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Determinants of MNCs' entry mode strategies in China

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Abstract

Since the economic reform launched in 1980s, massive institutional change has taken place in China and resulted in an increasingly liberalized government regulations toward business operations, which to a certain extent set foreign MNCs free to pursue their preferred entry mode strategies. This paper analyzes how three MNCs that are operating in China, evaluate the influences and significances of the factors on their entry mode strategies since they first came to China. The empirical results show that institutional factor carried the most weight than other factors on entry mode choice for initial entry; while for a later period of development, firm specific factors offered more explanatory power with regard to the changes of entry mode strategies. Moreover, factors of company strategy, network building and the performance of local partners were vitally concerned.

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INTRODUCTION

The appeal of China, to many foreign companies, has once been its tempting opportunity because of its huge populations and cheap labor. In recent years, China's entry to WTO and rapid economic development since the late 1990s have made it one of the most attracting places for international investors looking to gain more profit, away from the relatively saturated markets in the developed countries. In 2009, China attracted a record of 105.7 billions of foreign direct investment, being the fastest growing economies of the world (Economy watch, 2011). However, many foreign companies still have reservations about establishing business there, some worry about the lack of rules and regulations of operation, the vague future of profits gain, others worry about the strategy even by arguing: " No matter what strategy you would think fit your operation in China, that strategy is wrong", and some other issues revolved around corruption, the rent and tax structure and intellectual property protection.

This paper addresses the issue of determinant factors of entry mode strategies in China. While there were a large amount of researches investigating on factors that affected initial entry mode choices, few in-depths analyses have carried out to date on the factors that could explain the changes of entry mode strategies after initial entry. Foreign investment in China used to be restricted largely to alliances with struggling state-owned companies in early 1980 (Mckinsey, 2003), however, from the late 1990s, there was an increasingly liberalized policies introduced by Chinese government to reduce the restriction on MNCs (KPMG,2004). Child&Tse(2001) noted that with the change of institutional environment, MNCs' decisions about partner choice are based increasingly on rational considerations of strategic intention, risk, and transaction costs. Luo(2006) found that that after early stage of operations, foreign MNCs have begun to redefine their strategy to meet internal needs. For example, many alliances often formed in the 1980s are now being restructured.

Inspired by Kim&Hwang's(1990) argument that the determinacy of each entry mode considerations should be based on the situation, and based on three streams of FDI

theories (The transaction cost theory, OLI framework and institutional theory) which most existed researches on entry mode strategies were grounded on,

I propose studying the determinant factors of foreign MNCs' entry mode strategies in the specific context of China under two circumstances, one is firms' initial entry and the other over a period when the institutional environment has changed and firms' operating experiences have been accumulated. Furthermore, as Kim&Hwang's (1990) has advised to explore under what circumstances the entry mode considerations should dominate and play a more important role than the others, I will examine the significance of those factors under these two circumstances as well.

I discern the result of my studies would be beneficial to theoretical contribution as well as management practice and strategic implications.

1. LITERATURE REVIEW

Entry mode refers to the methods used to enter a new market. Multitudes of studies claimed that entry mode selection influenced company's performance (Filatotchev, 2007; Luo, 2001;Reiner et al, 2009). Firms choose, or should choose the optimal mode for entering a market by analyzing their costs and risks based on market characteristics and taking into consideration their own resources (Johanson & Vahlne, 2009).

The entry mode choice carries with it implications for, the amount of resource commitment required, the degree of risk the firm faces in venturing into a foreign market, and the level of control the firm will enjoy over its foreign operations (Luo, 2004). Kim&Hwang (1990) explained that control refers to authority over operational and strategic decisions, risk is mainly associated with the dissemination risk, when MNCs possess superior assets and skills, they might run a risk of disseminating their assets and skills to a licensee or joint venture partner, resource commitment is about dedicated visible and invisible assets that MNC deploys in a specific country.

Most international business literatures focused on three distinct entry modes,

(Kim&Hwang,1990; Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986)

they are licensing, joint venture, and wholly owned subsidiary. They provide vary degrees of control, dissemination risks and resource commitment over operation in foreign countries

Variables / *Entry mode*	*Control*	*Dissemination risk*	*Resource commitment*
Licensing	**Lowest**	**Highest**	**Lowest**
Joint Venture	**Middle**	**Middle**	**Middle**
Wholly owned subsidiary	**Highest**	**Lowest**	**Highest**

Table 1 The degree of Control, Dissemination risk and Resource commitment that each entry mode represents. Source: Kim&Hwang(1990)

The level of control and resource commitment is the lowest in the case of licensing, since the licensee owns all the revenue-generating assets, but the level of dissemination risk is the highest since the granted specific know-how might be leaked out by a licensee (Kim&Hwang, 1990). In Joint venture mode, the level of control is dependent on the ownership split and the number of parties involved, it requires much time and energy to manage local partners who might lack the product or market knowledge to match MNC's inspirations, dissemination risk might arise if the partners steal or imitate the technologies and know-how (Kim &Hwang, 1990).

When it comes to wholly owned subsidiary, which is often done through establishing new operation or acquiring an existed firm in host country (Hill, 2007). The degree of control and resource commitment is the highest while the dissemination risk is the lowest (Kim&Hwang, 1990), by this entry mode, MNCs can enhance organizational control and protect the company's tacit knowledge or technologies in an environment where intellectual property rights systems were underdeveloped (Lou,1997).

1.1 EXISTED LITERATURES ON ENTRY MODE STRATEGY

Just as Luo (2001) argued in his work, the choice of entry mode has never been made easy but dependent on integrated factors. A vast amount of researches provided overviews of variables and factors with regard to entry mode strategies in emerging country and China in particular.

For instances, Reiner et al(2008) studied the internationalization process in companies located at the borders of emerging and developed countries and found out that process and product innovation were crucial for entry mode choice; Meyer (2001) studied multinational enterprises entering transition countries- Easter Europe, he found that host country institution had a great impact on the choice of entry modes; Luo(2001) argued that host country experience, knowledge protection, together with governmental intervention and environmental uncertainty were significantly associated with MNCs' entry mode decision in emerging economy; Chen et al(2008) investigated the entry mode choice of Taiwanese food company in China's regional distribution markets, they concluded that institutional factors were more important than transaction cost considerations.

While these studies made great contributions to our understanding of the factors that determined entry mode choices, the results can hardly be applied to my research, firstly, the context of those literatures were different, for instance, some conclusions can only be applied to a specific country or specific industry, such as food industries; Secondly, most of the researches focused on MNCs' first entry, which is an important gap that has been noticed by other researchers as well, there is a general agreement that entry mode choice research so far focused on firms' initial investment decisions (Beamish 2004); It is clear that the implications of a post-entry evolution of foreign direct involvement have yet to be fully explored (Canaball and White, 2008;Brouthers and Bamossy, 2006). In general, those literatures neglected the firms' new considerations of entry mode strategies after initial entry.

