

MASTER'S THESIS

Entry mode selection: the experience of small Hong Kong firms investing in China

Ho, Po Yuk

Date of Award:
1999

[Link to publication](#)

General rights

Copyright and intellectual property rights for the publications made accessible in HKBU Scholars are retained by the authors and/or other copyright owners. In addition to the restrictions prescribed by the Copyright Ordinance of Hong Kong, all users and readers must also observe the following terms of use:

- Users may download and print one copy of any publication from HKBU Scholars for the purpose of private study or research
- Users cannot further distribute the material or use it for any profit-making activity or commercial gain
- To share publications in HKBU Scholars with others, users are welcome to freely distribute the permanent URL assigned to the publication

15634103

TH
M. DEVL
1999HE

Entry Mode Selection:
The Experience of Small Hong Kong Firms Investing in China

HO Po Yuk

A Thesis Submitted in Partial Fulfillment of the Requirements
for the Degree of
Master of Philosophy

September 1999

Hong Kong Baptist University

ABSTRACT

Research into entry mode choice has been getting more attention in recent literature. However, most of the entry mode studies are based on developed-country multinational enterprises (MNEs) and follow a single theoretical perspective, particularly the transaction costs theory to explain the entry behaviour. Accordingly, researchers point out the inapplicability of the findings generated from the entry experience of MNEs to developing-country firms.

The present study attempts to investigate the entry mode choice between a wholly foreign-owned enterprise and a joint venture of small and medium-sized manufacturing firms in the Chinese context. Based on Hill et al.'s eclectic framework, the entry mode selection of small firms from Hong Kong entering Mainland China was studied comprehensively. A mail survey of 218 small Hong Kong firms that have direct investment in Mainland China and follow-up in-depth personal interviews with 12 Chinese owner-managers of these firms were conducted to explore the distinctive characteristics of the entry behaviour of small firms from Hong Kong, an Newly Industrialized Economy (NIE).

Previous studies on MNEs show that transaction-specific variables play an important role in the entry mode choice of MNEs, due to their monopolistic nature of firm-specific advantages. The results of the present study, using the eclectic framework, reveal that the entry strategy of NIE firms represented by Hong Kong firms is different from that of developed-country MNEs. The entry behaviour of NIEs is mainly determined by strategic variables, firm-specific variables, and location-specific variables and less affected by transaction-specific variables originated from proprietary technologies and skills that are of importance to developed-country MNEs when they select the entry strategy into a foreign market. Thus, the eclectic framework needs some necessary modifications to reflect the firm-specific characteristics of firms from NIEs and the location-specific factors in the developing host countries.

TABLE OF CONTENTS

Declaration.....	i
Abstract.....	ii
Acknowledgments	iii
Table of Contents.....	iv
List of Tables.....	vii
List of Figures.....	viii
List of Appendices.....	ix
List of Abbreviations	x
Chapter 1 Introduction.....	1
1.1 Background.....	1
1.2 Research Objectives.....	4
1.3 Significance of the Research.....	5
1.4 Methodology.....	6
1.5 Definitions of Terms	7
1.6 Delimitations of Scope and Key Assumptions	9
1.7 Outline of the Study.....	9
Chapter 2 Investment Environment in China	11
2.1 Introduction.....	11
2.2 An Overview of Chinese Economy	11
2.3 FDI Policies in China.....	13
2.3.1 Openness and Permissible Industrial Sectors	13
2.3.2 Ownership and Control.....	14
2.3.3 Regulatory System.....	15
2.3.4 Investment Incentives	16
2.4 General Characteristics of FDI in China.....	17
2.4.1 Developmental Stages of FDI in China	18
2.4.2 Source Countries/Regions of FDI.....	20
2.4.3 Entry Modes of FDI.....	21
2.5 Characteristics of Hong Kong Investment in China	22
2.6 Conclusion	25
Chapter 3 Literature Review	27
3.1 Introduction.....	27

TABLE OF CONTENTS (CONTINUED)

3.2	Literature on Entry Mode Choice	27
3.3	Theories of International Production	30
3.3.1	Hymer's Market Imperfections Theory	30
3.3.2	Internalization Theory.....	31
3.3.3	Transaction Costs Theory	32
3.3.4	Resource-Based Approach.....	34
3.3.5	Strategic Behaviour Approach.....	35
3.3.6	Eclectic Paradigms.....	37
3.4	Evaluation of Existing Theories	39
3.5	Conceptual Framework.....	46
3.6	Hypotheses.....	48
3.6.1	Strategic Variables	48
3.6.2	Firm-Specific Variables	50
3.6.3	Location-Specific Variables.....	54
3.6.4	Transactional Variables.....	58
3.7	Conclusion	59
Chapter 4	Research Methodology	61
4.1	Introduction.....	61
4.2	Research Designs.....	61
4.2.1	Research Design I: Descriptive Research.....	62
4.2.1.1	Sampling Frame Design.....	64
4.2.1.2	Sample Size Determination	65
4.2.1.3	Sample Selection.....	65
4.2.1.4	Research Instrument	66
4.2.1.5	Questionnaire Administration.....	68
4.2.1.6	Measurement of Variables	69
4.2.1.7	Non-Response Bias.....	73
4.2.1.8	Statistical Techniques.....	73
4.2.2	Research Design II: Qualitative In-Depth Personal Interviews.....	74
4.3	Conclusion	76
Chapter 5	Results.....	77
5.1	Introduction.....	77
5.2	Characteristics of The Sample	77
5.2.1	Company Background of Respondents in Hong Kong.....	77
5.2.2	Background of Respondents' FDI in China.....	78
5.2.3	Characteristics of Personal Interview Respondents.....	79
5.3	Factor Analysis	79
5.3.1	Factors Derivation and Assessment of Overall Fit	80
5.3.2	Factor Interpretation	82
5.3.3	Scale Reliability.....	84
5.4	Logistic Regression Analysis.....	85
5.4.1	Multicollinearity	85

TABLE OF CONTENTS (CONTINUED)

5.4.2	Model Estimation and Assessment of Model Fit.....	86
5.4.3	Hypotheses Testing	88
5.4.3.1	Strategic Analysis	89
5.4.3.2	Firm-Specific Analysis	91
5.4.3.3	Location-Specific Analysis.....	95
5.4.3.4	Transaction-Specific Analysis	99
5.4.4	A Test of the Eclectic Model	101
5.5	Conclusion	106
Chapter 6	Conclusions and Implications.....	107
6.1	Introduction.....	107
6.2	Summary of the Study	107
6.3	Research Findings.....	109
6.4	Conclusion about the Research Problem	114
6.5	Implications for Policy and Practice	115
6.5.1	Theoretical Implication.....	115
6.5.2	Policy Implications	116
6.5.3	Managerial Implications	117
6.6	A Proposed Tentative Eclectic Model of Entry Mode Choice in the Chinese Context.....	118
6.7	Limitations and Implications for Further Research	120
Appendices.....		123
Bibliography		155
Curriculum Vitae.....		169