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Foreign Investor's Entry Strategies and Sub-national Institutions in Emerging Markets

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Abstract

Foreign investors entering emerging markets have to make strategic decisions on where, when and how to set up their operation. In this paper we demonstrate that the crucial decisions on intra-country location and mode of entry are interdependent. Hence, entry strategy analysis has to consider multiple aspects of entry strategy simultaneously, rather than ceteris paribus as most of the prior literature.

Moreover these strategic decisions have to accommodate institutional conditions not only at the national but also at the sub-national level. We thus extend the discussion on institutions and strategy to sub-national level. We analyze these issues for foreign investors in Vietnam based on a comprehensive recent survey focusing on intra-country location and entry modes. We find provincial institutional variables to be significant for both dimensions of entry strategy.

1. Introduction

As Asian markets open to international business, entry strategies to these markets become crucial for the success or failure of international business. Scholars have extensively analyzed some aspects of entry strategies, especially ownership and control. However, this literature has two major shortcomings that limit its applicability. Firstly, only few studies incorporate the institutional context of the host economy (Gomes-Casseres 1990, Meyer 2001), and they limit themselves to national level institutions. Secondly, most of this literature clinically separates different aspects of entry strategies into distinct analyses of specific decisions, although entry strategies require simultaneous decisions on multiple issues, such as location (Krugman 1991), mode choice (Anderson and Gatignon 1986, Hill et al. 1990, Hennart and Park 1993) and timing (Luo and Peng 1999, Isobe et al. 2001). In this paper, we incorporate the national and sub-national institutional context in the analysis and we take a first step towards integrating the analysis of different aspects of entry strategies by analyzing both intra-country location and mode choice.

Location of economic activity has been analyzed since Marshall (1920), yet it received little attention in recent years, so that Dunning (1998) called it the neglected aspect of the OLI framework. However, the sub-national location of operations has become a major concern to multinational firms and international business scholars (Cantwell and Iammarino 2001). It is of particular relevance in large and decentralized emerging markets like Russia, China, India and Vietnam where attitudes, policies and other institutions vary at the provincial or even local level. For instance, in Russia FDI is concentrated not only in the traditional centers of business St. Petersburg and Moscow, but in provincial cities known for their reform-oriented local government, like Novgorod (Meyer & Pind 1999). In China, institutional differences within the country influence corporate strategies (Schlevogt 2002) and foreign investment inflow (Zhou et al. 2002) at sub-national level. In India, states use tax incentives and other policy instruments compete with each other to attract major foreign investors, such as Ford (Oman 2000). Within Vietnam, economic reform has progressed at different speeds, with the unequal urban centers of Hanoi and Ho-Chi-Minh-City (HCMC) leading in economic development. Such regional institutional variation influences foreign investors' strategies.

Modes of international entry have been analyzed by international business and strategic management scholars (e.g. Anderson and Gatignon 1986, Hill et al. 1990, Hennart and Park 1993). Most of studies focus on FDI among mature market economies, although recent studies have analyzed entry modes in China (Tse et al. 1997, Pan and Chi 1999, Pan et al. 1999, Pan and Tse 2000, Luo 2001b, Chen and Hu 2001). Yet this research is still exploring how to incorporate specific aspects of the emerging market context into the theoretical and empirical analysis. In these economies, FDI strategies have to be adapted to specific regulatory and institutional regimes (Fagre and Wells 1982, Gomes-Casseres 1990, Makino and Beamish 1998) and weak local resources (Meyer and Estrin 2001). This study does so by incorporating institutional variables in the analysis.

Recent theoretical work by management scholars has integrated institutional perspectives in the analysis of business strategies (Oliver 1997, Peng 2001a, Dacin et al. 2002) and international business (Mudambi and Navarra 2002) by applying theoretical advances in economics (North 1990) and sociology (Scott 1995/2001). The legal framework and institutions are of pivotal concern to businesses operating in emerging markets, especially when they are still unfamiliar with the local environment. Hoskisson et al. (2000) concluded that in emerging economies the government and societal influence are stronger than in mature market economies, and thus warrant careful consideration when analyzing businesses. Especially scholars working on transition economies have found that institutions to a high degree influence strategies pursued by multinational firms (Henisz 2000, Peng 2001b) as well as local firms (Spicer et al. 2000). Even a recent study by the World Bank (2002) assigns institutional development at a focal role in economic transition and development. However, the institutional perspective is – at least at the current stage – not a theory in itself that would explain corporate strategies. Yet it provides crucial explanations as to why transaction costs arise (Meyer 2001), or why resources are developed in a certain way (Peng 2001b). In consequence, institutions in the host economy moderate traditional determinants of entry strategies.