In this paper, I will examine the determinant factors for MNCs' entry mode strategies made both in their initial entry and a later stage of development, when changes occurred in China's institutional environment and when the MNCs gained accumulated operating experiences in China. I will draw on three streams of FDI theories to identify a number of factors that could be taken to investigate for this paper, they are transaction cost theory, Dunning's OLI framework and institutional theory, on which

the existed researches on determinant factors of entry mode choices in emerging economy were mainly based.

1.1.2 **Transaction cost theory and entry mode**

In line with transaction cost theory, foreign MNCs should choose the entry mode that minimizes the transaction costs (Chen, 2008). This cost, according to Rugman(1981), is in particular related to the significance of firm specific know-how, which may be disseminated when an MNC grants or transfers them to a licensee or joint venture partners in order to manufacture or market a product. The need for firms to control the behavior of those who entered into the contracts often lead to increased transaction costs in drafting, negotiating, monitoring and enforcing the contracts. (Kim&Hwang,1990; Luo,2001). What's more, in a complex and uncertain market populated by economic actors of bounded rationality and opportunistic tendencies, the transaction costs are arguably non-trivial (Williamson, 1985). If the returns generated from a company's proprietary know-how are large, then the company will favor a highly control mode such as wholly owned subsidiary since it can minimize transaction costs by internalizing activities within the firm (Kim&Hwang, 1990).

1.1.3 **Dunning's OLI framework and entry mode**

Dunnig's (1988) OLI framework described that a firm need to have three kinds of advantages to implement foreign direct investment, they are: ownership advantage, location advantage, and internalization advantage. These advantages have great influences on firm's entry mode strategy (Luo,2001; Agarwal&Ramaswami,1992).

Ownership Advantage can be characterized as firm-specific resources or capabilities that provide unique advantages to the firm (Dunning, 1988). According to Agarwal & Ramaswami (1992), this ownership advantage can be defined as asset power which is reflected by the **firm's size**, **multinational experience and skills** in developing differentiated products.

Firm's size is connected with the company's resources needed to absorb high costs of marketing and to enforce patents and contracts; Multinational experiences are connected to skills of foreign operations (Agarwal & Ramaswami, 1992).

Firms that are larger and have richer multinational experiences intended to favor the mode of wholly owned subsidiary (Agarwal & Ramaswami, 1992).

If a firm is capable to develop differentiated products compared with its foreign competitors, it will choose a high level control mode to safeguard its interests (Agarwal & Ramaswami, 1992). This assertion is consistent with transaction cost theory: if the returns generated from a company's proprietary know-how are large, then the company will favor a wholly owned subsidiary to ensure control.

Location advantage relates to host country factors, such as market potential (Size and growth) and government policies (Luo,2001; Agarwal& Ramaswami,1992). Host country environment provides both risks and opportunities to foreign MNCs. In countries that offer high market potential and more favored government policies, firm may choose an entry mode that provides the firm with the opportunity to establish long-term market presence (Agarwal& Ramaswami,1992).

Internalization advantage stems from a firm's decision to integrate within its corporate structure activities previously performed by the market (Dunning,1988). According to Agarwal & Ramaswami (2002), firms refrain from entering a country if the perceived risk of dissemination of knowledge and costs of writing and enforcing contracts are high, but if they decided to go, then wholly owned subsidiary would be chosen because it allowed them to integrate and control the activities within the firm (Luo, 2001). Similar to transaction cost theory, the internalization incentives come from the need to control over firm specific know-how and the reduction of transaction costs. Therefore, the greater need for controlling the firm specific know-how, the more likely firms will choose highly control mode such as wholly owned subsidiary.

According to OLI framework, several important factors are revealed, both ownership advantage and internalization advantage theory addressed the importance of firm

specific know-how, and the factor of firm's size and multinational experiences is also significant as pointed out by the ownership advantage theory. Location advantage theory offered another two determinant factors of entry mode strategy; they are market size and government policies.

1.1.4 **Institutional theory and entry mode**

In institutional theory, entering a foreign market is not only a question of establishing business relations with customers and suppliers, but rather of managing to acquire legitimacy from the surrounding society, Forsgren (2008). It has been confirmed by many researchers that foreign MNCs attained legitimacy in emerging countries by choosing an entry mode that the local institutional environment permits (Luo, 2004, Chen et al,2009; Meyer, 2004).

The institutional environment consists of government intervention, rules and regulations. A host government's intervention policy impose severe constraints on MNC's strategies and operations within the host country (Yasusuke,1996), and the government agencies may use authoritative orders or legal forces to directly restrict the behavior of enterprises, or provide incentives and guidance to influence their behaviors (Grewal&Dharwadkar,2002 cited in Chen et al, 2009, p.704). Luo(2001) suggested that those firm-specific considerations, such as organizational advantage and transaction cost may have less weight in final entry mode determination than the institutional factors. Therefore, the institutional factor can have a great impact on company's entry mode strategies.

In short, the determinant factors that have been identified by FDI theories can be categorized into **Firm specific factors**-firm's specific know-how; firm's size and multinational experience and **Country specific factors**-market potential;institutional factor. Some factors are even stressed in more than one theory, such as firm-specific know-how in transaction cost theory and OLI framework, institutional factor in both OLI framework and institutional theory, because government policies from location advantage can be grouped into institutional factor.

1.2 INSTITUTIONAL CHANGES OF CHINA

The institutional environment of emerging economy is drastically different from those in western countries (Meyer, 2001). China has been characterized as having a frequently changed regulatory framework and MNCs were often intervened by various governmental authorities (Luo,2004;Peng,2000). The business environment was highly dynamic, volatile and difficult to predict (Luo, 1997) and the intellectual or industrial property rights were either under-developed or under enforced (Luo, 2001). In early 1980s when MNCs first invested in China, they were particularly constrained by the institutional pressures; they can't freely choose the entry modes but have to conform to the government policies (Child&Tse, 2001; Chen, 2008).

But in recent years, the institutional environment has changed dramatically and these changes have influenced MNCs' operations. Several researches (Child&Tse,2001; Luo,2006) have been done on the institutional change and its impact on foreign MNCs' operation in China, they showed that the relaxation of institutional constraints would allow firms to pursue their preferred strategies with less restriction than before.

Changes of institutional environment & MNCs	**Impacts on Business environment & MNCs' operations**
Market reform on decentralization; Liberalization of ownership structure Child&Tse (2001)	**Less** central government involvement on business; Decisions about partner choice to be based increasingly on **rational considerations** of strategic intention, risk, and transaction costs.
MNCs' accumulation of knowledge Luo(2006)	**Less** resource dependency on local authorities or partners; **Redefine** strategy and structure to meet internal needs, many existing alliances from 1980s are restructured
Development of efficient markets; Transparent rules of the game; Strengthening of property rights Child&Tse (2001)and Luo(2006)	**Reduce** transaction and information costs; **Reduce** the risk of unauthorized appropriation and the costs of monitoring the use of technology.
Entry to WTO Child&Tse (2001)	Encourage foreign firms to adopt **a longer term view** of operations;

Table 2. Summary on what the changes were and how they influenced MNCs' operation according to researchers.

