

## MASTER'S THESIS

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

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

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## 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.

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