Institutions have been included in some studies of FDI flows between countries. This literature points out that investment incentives, tax rates and absence of performance requirements encourages FDI (Loree and Guisinger 1995) and, more generally, market-oriented institutions and a private property rights regime attracts more foreign investment (Globerman and Shapiro 2003, Bevan *et. al.* 2002). Yet there has been little research on sub-national institutions and FDI. Comprehensive studies analysing within-country location decisions have been conducted in the USA (Coughlin et al. 1991, Shaver 1998, Chang & Alcacer 2001). The only studies incorporating sub-national institutions in emerging markets are those separating FDI in special economic zones and open cities in China (Pan and Chi 1999, Pan and Tse 2000, Zhou et al. 2002). However, a broader perspective on sub-national institutions is needed to explain FDI strategies in emerging markets.

Institutions are equally important when it comes to selecting an appropriate mode of entry (Henisz 2000, Brouthers 2002). Formal institutions such as the legal framework and informal institutions such as the practice of law enforcement shape the transaction costs in pertinent markets, and in consequence investor's preference for internalizing markets (Meyer 2001). Institutions moreover influence the evolution of resources and capabilities, as for instance networking competences are developed in particular in those countries where transactions are commonly based on personal relationships and networks (Kock and Guillén 2001). The institutional environment thus shapes the key parameters determining entry mode decisions, resource endowment and transaction costs.

In this paper we aspire the following contributions: Firstly, we integrate the location and mode dimensions of entry strategies, and reflect on a third one, time. Secondly, this is to our knowledge the first study to include sub-national institutions in the analysis of entry strategies in emerging markets. Moreover, we present results from the probably most representative survey of foreign investors in Vietnam.[1]

The paper is structured as follows. Section 2 develops the theoretical arguments on why we integrate location and mode, and how province-level institutions influence the strategies of foreign investors. Section 3 reviews the Vietnamese institutional framework and adapts our hypotheses to the context. Section 4 introduces our survey data. Sections 5 and 6 present respectively the analyses of the determinants of locational choice, and of mode choice. Section 7 interprets the results with reference to a case study of the Dong Nai province. Section 8 concludes with perspectives for future research on business strategies in emerging markets.

[1] The only other major survey-based management research in Vietnam that we are aware of is that by Lyles et al. (2000), which focuses on the relationships between partners in joint ventures.

2. Theoretical Perspectives

2.1. Interdependence between the strategic decisions

The analysis of alternative entry strategies can draw upon a wide range of theoretical and empirical work on specific aspects of entry. For example entry mode has been analyzed in the international business literature drawing on transaction costs economics (Buckley and Casson 1976, 1998, Hennart 1993), resource based theories (Barkema and Vermeulen 1998, Chang and Rosenzweig 2001, Anand and Delios 2002) and institutional theories emphasizing intra-organizational continuity (Harzing 2001, Lu 2002). The location of production has been analyzed by economists focusing on the relative merits of production factors and agglomeration effects (Krugman 1991, Fujita *et al.* 1999). Timing has been analyzed with game-theoretic models (Dixit 1980), real options (Buckley and Casson 1998, Miller and Folta 2002) or in a strategic management framework (Luo and Peng 1999, Isobe et al. 2001). In practice, however, all these aspects of entry strategies are interdependent.

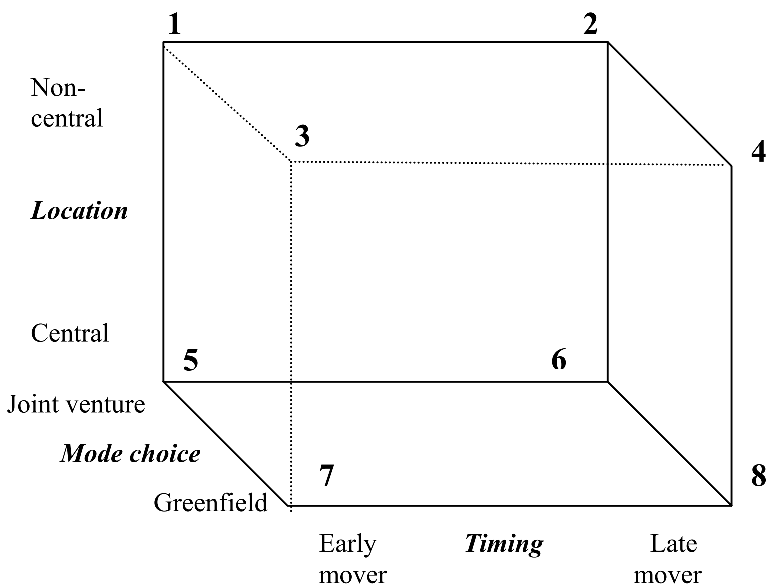
Entry strategy is a multidimensional construct, with different dimensions, or sub-strategies, that have to 'fit' together. Any decision on one dimension has to take account of requirements imposed by decisions already taken for other dimensions, and consider implications of adjustment on other dimensions. The weight of different aspects in specific decisions varies across firms, and between different objectives underlying a foreign entry.