According to the above chart, it's reasonable to postulate that with the changes of institutional environment , the influence of the four factors on MNCs' entry mode

strategies might have changed from the beginning, firstly, as the transaction costs and dissemination risk reduced, the internalization need or the need for building wholly owned subsidiaries might be decreased; Secondly, with liberalized restrictions, firms might concern more of companies' own interests than the government polices; Thirdly, as a combined effect of less institutional constraints, more efficient market and China's entry to WTO, the market potential will be greater and firms would favor entry modes that permit them a long-term presence.

But according to Child&Tse (2001) and Luo(2006), these changes don't imply that host country factors were less influential, China is intrinsically complex by its size and internal variation, the state still exercises control over the terms of foreign entry into different sectors and the business systems.

As a result, to examine the determinant factors of MNCs' entry mode strategies in China, it's essential to divide the environment into two stages, the first is when MNCs first came to China, the other over a later stage of development when the changes of institutional environment allowed them to redefine their entry mode strategies.

1.3 CONCEPTUALIZATION MODEL

My conceptualization model is based on four factors that were concluded from FDI theories, and viewpoints from managers of three MNCs on how the four factors influenced their entry mode strategies over two stages, however, any other factors that may be relevant and important to their decisions shouldn't be ruled out. Furthermore, following the suggestion of Kim&Hwang (1991), who advised to explore under what circumstances the entry mode considerations should dominate and play a more important role than others, I will also investigate the significance of those factors. Combining the reasoning as above, my research questions is "How do those foreign MNCs operating in China value the influence of the four factors on their entry mode strategies over two stages, do some factors play the most important role or are they more important than others?"

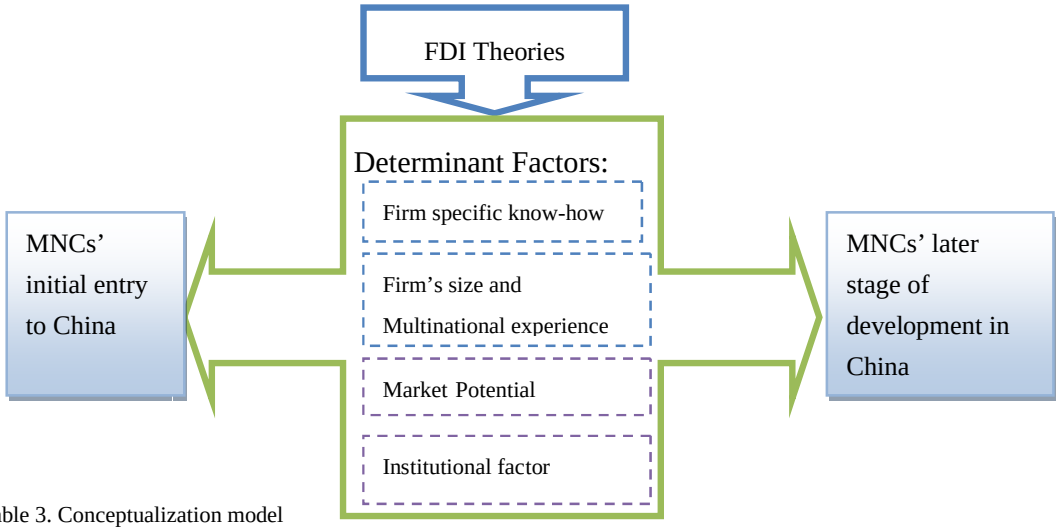

Table 3. Conceptualization model

2. METHOD

Qualitative method of case study would be best suited to the understanding of entry mode decisions for foreign MNCs in China.

Firstly, qualitative method is designed to bring out the details from the viewpoint of the participants (Tellis, 1997), the context of China is quite different from western countries and other emerging economies, just as John&David (2001)put it, different from other emerging economies, China is still a socialist country in which government plays a prominent role in economic and social affairs, therefore the institutions lend a distinct character to China's business environment. Hence it's necessary to have an in-depth view on how MNCs' perform in this specific market, the case study can just serve this end by collecting detailed information from managers, and this information can be of practical importance to foreign companies that intended to invest in China.

Secondly, I have no intention to test statistically which factors apparently explain entry mode choice, but more of understanding managers' perceptions and motivations on their entry mode choices for different stage by clarifying the changing process of entry mode strategies for each company. At last, the qualitative method allows me not only to examine the factors exposed from existed theories, but also to explore complementary information that was relevant for my study as well.

2.1 CASE SELECTION

I have focused my research on three companies, ABB, IKEA and DHL. Each company represents a separate case, I consider that one unique company is not enough to reach reliable conclusions, so multiple case studies are conducted. In Multiple-case studies, each individual case study consists of a "whole" study, in which facts are gathered from various sources and conclusions drawn on those facts (Tellis, 1997), therefore, I could expect to reach a more persuasive and reliable conclusions.

The selection was based on the availability of data sources. For example, the choice of IKEA was because the contact person in IKEA was just willing to bring me to a manger in charge of Asian market to answer my questions, and it's only through personal relations that I could get in touch with DHL; Before setting out to contact with companies, I set several standards for selecting the companies:

1, Companies that could be differentiated from each other as much as possible, and be independent of each other. For instance, the industry affinity is not readily comparable, therefore I selected companies in different industries and they entered into China at different time; Too close cases may result in data that can't be well compared.

2, Companies that have investments in China over a long term to allow the potential observation of changes of entry mode strategies;

3, Companies from which I could expect to obtain relevant data, for example, the case study of ABB was based on secondary information obtained from other researchers who made studies of ABB from different aspects, and those studies contained relevant and in-depth information that was needed for my research question.

However, there is one limitation that the restricted number of only three firms, along with the big size of the firms might to some degree cause biased conclusions.

2.2 DATA SOURCES

The empirical information of ABB was acquired through various secondary sources, one source is a research paper about ABB's investment in China with a focus on the region of Xiamen, where ABB built its first joint venture in China, that paper contains

extensive interviews with a range of senior and middle managers of ABB between 1998 and 2002. Another source is an article of an interview performed by journalist of "China Business Review" and Dinesh Paliwal, group executive vice president of ABB Ltd , the topic was ABB's operational strategies in China; The last source is a master thesis paper which investigated on ABB's entry mode strategies in China from ABB's first entry to 2007, the data was drawn from an interview conducted with ABB's CEO Peter Lennhag, president of Asia Pacific Executive Advisors.

While these sources provided relevant information and different perspectives from senior managers or president that I may not be able to have through my own interviews, one disadvantage is that the data might be unreliable, especially the master thesis.

