides, cultural distance is also one of the main elements of the environment uncertainty. When the cultural distance between host and home country is large, enterprises may make inappropriate decisions due to its unfamiliarity with local culture, thereby increasing the likelihood of incurring losses. In this vein, enterprises tend to select a low-involvement entry mode to avoid such losses.

The organizational capabilities theory provides a similar view, but a different perspective, on the impact of cultural distance on entry mode choice. According to organizational capabilities theory, in order to leverage its competitive advantages in the foreign market, an enterprise must understand its business environments, and adapt its operation modes to the host country. Through learning from the local partners, the company can acquire this kind of knowledge at a lower cost and in a shorter time, which makes it possible to exploit its capabilities more effectively (Madhok, 1997). As an enterprise expands abroad, national cultural distance represents an obstacle which often hinders the exploitation of its capabilities in the foreign market. Since cooperating with local partners is an effective means of removing such an obstacle, a lower-involvement entry mode is preferred in face of large cultural distance.

Therefore, it is appropriate to test the following hypothesis:

H2 As cultural distance increases, enterprises “going global” tend to choose an entry mode with a lower level of international involvement.

2.3 The Interaction Effects of Country Risk and Cultural Distance on Entry Mode Choice

The eclectic theory (Hill et al., 1990) suggests that, when licensing is used as an entry mode, both the control level and resource commitment are low, but the dissemination risk is high. When cultural distance is large and country risk is high, enterprises “going global” would face high transaction cost. Then a high entry mode tends to cause the transaction cost to decline, because compared with a licensing, a high entry mode like WOS can absorb external uncertainty and lower the communication cost through centralized decision-making (Klein et al., 1990; Brouthers and Brouthers, 2001), and it also can prevent the occurrence of opportunistic behavior (Sutcliffe and Zaheer, 1998), so that both transaction cost and dissemination risk can be reduced. In addition, with a high level of involve-

ment with foreign operations, the enterprise can promptly allocate its resources, which is conducive to the effective implementation of corporate strategies. Although a high entry mode requires an enterprise to commit more resources, enterprises willing to make direct investment abroad tend to have strong confidence and competence to ensure a full and effective use of the inputs, and they also pay great attention to the effective implementation of internationalization strategy. These factors make the WOS superior to non-ownership-based entry modes under the situation. In other words, the joint effect of country risk and cultural distance influences the choice of entry mode. Based on this reasoning, we propose the third hypothesis:

H3 Country risk and cultural distance jointly have an interaction effect on the entry mode choice of Chinese enterprises in pursuit of overseas expansion.

In the following sections we will provide an in-depth examination of the four major entry modes adopted by Chinese enterprises, i.e., foreign trade, licensing/franchising, joint venture and WOS.

3 Methods and the Model

3.1 Data and Sampling

In order to obtain the data for analysis, we first randomly picked 1 200 Chinese enterprises from “Directory of Business Enterprises.” Then we searched for related information of these 1 200 enterprises from the “Yearbook of China’s Foreign Economy” and also the Internet (www.baidu.com), and excluded enterprises not taken part in any form of international business. Of the remaining 167 enterprises, we found such information as the international business mode, host country, annual sales, property of ownership, and industry. Although some enterprises may have several types of entry mode in several foreign countries, we need only one observation from each enterprise. Therefore, we set the following criterion for selection: If an enterprise had several types of entry modes, we chose the one with the highest level of international involvement; if an enterprise has entered in more than one foreign countries with the same entry mode, we only chose the one that is more important for the enterprise in terms of its sales or market share.

3.2 Variables and Measurement

We use *Mode* as the dependent variable to measure foreign market entry mode, which is an ordinal variable with four values standing for the four different entry modes respectively, i.e., “0” for foreign trade, “1” for franchising, “2” for joint

venture and “3” for WOS. These four modes are ranked from lowest to highest, denoting different level of international involvement.

Independent variables include host country risk (*CR*), cultural distance between home country and host country (*CD*). The data of country risk were obtained from the national risk assessment report issued by Euromoney (2008). Euromoney evaluated country risk based on 9 fields of a country: political risk, economic performance, debt indicators, debt in default or rescheduled, credit rating, access to bank finance, access to short-term finance, access to capital markets, and Forfeiting. According to the evaluations of Euromoney, the score of country risk index varies between 0 and 100, and a higher score indicates lower risk, which is not consistent with our usual practice. Therefore, we linearly transformed the original value to a new one as follows:

$$CR = 10 - 0.1 * Original_CR. \quad (1)$$

Accordingly, larger value of *CR* indicates greater country risk. Then we use the logarithm form of the linearly transformed value of country risk (i.e., *LnCR*) in the regression analysis.