Firms may decide to enter a particular region or country, and then develop, compare and assess alternative scenarios for in-country location, timing, mode and other key variables. The decision that attracted most scholarly interest is probably entry mode: export, contractual co-operation, or FDI (Young et al. 1989, Root 1987, Tse et al. 1997). Direct investors furthermore have to decide the share of their equity ownership (Hennart 1988, Beamish and Banks 1987), and whether to invest in a Greenfield project or by acquiring an existing firm (Hennart and Park 1993, Barkema and Vermeulen 1998). Yet the mode choice is interdependent with other decisions. For example, if timing and speed of entry is crucial because an investor pursues first-mover advantages, then an acquisition or joint venture may offer quicker market access. On the other hand, an acquisitions limits locational choice it generally follows the target firm's existing location. Moreover, acquisitions pose greater challenges for marketing, logistics and human resource management strategies, as the existing local firm with its inherited personal, routines, and local brand names has to be integrated with the investors global operation.

Despite the multidimensionality of entry strategies, most scholarly research has to date taken a theory driven, *ceteris paribus* approach, applying existing theories to partial aspects of entry decisions. Yet this approach tends to block the view for interdependencies by implicitly assuming that other strategic decisions are exogenous, e.g. timing and location decisions would be independent of mode choice. However, mode choice may in some cases precede locational decisions, yet in other cases follow locational decisions.

In this paper we focus on two dimensions: intra-country location and entry mode. We moreover consider how these decisions vary with the timing strategy of the entrant. These decisions are illustrated parsimoniously in Figure 1, reducing for analytical purposes each decision to a dichotomous choice.

Figure 1: Entry Strategy as Three-Dimensional Construct



The optimal entry strategy varies with the investor's objectives, resources, and the local business environment. For example, a manufacturer of branded consumer goods may pursue first-mover advantages, and therefore form a JV with a local firm at a central location with good access to local markets (point 5 in Figure 1). Another firm may seek to lower production costs by utilizing the local labor force without specific skill requirements. As costs are a prime concern, the investor may consider the optimal set-up of the operations more important than moving fast, but location outside key markets may be appropriate if the location has attractive financial incentives and good infrastructure. Hence this investor may be late mover, investing alone, and at a non-central site (point 4 in Figure 1). In this way, Figure 1 provides as a typology of entry strategies. There is no single point in Figure 1 that would dominate over other points, as the preferred entry strategies depends on the priorities set by the investor.

In conclusion, corporate decision makers have to address multiple interdependent dimensions of entry strategies simultaneously. These interdependencies are however as yet poorly understood. We take a first step towards a more comprehensive analysis of entry strategies by addressing both intra-country location and entry mode choice under consideration of the same set of institutional variables. Our base proposition is:

H1: Mode and locational decisions are interdependent, which leads to significant differences in the pattern of entry modes across provinces and over time.

2.2. Institutions and Location Strategies

a) Institutions as location advantages

Location concerns both the choice of country to invest in, and the selection of a specific site, i.e. a piece of real estate in a specific municipality. Traditionally, the location of production has primarily been analyzed as function of the costs and quality of local factors of production, i.e. comparative advantages of resource endowments and costs of production. Labor costs and productivity are of a prime concern for many industries that manufacture in emerging markets for export, for instance for textiles or electronics. Efficiency- or resource seeking investors would consider the costs and quality of those local resources that they require for their operations, including natural assets, like cost of the local workforce and natural resources, and increasingly ‘created assets’ (Narula and Dunning 2000). These factor costs have to be balanced with the costs of bringing goods to market, which depend on moderating variables like to distance to markets, physical and institutional infrastructure, and institutions.