The data of IKEA was collected through a phone interview with IKEA's PR manager in China and also the assistant regional manager in Asia, Linda Xu, who has worked in IKEA for 13 years since IKEA's first establishment in 1998 in Shanghai, she was introduced by an Internal Communication Manager -Monika Jocic-Lehmann in Sweden, whom I contacted through email. I had first preferred a face to face interview with Linda Xu in order to gain deeper insights into the firm, however, because of the busy schedule and limited time she had, I was able to conduct a 40 minutes phone interview with her, through which focused and directly information was obtained.

For the last case of DHL, data was collected through an email interview. At first, questionnaires were sent to five potential respondents, however, on receiving the feedbacks, I found four of them were invalid, since the respondents were in low positions and couldn't explain the entry mode strategies of their companies in China, they answered the questions just by using their own knowledge. Only in one company DHL I got detailed and relevant answers, the respondent was an assistant manager-Dong Juan who has been in DHL for nearly 10 years.

Interviews are used for both IKEA and DHL to collect primary information, not only because it's one of the most important sources of case study information, but this

method also allows me to acquire focused information that are closely relevant to my research questions, and these directly information can't be available through any other sources. However, in an email-interview, the answers might be carefully crafted by respondent, spontaneous questions can't be asked to further understand the answers. Since there was only one respondent each for IKEA and DHL, documentary sources are included to ensure the validity of the cases. Yin (1994) suggested using multiple sources of evidence as the way to ensure construct validity. Documentary research consists of text and documents that come from journals, reports, videos and other research sources (Bryman & Bell 2003), those documentary sources allowed me to complement the scarce information available from my own interviews.

Internet sources such as company homepages, E-journalists, media reports were used on all three cases to provide background information and multi-perspectives to the case studies, however, the issue of reliability and precision needs to be concerned.

2.3 RESEARCH MEASUREMENT

In line with my research questions: "How do those foreign MNCs operating in China value the influence of the four factors on their entry mode strategies over two stages, do some factors play the most important role or are they more important than others?"

I **first** wish to clarify the development process of the companies' entry mode strategies by asking managers "What entry modes did you choose for your first time of entry and why was that?", "Over the years of operation in China, with the change of China's environment and the development of your business, have you reconsidered or revaluated your entry mode strategy and did any changes on it? If so, Pleas specify at what time you made your change and the reason for that?".

Secondly, in order to understand how the influence of the four factors being valued, I will highlight the factors by listing them out and ask "Have you found those factors influenced your entry mode strategies and how?"

To facilitate the understanding of the four factors, I will explain shortly what they mean more specifically and how they linked with entry mode strategies according to

theories. For instance, to explain “firm specific know-how” ,I may change the term into “ Your competitive advantage /capabilities distinguished you from other companies and which brings you a superior competitive position in China, such as proprietary products, product technologies, management skills or marketing capabilities.

Further, I will explain how it connect with entry mode strategy by clarifying that “It has been said that if the returns generated from this specific know-how are high, in order to prevent it from being disseminated, you will strictly control this know-how by building wholly owned subsidiary than by licensing or joint venture mode”, and then ask“how would you evaluate the impact of this factors on your entry mode strategies?” By doing this I believe the respondents could better understand my purpose and I would expect to receive less biased answers.

Thirdly, in order to understand “whether some factors play the most determinant role or are some more important than others”, I will ask managers:“What do you think the most determinant factors for each stage and why?”, this question was designed not only to get information on the significance of the four factors, but also allow the respondents to freely give ideas on what they thought to be the most determinant factors on their entry mode strategies over time, therefore, other vitally concerned factors are not to be ruled out.

These questions are also used as guidelines when finding relevant information from secondary sources of ABB. Information about the first entry considerations can be obtained from the research paper by Hardy et al(2005) , information for both the first time entry and a later stage of development was obtained from the master thesis by Thang&Zhang(2008) and the journal of China Business Review(2004) where interviews were conducted with high positioned managers. When borrowing the interviewee’s opinions, I would be very careful on to what questions the interviewees replied and if those questions and answers were relevant to my researches, in order that the validity and reliability of sources can be ensured to a degree.

For analysis part, “pattern matching” method is applied, I will make a comprehensive analysis on how the three companies value the influence of each factor on their entry mode strategies by relating them to the FDI theories, in order to find out the similarities and differences, for those patterns that can’t be matched, an explanation of the discretion will be conducted. The section of implications and conclusion part will present more findings from the empirical studies and implications of the research.

2.4 LIMITATIONS

To draw implications from the empirical findings must be done with caution because the study has many limitations. Firstly, companies that have been studied are all large and well known multinational companies due to the availability of sources, therefore, small sized companies were neglected; Secondly, the interviews or survey researches were done in a very short time, and respondents were limited to only a few, although I have tried to incorporate as much sources as possible, the results might still be subjected to personal biases; furthermore, limited number of companies restrained the feasibility in making generalization on the findings. The measurements of factors were merely based on the perceptions and observations from managers, their personal understandings of each factor may vary from what was meant from the theories; Thirdly, although I incorporate companies in three different industries, I have neglected the differences in between firms within the same industry, for instance, in express and logistics industry, there were Fedex ,TNT competing with DHL in Chinese market, however, their development path and their choices of entry mode might be quite different from the company I selected for this paper, thus it’s hard to generalize the finding results. At last, the theories I used were only based on three streams of FDI theories which were mostly used in existed literatures of entry mode determinants, so I neglected the possibility of other factors in explaining entry mode strategy.

3. EMPIRICAL INFORMATION

In this section, empirical information of three companies collected through secondary sources, phone interview and email interview are presented, the studies are centered on how MNCs value the influence of the factors generalized from FDI theories under two circumstances.

3.1 CASE OF ABB

3.1.1 BACKGROUND INFORMATION

ABB, (Asea Brown Boveri) is a Swiss-Swedish based multinational corporation operating in approximately 100 countries (ABB webpage). As one of the world's leading engineering companies, ABB is dominant in power and automation technologies in the world (ABB&China, 2005). With its international strategy "Think global, act local", ABB has been active in many emerging economies ranging from Eastern Europe to East Asia since 1989.In 2010, ABB generated almost half of their revenues from emerging markets while achieving more than 10 percent increase in countries such as Germany, Sweden and the United States (ABB annual report, 2010).

				% Change	
($ in millions)	2010	2009	2008	2010	2009
Europe	12,378	13,093	15,815	(5)	(17)
The Americas	6,213	6,049	6,428	3	(6)
Asia	8,872	8,684	8,967	2	(3)
Middle East and Africa	4,126	3,969	3,702	4	7
Total	31,589	31,795	34,912	(1)	(9)

Table 4. Revenues in geographic distribution from 2008-2010 (ABB annual report, 2010)

3.1.2 INTERNATIONALIZATION PROCESS IN CHINA

In 1992, when ABB first came to mainland China, they built manufacturing joint venture with a local state-owned company in Xiamen. Later on, 3 more joint ventures were formed with state owned companies in Xiamen(Hardy et al, 2005).