Following Kogut and Singh's (1988) approach, and adopting the updated four-dimension culture index by Hofstede and Hofstede (2005), this paper measures the cultural distance between host country and China as follows:

$$CD_j = \sum_{i=1}^4 \frac{(I_{ij} - I_{ic})^2 / V_i}{4}, \quad (2)$$

where I_{ij} is the distance index for the i^{th} cultural dimension and j^{th} country, V_i is the variance of the index of i^{th} culture dimension, c stands for China, and CD_j represents the cultural distance between country j and China. The four dimensions of culture are individualism/collectivism, power distance, uncertainty avoidance and masculinity/femininity. In order to be consistent with the form of country risk, we also use the logarithm form of the cultural distance value (i.e., *LnCD*) in the regression analysis. Besides, centering is adopted to get the interaction of country risk and cultural distance (i.e., *LnCD * LnCR*) so that multicollinearity can be avoided when the model contains both the focal variables and their interaction.

In addition to country risk and cultural distance, there are other factors that may affect the enterprise's entry mode choice, the most common one is firm size (Agarwal and Ramaswami, 1992; Erramilli & Rao, 1993; Brouthers & Brouthers, 2001; Pak and Park, 2004; Quer et al., 2007), industry classification (Chen and Hu, 2002; Brouthers and Brouthers, 2003; Quer et al., 2007). Besides, both state-owned and private enterprises are two important types of the firms in China. Therefore, we set firm size, industry classification and ownership status as control variables. Following Quer et al. (2007), we choose annual sales as the

proxy variable for firm size, and here we use its logarithm form (in million of RMB), i.e., $\ln Sales$; *Industry* denotes industry classification, and it is an unordered categorical variable, where 0 and 1 refer to manufacturing industry and services industry respectively; *Ownership* refers to ownership status, and it is also an unordered categorical variable, where 0 and 1 represent state-owned enterprise and private enterprise, respectively.

3.3 Method of Analysis

Since the dependent variable is a four-category ordinal variable, this paper will use logistic and hierarchical regression for statistical analysis. Three logistic models will be tested. The first model is the baseline model, which contains only control variables. In the second model, we test the effects of country risk and cultural distance without their interactions. In the third model, we add the interaction of cultural distance with overall country risk. Model fit and R -Squares will be tested and compared for the two models.

4 Empirical Findings and Hypothesis Testing

Descriptive statistics of the sample are shown in Table 1. As can be seen from the table, among the four types of entry modes, foreign trade is the most favored one, which accounts for 61.7% of the total 167 observations; WOS is the second most favored one which takes up 25.1% of the total; joint venture is the least favored one, accounting for 6.0% of the total. This means that the majority of Chinese enterprises are still at an early stage of internationalization. Among the 167 observations, 129 (77.2%) were from manufacturing industry while 38 (22.8%)

Table 1 Descriptive Statistics

		Samples	Percentage
Entry mode	Foreign trade (0)	103	61.7%
	Franchising (1)	12	7.2%
	Joint venture (2)	10	6.0%
	WOS (3)	42	25.1%
Industry	Manufacturing (0)	129	77.2%
	Service (1)	38	22.8%
Ownership	State-owned (0)	53	31.7%
	Private (1)	114	68.3%
No. of Valid samples		167	100.0%

from service industry; 53 (31.7%) were state-owned enterprises and 114 (68.3%) private enterprises. From the above statistics, we can easily find that, China's manufacturing enterprises are more likely to participate in international business than service enterprises while private enterprises are more active than state-owned enterprises in foreign expansion.

At the bottom line of Table 2, we can find the results of the likelihood ratio (LR) tests of both of the ordinal logistic regression models we are going to test. This table tells us that, the Chi-Square values in all the three models are significant ($p < 0.001$), which indicates that no linear relationship existing in the model. Therefore, the dependent variable should be treated as categorical variable, and all the three ordinal logistic regression models are meaningful. Besides, the Chi-Square values and the pseudo R -squares in Model 2 and 3 are larger than their counterparts in Model 1, which suggests that Model 2 and 3 are better than Model 1 in model fitting and they can explain more variances in the dependent variable.