The location of market-seeking investment aims to obtain optimal access to a market, often by establishing operations in the main commercial hub of the host economy (especially for B2C goods), or in close proximity to key customers (when selling B2B goods). The attraction of markets is first and foremost a function of their size, their expected growth and their sophistication.

However, institutional variables moderate the basic locational advantages of factor costs and markets. Traditionally, institutions of protectionism in form of tariffs and non-tariff trade barriers motivated local production by market-seeking investors. Multinational firms would ‘jump tariff barriers’ with import substituting FDI to serve markets such as Latin America (Grosse 2000). The global reduction of trade-barriers in the 1990s has made tariffs less relevant for the location of international production. However, informal trade barriers persist. For example, businesses wishing to supply public sector entities often face a local content requirement. Public procurement policy allows most governments to discriminate in favor of locally producing firms, and even the European Union finds it hard to enforce the ban of such practice.

The concern about institutions is however broader than the barriers erected to protect domestic firms from international competition. Foreign investors are concerned about property rights, taxation, profit repatriation, protection of intellectual property, contract enforcement, and currency convertibility (Henisz 2000, Peng 2000a, Meyer 2001, Globerman and Shapiro 2003). In addition to the frequently discussed aspects of the national policy framework (Spar 2001) and interaction with host governments (Stopford and Strange 1993), relations with authorities on regional and municipal level may be of crucial importance.

The power of sub-national authorities arises from both formal institutions and informal institutions, such as the effectiveness of implementation of centrally mandated economic reforms. As example for formal institutions, provinces or municipalities that have a one-stop agency to work with foreign investors and offer industrial real estate with good infrastructure connection can greatly facilitate relations between investors and local authorities. Moreover, fiscal incentives such as tax holidays or subsidies can tip the balance between two alternative sites (Oman 2000).

International cooperative agreements such as the EU and the WTO agreements increasingly constrain government's ability to offer substantial financial incentives. Such bilateral or multilateral agreements between states act as constraint on government policies and moderate the bargaining relationships between governments and potential investors (Ramamurti 2001). However, both national and sub-national governments continue to invent schemes that circumvent these constraints.

Although many national governments, including Vietnam, have adopted favorable attitudes to FDI, the implementation of these policies is often local. Foreign investors have to negotiate with local authorities over business licenses, real estate, access to public utilities, and in some countries also tax incentives and subsidies. In fact, ”competition among sub-national governments to attract FDI tends to exacerbate rather than ameliorate long-term growth differentials and income inequalities among regions within the country” (Oman 2000, p. 58). Such policy variation is related to administrative decentralization, as local authorities can decide how to implement policies set at central level. (This does not necessarily require political autonomy). It can lead to competition between regions for FDI, but also to situations, where the central government is rolling out the ”red carpet”, while bureaucrats in specialist ministries or local authorities create ”red tape”.

Research on foreign investor's locational choice within the USA, arguably one of the least regulated economies of the world, has shown that even there local institutions influence locational decisions. Coughlin *et al.* (1991) found that higher taxes deterred FDI, while promotional activities and transportation infrastructure increased FDI. Hines (1996) found that state corporate taxation lowered FDI from those countries of origin where investors are not taxed for foreign profits; while there was no effect on FDI from Japan and the United Kingdom where foreign profits are taxed, yet credits are provided for tax paid in the USA.

Recent research has pointed to successful foreign investors establishing an amicable relationship with the local authorities. Luo (2001a) argues that relations between MNE and governments should be seen as a (potentially) cooperative relationship, and he finds that such relations have a positive impact on subsidiary performance in China. Distinguishing relations with central and local governments, he finds that the former impact on sales performance only, while relation with local governments affect both sales and financial performance. Peng (2000b) compared three car manufacturers in China and their relationship with government authorities. He too finds that both local and central governments influence investors' performance, and co-operation with local authorities can help getting approvals from central authorities.

This discussion suggests that institutions at the level of provinces – in addition to national institutions – influence business strategies. Businesses react by either adjusting their strategies to local institutions, or by choosing to locate where institutions are most conducive to their type of business operation. Hence, we expect an empirically verifiable relationship between province-level institutions are the type of FDI received:

H2: Foreign investors are more likely to invest in a province, the more favorable the province-level institutions are.