From 1994 to 1998, ABB rapidly expanded in China by building more joint ventures and established its first wholly owned subsidiary in Beijing in 1995 (Thang&Zhang, 2008).

By the end of 2004, ABB has had 17 production and manufacturing facilities throughout eastern China (China Business Review, 2005) and five wholly owned subsidiaries in China (ABB annual report, 2010).

Till the end of 2010, ABB's investment in China has exceeded 1.2 billion dollars, with revenues of 4,4 billion dollars received, approximately 14 percent of the company's total revenues in 2010 were generated from China(ABB annual report, 2010).

3.1.3 ENTRY FOR THE FIRST TIME AND DETERMINANT FACTORS

ABB started operating along China's eastern coast-Xiamen in 1992 when it built the first joint venture with Xiamen Swichgear Co.,Ltd- A main production site for switch gear (ABB annual report, 2010). Dinesh Paliwal said in an interview that the philosophy of ABB was to establish only joint ventures in which they have majority stakes, usually 80% to 90% equity, or wholly foreign owned enterprises since ABB perceived no obvious distinction between them in terms of control (China Business Review, 2005). Interestingly, this philosophy was in line with Hardy et al's work (2005) who found that for three of ABB's joint ventures in Xiamen, the equity shares that ABB had was more than 51%; and in one of them , ABB held even 70%.

ABB's managers argued that the choice of joint ventures was initially required by the local state, but later they found their partners could help ABB to build strong ties with the local state who held a high degree of autonomy and controlled the local assets(such as electricity and energy), a PR manager stressed that the first joint venture provided the basis for a smooth path for the future joint ventures, it's crucial to initiate and cultivate strong ties with the local state from beginning to end (Hardy et al,2005, P11).

Peter Lennhag explained the need for building relations with Chinese government. For one thing, the government wanted to build relations with MNCs to introduce competition and to improve local technologies. For another, governments were also important customers of ABB, by responding to their needs and requirements ABB could get access to large business opportunities (Thang&Zhang, 2008).

As clearly displayed from the above, institutional factor played a significant role for ABB's initial entry not only because the government required them to have joint ventures, but also the mission of building network ties with government was essential, for they controlled the resources and provided business opportunities to ABB.

3.1.4 A LATER PERIOD OF DEVELOPMENT

From 1994 to 2007, ABB has set up 22 joint ventures while only 5 wholly owned subsidiaries were built (ABB annual report, 2010). Peter Lennhag noted that a wholly owned subsidiary enabled ABB to strictly protect its firm specific know-how in automation technologies, but while he admitted that the transfer of this know-how may run leakage risks, he stressed that they didn't worry about the risk because they could protect their technology well under joint ventures modes (Thang &Zhang, 2008). Seemingly, there were no indications from other sources that the choice of wholly owned subsidiaries was associated with their needs for controlling.

The choice of building more joint ventures was responsive to ABB's strategy of building distribution network in Chinese territory at that time, because their partners were critical in helping ABB to quickly establish relationships with local suppliers and customers, according to Peter Lennhag (Thang & Zhang ,2008).

As inferred from the secondary data, another reason for ABB's choice of building more joint ventures is ABB's strong locality strategy. Dinesh Paliwal said in an interview that ABB's mission in China, just as in the United States , was to develop strong management for their indigenous operations, to use local suppliers and local contractors, and even to build R&D center geared toward Chinese needs(China Business Review, 2004). However, to reach this goal, their partners were significant, as ABB's North Asia Region's president Brice Koch marked in ABB annual report (2007), "By the mode of joint venture, ABB has made significant technology commitment to local partners, they stressed the importance of domestic independent technology innovation ability, localize R&D and develop local talent so as to make China local companies competitive also in international market."

As regards the institutional factor, Peter Lennhag acknowledged that the Chinese communist government used to interfere with the market and controlled many investors, however, in recent years the government has had a weaker effect in their business, and company would find their best suppliers or customer's base on price, quality of the product, not on relationship with some special suppliers or customers (Thang & Zhang ,2008).

In consequence, the reasons for ABB to build more joint ventures were mainly based on ABB's company strategy in building local distribution channels and their localization strategy. These factors are observed to be the most determinant factors in this stage.

3.2 CASE OF IKEA

3.2.1 BACKGROUND INFORMATION

IKEA is one of the world's most successful home furnishing companies found by Ingvar Kamprad in Sweden in 1943. Its business philosophy is to offer good quality, durable and functional home furnishing products for everyday life, today IKEA is owned by the Stichting INGKA foundation which is registered in the Netherlands. The foundation is responsible for all IKEA group companies. By the time of August 2010, the IKEA group had a total of 280 stores in 26 countries, among which their business was to develop, buy, distribute and sell IKEA products (IKEA Annual report, 2011).

3.2.2 INTERNATIONALIZATION PROCESS IN CHINA

Although IKEA's internationalization process started early in the 1970s when it expanded into Switzerland, it's not until 1998 that IKEA built its first retail store in Shanghai, China. At that time, most local furniture firms were far from mature lacked of design functions or brand names (Beijing Review, 2007).

In 1998, IKEA group opened its first retail store in Shanghai with its joint venture-Beijing Northern Sweden Limited Company(IKEA website).

In 2003, IKEA closed the retail store built in Shanghai in 1998 and opened an 'Authentic' IKEA store, it's the first "real" IKEA store in terms of its outlooks and size, since the previous one was not standardized as in other countries(IKEA website).

In 2005, IKEA opened its third retail store in Guangzhou, the south of China, from then on to 2008, IKEA rapidly expanded into 5 cities and built their own stores, the cities were ranging from the north to the south, from first tier cities to second tier cities (IKEA website).

3.2.3 ENTRY FOR THE FIRST TIME AND DETERMINANT FACTORS

In 1998 when IKEA first entered into the mainland China, it set up a joint venture with a local partner, and opened its first store in Shanghai with its partner by renting land from government. According to Linda Xu, this entry mode choice was made passively, "As a retail company, joint venture was the sole way to operate business in China because at that time, the retail industry has just opened and the Chinese government set many restrictions on regions and in entry mode. IKEA opened retail stores in the regions that were allowed; Nonetheless, IKEA selected its partner and maintained full management control of their partner (Jonsson, 2007).

Linda Xu stressed the influence of institutional factor by arguing that IKEA was heavily constrained by institutional pressures and couldn't make decision out of the company's own interests, and there were no chances for other factors to play a role. Very obviously, for IKEA's first entry, the institutional factor played a dominant role because of the coercive power from the government. In a later stage, IKEA changed this entry mode as soon as new policies rolled out allowing foreign retailers to build wholly owned stores.

3.2.4 A LATER PERIOD OF DEVELOPMENT

Before 2001 IKEA had only two retail stores in China, which were located in Shanghai and Beijing respectively, those two stores were opened under IKEA's joint ventures, but after China joined the WTO and the government allowed foreign retailers to establish wholly owned subsidiaries, IKEA promptly purchased the remaining shares from their partners and wholly owned the stores, furthermore, when IKEA expanded into other cities of China from 2004, they adopted the same strategy of buying land and built their own stores.