Table 2 The Parameter Estimation

Variables	Model 1	Model 2	Model 3
Sales ($LnSales$)	0.275 ^{***} (0.062)	0.254 ^{***} (0.063)	0.248 ^{***} (0.065)
Industry dummy [$Industry = 0$]	-1.368 ^{**} (0.412)	-1.282 ^{**} (0.428)	-1.243 ^{**} (0.436)
Ownership dummy [$Ownership = 0$]	0.769 [*] (0.404)	0.978 [*] (0.418)	1.062 [*] (0.432)
Country risk ($LnCR$)		-0.761 [*] (0.324)	-1.179 ^{**} (0.369)
Cultural distance ($LnCD$)		-0.552 ^{**} (0.164)	-0.660 ^{***} (0.175)
$LnCD \times LnCR$ (centering)			1.161 [*] (0.465)
Pseudo- R^2 (Nagelkerke)	0.371	0.424	0.454
LR statistic (Chi-square)	64.624 ^{***}	75.174 ^{***}	81.873 ^{***}

Note: Values in parentheses are the standard errors of parameter estimation; *, **, *** denote $p < 0.05$, $p < 0.01$, and $p < 0.001$, respectively (Wald test).

Table 2 also shows the parameter estimation results of Hierarchical Ordinal Logistic Regression, and we will test all the hypotheses based on these results. We can see that, the coefficient of country risk in Model 2 is significantly negative ($p < 0.05$). After partialing out the moderating effect of cultural distance, the coefficient of country risk becomes more significant in Model 3 ($p < 0.01$). Therefore, H1 is supported, i.e., country risk has a significantly negative effect on the involvement level of entry mode.

It can be seen in Table 2 that the coefficient of cultural distance is significantly negative in Model 2 ($p < 0.01$). When adding the interaction variable of country risk and cultural distance into the third model, the main effect of cultural distance becomes even more significant and is still negative ($p < 0.001$). All these suggests that cultural distance has negative effect on foreign market entry mode choice, which means in the presence of higher cultural distance enterprises would prefer a lower-involvement entry mode. Thus, these results together support H2, i.e., cultural distance has a significantly negative effect on the choice of entry mode.

After entering the interaction of cultural distance with country risk in Model 3, we can see that the coefficient of the interaction in the model is significantly positive at the level of 0.05. Looking back to model fitness, the LR statistic of Model 3 is larger than that in Model 2, and Pseudo R^2 in Model 3 is also bigger than that in Model 2, which means that Model 3 is more effective. Therefore, the interaction effect has been supported. It follows that, when host country risk and the cultural distance are both high, enterprises would tend to choose a high entry mode, which confirms the third Hypothesis. In order to illustrate the interaction effects of country risk and cultural distance, we first split the sample into two halves according the level of cultural distance, and then linearly graphed the effects of country risk under different levels of cultural distance. Similarly, we also linearly graphed the effects of cultural distance under different levels of country risk. The results are shown in Fig. 1.

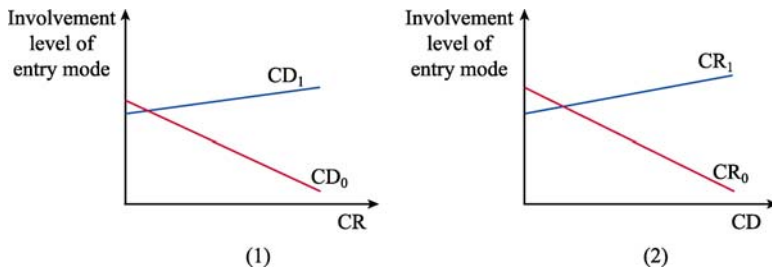


Fig. 1 The Interaction Effects of Country Risk and Cultural Distance on Entry Mode Choice

In panel (1) of Fig. 1, the vertical axis and horizontal axis represent the level of international involvement for entry modes and the risk of host country respectively, and Line CD_0 and Line CD_1 stand for low cultural distance and high cultural distance, respectively. We can see that, when the country risk is quite high, enterprises tend to choose a lower entry mode even in the presence of low cultural distance, but a higher entry mode in the presence of high cultural distance. In panel (2) of Fig. 1, the vertical axis still denotes involvement level of entry mode, but the horizontal axis denotes the cultural distance between host

country and home country, and Line CR_0 and Line CR_1 respectively represent low country risk and high country risk. Obviously, when facing very high cultural difference, Chinese enterprises prefer a lower entry mode in the presence of low risk, but a higher-involvement entry mode in the presence of high risk. This further confirms the interaction effect of country risk and cultural distance. Although the direction of the interaction effect seems to be counter-intuitive, such an effect is not contradictory to the main effects of country risk and cultural distance, as their overall effects are still negative when we pooled the split samples together.