For this change, Linda Xu stated three reasons: “Firstly, we were allowed to have wholly owned subsidiaries in China; Secondly, we were able to do so because we had enough financial resources to buy land from local government; Thirdly and most importantly, IKEA had a long tradition in this way of doing business, we need to present true IKEA to everyone in the world, for example, the store built in Shanghai in 1998 was replaced by a new store in 2003, for this new store, we bought the land from government and designed it to be the same as in Sweden, we wanted out customer to know what a standardized IKEA really was, and this aim can be best achieved by building wholly owned stores”.

When I asked about the most influential factors in driving IKEA’s change, Linda Xu answered that it’s the long and embedded heritage of IKEA, the special way of doing business in anywhere in the world. “IKEA’s international experiences in many other countries have proved that this mode was the best for it.” she added.

When the issue of firm’s specific know-how was addressed, Xu claimed that what made IKEA different from other furnishing retailers was its capability in value chain management and its business model, by which IKEA was able to lead the market by cutting price to the lowest and attract more customers. “Even though many local retailers copied IKEA’s designs, IKEA’s specific know-how has never been copied successfully by either local players or venture parnter, and the unique business model makes it difficult to say who is IKEA’s competitor” said Linda Xu, “As a result I didn’t perceive any direct link between IKEA’s specific advantage to its entry mode choices, because we were not afraid of the dissemination risk.”

When it comes to the factor of market potential, Lind Xu claimed that although Asia was a small part of its business, it has decided to settle for long-term operations in China because of its market potential, however, it has no impact on their entry mode strategies.

In short summary, it's clearly showed that the IKEA's heritage, which was formed by the company's multinational experiences, accounted the most for the changes of their entry modes in this stage.

3. 3 CASE OF DHL

3.3.1 BACKGROUND INFORMATION

Express service and logistics provider DHLwas part of the World's Leading Logistics Group, Deutsche Post DHL, which handled business in logistics including international mail, express, contract logistics solutions etc. The group had a record revenues of $64,433.3 million during the financial year ended in December 2009(Data monitor, 2010), and had revenues of more than 51 billion euros in 2010(DHL website).

Now DHL has become the global market leader in the international express and logistics industry. Its international network links to more than 220 countries and territories (DHL website). The company comprises four divisions: Express division, Global forwarding and freight division, Supply chain division and Global mail division. These segments are under control of their own divisional headquarters (DHL website).

3.3.2 INTERNATIONALIZATION PROCESS IN CHINA

For DHL, China has a tremendous market potential, as Uwe Doerken, the chief executive officer of DHL put it: "With government's emphasis on the logistics industry as a driver of economic progress, China will be one of the fastest developing markets and will play a key role in DHL's Asia Pacific and global operations"(People daily, 2003). So far, DHL had three main operations in China - express, transport logistics and supply chain management (DHL website).

In 1986 when DHL first moved to China, it was the first international express company active in Chinese market, the company signed 50/50 joint venture agreements with Sinotrans-China National Foreign Trade Transportation Group, a state owned logistics company, and formed DHL-Sinotrans (DHL Website).

From then on, DHL has kept this partner relationship with Sinotrans up till now;

In 2007, the parent company of DHL, Deutsche Post World Net bought the remaining 50% shares from Sino-Exel, of which DHL and Sinotrans had 50% shares each from 1996, then DHL supply chain logistics service brand was set up and was wholly owned by DHL(Logistics - Payload Asia, 2008). While at the same time, DHL-Sinotrans continued serving businesses of express and transport logistics.

3.3.3 ENTRY FOR THE FIRST TIME AND DETERMINANT FACTORS

When DHL got first access to China in 1986, it set up joint venture with Sinotrans. According to Dongjuan, in the 1980s, foreign logistics providers could only enter China by building joint ventures with Sinotrans, however, managers from both companies were allowed to manage and control the joint venture.

Dong Juan stated in her answers that although the joint venture mode was chosen under governmental force, later it was found that their partner contributed to DHL's market leader position: "Firstly, by the support from Sinotrans who had a very strong government background, we can create relations with government to gain support from them, since large investments in infrastructure was desperately needed in express and logistics company; Secondly, the service network was vital for the business of express and logistics companies, Sinotrans could serve as a bridge for DHL to get access to domestic resources of local network."

Undoubtedly, the first entry mode for DHL was heavily controlled by local government. Although later it was found this partner was vital to their businesses in many aspects, it's difficult to deny that the institutional factor played a dominant role.

3.3.4 A LATER PERIOD OF DEVELOPMENT

Dong Juan marked two events of DHL's development in China with regard to the reconsiderations of entry mode strategy under a time of changing, one is the maintenance of the stable partnership with Sinotrans even new policies allowed the establishment of wholly owned subsidiary; The other the wholly owned subsidiary of DHL's supply chain logistic business built by its parental company in 2007.

Foreign logistics and express courier companies were permitted to operate independently in China in 2005(Hayes,2006), however, DHL decided to stay with

Sinotrans, Dong Juan explained: “After long-term cooperation, we believed that it’s a mutual benefit for us to keep this relationship, DHL transferred its international expertise to Sinotrans, which in return, provided superior knowledge of local distribution channels to DHL. Furthermore, without Sinotrans, DHL can’t launch the domestic parcel delivery service in China, which has never been touched upon by international companies before, at last, the logistics industry in China hasn’t been fully developed, the support from the government was essential, thus keeping partnership with local partner was vital to DHL.” This assertion was consistent with speeches by Jerry Hsu, the president of Greater China Area DHL Express Asia Pacific, who commented on the partner relationship with Sinotrans, “In the last 20 years, DHL-Sinotrans has built up its position in China by leveraging DHL's global expertise and the local advantages of Sinotrans and has led to a market leadership position with 40% market share in China and an annual growth rate of 35% to 45%” (Forbes, 2006).
Another issues is that in December 2007, DHL’s parent company Deutsche Post World Net (DPWN) purchased the remaining 50 percent share of the Sinotrans-Exel JV(which offered warehousing space for logistics services in China) and established DHL supply chain logistics wholly owned subsidiary.
Dong Juan addressed that this move was undertaken by DHL’s parent company which has been attracted by China’s rapidly expanding economy and its great prospects in logistics business.
Dong Juan wrote in her answers that DHL’s firm specific know-how was its global service network. In China, the access to service network was mainly through Sinotrans who had great advantages in local networks around the country, therefore, this firm specific know-how was to a degree relied upon their partnership with Sinotrans, however, the firm-specific know-how in supply chain logistic services are its advanced technologies in supply chain management and global service network. By drawing on this advantage, DHL was able to service those large MNCs(such as Wal-mart, Motorola, Siemens)in China by adding value to their supply chain

management. Dong juan argued : “Since this part of business has just developed in recent years and was based on DHL’s exclusive technologies, the parent company wanted to protect it from being disseminated or imitated by other companies, and wholly owned subsidiary was the best mode to ensure the control. ”

When it comes to market size and market potential, Dong juan stated that while DPWN’s choice of wholly owned subsidiary was based on the assessment of Chinese market opportunities, the protection of exclusive advantage in supply chain logistics services which enabled DHL to carry out their own businesses was of most concern. While She scaled “No impact” on the factor of “firm’s size and multinational experience”, she stressed the importance of institutional factor in their decision of staying with Sinotrans: “The express and logistics industry was not fully opened yet, and DHL need to gain governmental resources (local infrastructure building etc.) through Sinotrans” . But when it comes to the most determinant factors, Dong stated that it’s the partner’s capability in adding values to DHL’s business that made DHL continue to cooperate with them.

In summary, DHL’s new considerations over their entry mode strategies in this later stage of development can be illustrated by the following table.

	Keep Joint ventures	**Wholly owned Subsidiary in Supply chain logistics**
Important factors	Institutional factor; Firms’ specific know-how	Market size and market potential
Determinant factors	Partner’s capability in adding value to DHL	Firm’s specific know-how

3.4 OVERVIEW OF THREE CASES

The above case studies highlight similarities and differences in entry mode strategies of three companies, what followed is a description of general information of the three companies:

Company &Industry	Time of Entry	Initial Entry mode	A later stage of development	
			Time	Change
ABB in industrial machinery industry	1992	Joint venture	1994	First WOS in Beijing
			1998-2003	22 joint ventures and 5 WOSes built in different cities of China
IKEA in furnishing retail industry	1998	Joint venture	2004	WOS in Shanghai
			2004-2010	Expansion of WOS in other cities of China
DHL in express and logistics industry	1986	Joint venture	1986-2010	Partnering with Sinotrans in express and logistic services
			2007-2010	DHL logistics-WOS in supply chain logistics service

Table 5: Overview of three companies of their development processes

- All three companies came to China in the 20th century after China launched market reform in 1980s and before China joined the WTO in 2001 when the government started to open the local market wider and liberalized the restrictions and regulations toward foreign MNCs.
- Joint venture was selected by all three companies as their first entry modes.
- All three companies have made changes to their entry mode strategies in their later stage of development, but in different ways.

4. ANALYSIS

While FDI theories provide firm specific factors and country specific factors to explain the driving forces of MNCs' entry mode choices, managers of the three MNCs described their perceptions about how those factors affected their entry mode strategies over time in China, and gave insight into some other factors that they regard as important and determinant. In what follows, analysis will be carried out not only to answer the research questions in a comprehensive way but also to compare and contrast the ideas of FDI theories and the three empirical cases, in order that the differences and similarities can be unfolded and further explained.

4.1 INITIAL ENTRY

According to the empirical evidences, the institutional factor played a dominant role in firms' initial entry mode choices. Firm-specific factors, such as firm specific know-how and firm's size and multinational experiences, together with the factor of market potential were giving way to governmental regulations, this is probably due to the fact that the Chinese market wasn't fully opened and the government held high autonomy over the business activities at that time, and they controlled the resources that the companies desperately needed to operate in China.

However, while the respondent from IKEA felt obliged to choose the joint venture mode; DHL and ABB gave high appreciation of this mode, because the local government was of strategic importance to their businesses, and their partners, who were state-owned companies and who had the governmental resources, can support them in building networks with the government.

Company	**Entry mode choice**	**Determinant factors**
ABB	Joint venture	Institutional factor
IKEA	Joint venture	Institutional factor
DHL	Joint venture	Institutional factor

Table 6: Determinant factors of initial entry mode strategy

This empirical finding has therefore supported Luo's (2001) argument that firm-specific considerations may have less weight in final entry mode determination than the institutional factors.

4.2 A LATER STAGE OF DEVELOPMENT

After initial entry, as massive institutional changes have taken place in China in 1990s , and with accumulated experiences of operating in this market, three MNCs have made different degrees of change on their entry mode strategies, some preferred to sustain the relationship with their venture partners, others favored either building

more joint ventures or establishing wholly owned subsidiaries, and the four factors have different effects on their decisions.

4.2.1 FIRM SPECIFIC KNOW-HOW

Theories suggest that firms favor highly control mode such as wholly owned subsidiary when perceived dissemination risk of firm specific know-how and the transaction costs are high, however, this factor has only affected the choice of DHL for one part of its business. For ABB, although the managers acknowledged that the intellectual property protection was poor in China, they claimed that they could protect their firm specific know-how well under the joint venture modes; they didn't see any significant distinction between JV and WOS in terms of control because ABB took high percentage of the equity share in JV, therefore this factor has no relation with their choice of WOS.

In IKEA, the respondent argued that their firm's specific know-how is quite difficult for local furnish retailers or venture partners to copy from, thus there was no dissemination risk for this specific know-how at all. Hence this factor has no direct relation with IKEA's choice of building wholly owned stores around China.

For DHL, on one hand, the express and logistic business with Sinotrans was based on their firm specific know-how in service network, which was mainly supported by Sinotrans who had the local networks in China, in contrary to theory, this firm specific know-how drove DHL to continue partnering with Sinotrans. On the other hand, in the supply chain logistics service, DHL's supply chain technologies and global services networks were their firm specific know-how, which were unique and vital to their new businesses carried out in recent years, out of the consideration to control the technology from being copied by others, they built wholly owned subsidiary.

4.2.2 FIRMS' SIZE AND MULTINATIONAL EXPERIENCES

In ownership advantage theory, larger and more multinational firms should prefer wholly owned subsidiary to joint venture mode (Agarwal & Ramaswami, 1992). Undoubtedly, none of the three companies can be regarded as small firms and as having poor multinational experiences and skills, however, this factor has only been

considered as determinant in the case of IKEA. They had their own ways of doing business in foreign countries and would like to follow the way in every country, and this “Own way” or its “Company heritage” was mainly based on their accumulated experiences in international operations.

In the case of ABB , there was no indication from secondary sources that this factor has affected their entry mode strategies. And in DHL, the respondent scaled this factor as “No impact” on their entry mode strategies. This is probably because the power of other factors outweighed the influence of this factor on entry mode strategies.

4.2.3 MARKET POTENTIAL

In location advantage theory, this factor didn’t point to any particular entry mode, but the theory suggest that in countries that offered high market potential and more favored government policies, firm may choose entry modes that provide the firm with the opportunity to establish long-term market presence (Agarwal& Ramaswami,1992).

All three companies have admitted that the governmental regulations have been liberalized to a degree and the Chinese market, with large market size and great growth potential was definitely critical to their businesses.

For DHL, their parent company was attracted by the market potential and therefore would be willing to build long-term presence in China through WOS;

To ABB, China was one of the two most strategically important regions in the global market, and they have made enormous resource commitment in China by joint venture modes and wholly owned subsidiaries.