For the regression coefficients of control variables, the results of Wald tests show that the coefficients of the three control variables are all significant in all the three models, $p < 0.001$ for annual sales (in logarithm), $p < 0.01$ for industry, and $p < 0.05$ for ownership. The positive coefficients of annual sales indicate that large enterprises would prefer higher entry modes. This is because large enterprises usually have strategic needs for international business, and they are more capable of risk management and problem response. With respect to the variable of Industry, as logistic regression models set service industry ($Industry = 1$) as a reference, so we only need to consider the coefficient of manufacturing industry ($Industry = 0$). All the coefficients of the manufacturing industry are significantly negative, and the corresponding OR values are 0.25 ($= e^{-1.368}$), 0.28 ($= e^{-1.282}$) and 0.29 ($= e^{-1.243}$) in the three models, respectively. OR here is the ratio of the service enterprises and manufacturing enterprises that choose entry modes of higher levels of involvement. The coefficients of industry variables and the OR values indicate that service enterprises are less likely to choose high-involvement entry mode than manufacturing firms. One cause may be the difficulties service companies encounter when they engage in foreign trade and overseas investment. Another cause may be the fact that service industry in China has developed more slowly. Finally, we can see that the coefficients of ownership status are significantly positive. Its OR values in four models are 2.16 ($= e^{0.769}$), 2.66 ($= e^{0.978}$) and 2.89 ($= e^{1.062}$), respectively, indicating that private enterprises are more likely to choose a high entry mode than state-owned enterprises. This is a clear indication that the two types of enterprises respond differently to environmental uncertainty in foreign markets.

5 Discussion and Summary

China is the largest developing country and now the second largest economy in the world. In recent years, the remarkable growth of its economy is matched with rapid overseas expansion of its enterprises. Although many Chinese enterprises' foreign operations encounter difficulties, and some have even suffered heavy losses, the growing trend in internationalization of Chinese enterprises appears to

be irreversible. In addition, due to the unique institutional environment in China, Chinese enterprises usually display distinct characteristics in their internationalization practice, which makes it necessary to study their strategies and behavior in the process. Given its crucial role in the success of international operations, entry mode choice of Chinese enterprises deserves much research interest. This paper represents such an attempt in that direction. By using a sample of Chinese enterprises with international business activities, the current paper has examined the impact of country risk, cultural distance and their interaction on entry mode selections.

The results of this study show that host country risk, as well as cultural distance, has significant effects on the entry mode choices of Chinese enterprises in the sample. In addition, the interaction effects of country risk and cultural distance are also evident, which have not been revealed in existing studies. When either host country risk is high, or cultural difference is large, expanding enterprises tend to prefer non-ownership-based entry modes. When the country risk is quite high, enterprises tend to choose a low entry mode even in the presence of low cultural distance. When cultural difference is very large, enterprises prefer a low entry mode even in the presence of low host country risk. However, when both of the country risk and cultural distance are large, Chinese enterprises going global would prefer such a high entry mode like WOS. The interaction effect is counter-intuitive as it seems to conflict with the main effects of country risk and cultural distance. But in fact, it is not. Country risk and cultural distance still have negative overall effects on the involvement level of entry mode, which can be seen from Fig. 1. Such a result is directly related to the characteristics of entry modes and the capabilities of enterprises in coping with country risks and cultural differences. The WOS represents the highest level of international involvement. Under this entry mode, an enterprise can centralize the decision-making power, so that it can deal with uncertainties promptly in time and implement global strategies more effectively. It is worth noting that, although the country risk or cultural distance would presents obstacles to global expansions, Chinese enterprises will no doubt lose a lot of opportunities if they expand solely in countries less risky or culturally similar to China. By adopting effective risk management techniques, enterprises can not only reduce risks, but also exploit more business opportunities abroad. With the accumulation of experience and resources, an increasing number of Chinese enterprises are likely to select ownership-based entry modes like WOS and joint ventures.

Furthermore, we also found that service enterprises in the sample are still at the early stage of internationalization, and private enterprises are more likely to use ownership-based entry modes than the state-owned enterprises. These findings suggest that service enterprises and state-owned enterprises need to improve their own competitiveness, and adopt a more positive attitude toward

global competition.

Finally, this article is not without limitations. First, the sample size is not very large, and the cross-sectional data in this study prevent us from drawing a definite conclusion on the causal relations. It is desirable to make further studies by using larger samples and longitudinal data. In addition, this article only focuses on entry mode choice of enterprises from China, so we should be very careful when generalizing the findings to enterprises from other countries. It would be fruitful to test the proposed hypotheses by studying enterprises from other developing countries, and compare the results with the findings of this article. As people from different countries may have different risk preference, uncertainty avoidance may moderate the effects of country risk and cultural distance on entry mode choice of enterprises from different countries. Future research can shed more light on such issues with significant implications for international operations.

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