It’s the same for IKEA that though the Asia market accounted only a small part of their business, because of the large market size and expected economic growth in the future, IKEA has decided to settle for long-term operations in China.

In short, the influence of this factor on MNCs is consistent with the theory to a degree. According to the managers, this factor didn’t directly link to any special entry mode, but they admitted that they would build long-term presence in China because of the market potential, and the new entry mode strategies would just allow them to do so.

4.2.4 INSTITUTIONAL FACTOR

The influence of this factor on MNCs' entry mode strategies has changed, from being dominant in firms' initial entry to a less determinant role in firms' later stage of development. This factor was perceived by ABB as having a weaker effect in influencing their businesses; Though it was regarded as important in DHL's choice of sustaining relationship with Sinotrans, because the express and logistics industry hasn't been fully opened and government still controlled resources such as distribution channel, this factor wasn't as determinant as other factors for this choice.

For IKEA's choice of building wholly owned stores, this factor had no direct impact. This result can be explained by Child&Tse (2001) that decisions about partner choice will be based increasingly on rational considerations of strategic intention, risk, and transaction costs when the market reform continued and more liberalized policies on foreign companies are received. This doesn't imply that the institutional factor should be neglected; after all, without the institutional change firms will not be able to choose their favored strategies.

4.3OTHER FACTORS

As has been found in the empirical studies, apart from firm specific and host country factors, interestingly there were other factors highly valued by the managers, and sometimes they were the most determinant factors for their decisions.

- **Company's strategy**

For ABB, this factor has all along influenced their entry mode strategies under two circumstances, while it played a less important role than the institutional factors at first, it became the most determinant factor in ABB's later stage of development, when they planned to build more joint ventures to implement the strategy of building distribution networks in Chinese territory.

- **Local networks**

For ABB and DHL, the choice of building more joint ventures or sustaining the relationships with their partners was also based on their needs to establish networks with local government, local suppliers and customers. The Chinese environment might

account for this phenomenon, when institutional environment is uncertain, the contract enforcement is often difficult, thus the transaction need to be supported by interpersonal bonds to mitigate the risk (Chen et.al,2008).

- **The performance of local partner**

This factor was perceived to be the most determinant factor for DHL's decision to continue its partner relationship with Sinotrans. And seemingly, it's not hard to find in ABB's case that managers gave highly comment to their partners for they added values to their business and secured their market position. Thus it's reasonable to suggest that the performance of local partners led foreign companies to decide whether to stay in a relationship with its joint venture partners or not. This suggestion was in consistent with Child&Tse's (2001)findings that MNCs' choice of partners will be determined less by the latter's ability to work with the government, and more on how the two firms complement each other and the ability of the joint entity to develop sustainable competitive advantages.

The following table sums up the significance of each factor upon MNCs' entry mode strategies in a later stage of firms' development according to the three companies.

Company / Factors	ABB	IKEA	DHL
Firm's specific know-how	No impact	No impact	Determinant in supply chain logistics WOS
Firm's size and international experience	No impact	The most important and determinant factor	No impact
Market potential	No impact	No impact	Important but not determinant for the WOS
Institutional factor	No impact	No impact	Important but not determinant
Company strategy	Determinant	Important observed	No impact observed
Net work building	Important	No impact observed	Important
Performance of partners	Important	No impact observed	Determinant

Table 7: Determinant factors for the change of entry modes

5. IMPLICATIONS AND CONCLUSION

In line with the research question of this paper, the study provides insights into the impact of both country specific factors and firm specific factors on entry mode strategies of MNCs in China under two specific circumstances.

The findings show that institutional factor was the major determinant of entry mode choice for firms' first entry; this result supports Yiu&Makino's (2002) argument that in transitional economy when institutions are unstable, the priority of foreign enterprises may be survival rather than efficiency, and legitimacy becomes essential. For firms' later stage of development, the institutional factor was still important to a degree, especially for company based in an industry that was still controlled by government, such as DHL. This phenomenon can be explained by Child&Tse(2001) that the institutional changes don't imply that host country factors were less influential, but the state still exercises control over the terms of foreign entry into different sectors.

This result implies that MNCs have to watch out the institutional environment from time to time instead of neglecting it even when the regulation was liberalized, and should also adjust their strategies to the changing institution environment, since the government still exerts influences on business activities of MNCs, but may differ in sectors and different aspects of operation.

One of discretion observed from theories turned out to be the ways that those factors influenced companies' entry mode strategies:

For the firm specific know-how, the findings implied that firms do not always run a dissemination risk even though the intellectual property protection were weak in the market they operated in, if the firm-specific know-how can be controlled and protected well under JV mode, firms will not necessarily seek to build WOS ;

In another case, if the firm-specific know-how of an MNC is combined with the capability of its local partners, the joint efforts may produce more advantages that might outweigh the benefits of building WOS.

For the factors of firm's size and multinational experiences, the findings indicate that multinational experiences can influence company's entry strategies by shaping and forming a company's heritage, which might be transferred to different countries as a common practice or rules of operation.

One interesting finding of this study is that in a later stage of firms' development, both firm specific factors and country specific factors affected companies' entry mode strategies, but the former player a much larger role than the latter in affecting companies' strategies, which is quite contrary to the first stage when institutional factor played the decisive role. This might be explained by the study of Child&Tse (2001) and Luo(2006) that after the institutional environment changes, companies were able to redefine their strategies and structure to meet their internal needs.

The study found that while various factors lend explanatory powers to the change of entry mode strategies in firms' later stage of development, there was no consensus on which factors are dominant, since the effects of these factors varied to a large degree. It's often the case that for one entry mode, there were a mixed consideration of different factors, which are not only limited to the factors suggested by FDI theories.

Another interesting finding of this study is that the factors of company's strategy, the need to build networks and partner's performance served to supplement the factors suggested by FDI theories; these factors should be included in theoretical framework on FDI in China.

While the former two factors can be included in firm specific factors, the last one was quite special; it suggests that the value of MNCs' venture partners was vital to companies' decisions. This finding corresponds with Mckinsey's research on "China partners"(2003): "A venture's profitability increasingly depends on the Chinese partner's ability to provide an immediate competitive advantage—for example, by helping to find low-cost workers and providing access to privileged assets such as distribution networks in growing markets, operating licenses, factories, and land."

In conclusion, this paper examined the impacts of the factors generated from FDI

theories on firms' entry mode strategies since their first entry. The study not only have implications for the applicability of the FDI theories on MNCs over two stages of operations, but also provide insight into the viewpoints of MNCs on their entry mode strategies in an emerging economy-China. For those companies which intend to operate in China, the results offered visions on the changed business environment of China and its implications for business operations, particularly the factors they have to pay attention to when they considered their entry mode strategies.

The results may also be of interest to researchers who are concerned the changing situation of China and its impact on international firms, I suggest that a further research should be more specific on how these changes influenced MNCs' entry mode strategies by adapting more existed theories such as Uppsala Model to explain managers' decisions.

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