To test this propositions, it will be made more specific after reviewing the institutional context in section 4.

b) Institutions and Mode Choice

In emerging markets, foreign investors face the choice between investing in a Greenfield operation, a joint venture or – if legally permitted and suitable targets are available – an acquisition. The international business literature analyzes entry mode choice by separating the resource and equity dimensions of mode choice. Theoretical work focuses *either* on ownership (Anderson and Gatignon 1986, Hennart 1988, Hill et al. 1990, Gomes-Casseres 1989) *or* on acquisition versus Greenfield entry (Hennart and Park 1993, Barkema and Vermeulen 1998, Anand and Delios 2002), taking the respective other dimension as given. Yet, these decisions are related because they help in different ways to access resources and manage institutional peculiarities.

In the emerging markets, competition is often distorted by licensing regimes, industrial regulation and tariff structures that implicitly favor local firms (Khanna and Palepu 2000). In such regimes, a local partner can provide valuable access to local authorities and business networks. Hence in less developed regulatory environments, foreign investors are more likely to seek collaboration with a local partner (Kock and Guillén 2001).

In Vietnam, most foreign investors effectively have only two options, Greenfield and joint venture. The foreign investment law also distinguishes non-equity cooperation as a mode, but this is not FDI, as international businesses scholars define it. Acquisitions, which are the dominant mode of FDI in mature market economies, are not feasible for most investors because the local legal framework inhibits them.[2] This situation applies also to other countries with a restrictive institutional environment and weak local firms, though Vietnam may offer unusually few attractive opportunities for acquisitions.

This reality has to be addressed by adapting the theoretical framework. The analysis has to focus on these two feasible modes, which creates challenges for theory, because two decisions have to be addressed together: the resources to be employed and the control over the operation to be established. The investor can access resources of a local firm, but compromising on control, or go alone and maintain full equity control over the local operation.

One key difference between JV and Greenfield is the origin of the resources employed in the new operation. Hence, entry mode choice is a decision over the origins of the resources that shall be employed in the new venture, similar to acquisition versus Greenfield decisions (Meyer and Estrin 2001, Anand and Delios 2002). A Greenfield uses resources of the investor and combines them with local assets, and gives the investor more discretion over the organization of the new venture, but generally permits only a gradual establishment. A JV provides access to selected resources contributed by the local partner, yet at the same time, control over the operation has to be shared with the local partner firm.[3]

Institutions shape both the need for local resources and their availability. For example, in an economy with primarily network-based exchange, network capabilities may be a crucial asset for business. Since local firms would possess such network capabilities this makes them an interesting partner for a foreign investor (Guillén and Kock 2001). Liberalization would tend to reinforce the market mechanisms and thus diminish the value of

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[2] Acquisitions have been permitted only by the end of the 1990's, and so far have occurred mainly by one foreign investor taking over the business of another foreign investor. In our sample, we had three such incidences, which were excluded from this analysis.

[3] Prior studies are concerned with the ownership dimension, while separate studies analyze acquisition versus Greenfield decisions. Studies in emerging markets have mostly focused on ownership, although the issues are interrelated. Luo (2001) and Siripaisalpipat & Hoshino (2000) analyze JV versus wholly owned choices in the Chinese and Thai context, where it is likely that most wholly owned affiliates are actually Greenfield operations. The authors do not address the issue. Siripaisalpipat & Hoshino (2000) actually refer to their wholly owned subsidiaries as Greenfield without explaining what they did with acquisitions. Other studies in China have included non-equity cooperation as alternative (Tse et al. 1997, Pan and Tse 2000, Chen and Hu 2001).

such network relationships (Cuervo-Cazura and Toulan 2002). This change happens primarily on national level, but there may be substantial variation within one country, especially with respect to the role of personal networks when dealing with authorities. Foreign investors thus may find some provinces easier to access in terms of obtaining business licenses, information on local regulation, or local tax rebates, and being treated equally when bidding for public procurement contracts. Thus, a more transparent local administration would reduce the need for local partner providing network capabilities.

Local institutions also influence resource availability, in particular by facilitating or obstructing the development of local entrepreneurship. This in turn influences the quality of local firms, notably private sector firms that may become local partners. Thus, once it is recognized that formal and informal institutions influence business strategy (Oliver 1997, Peng 2001a), it is an obvious next step to broaden the concept of institutions to sub-national levels. Hence, we predict that foreign investor's entry mode is influenced not only by national but also by provincial institutions:

H3: *Foreign investors are more likely to establish Greenfield, the less national and province-level institutions make it necessary to access local resources controlled by local firms.*

Most prior studies of entry modes focus on firm specific variables in explaining mode choice, and pay scant attention to host institutions. However, Gomes-Casseres (1990) and Makino and Beamish 1998) included ownership restrictions as constraints in the choice of optimal share of equity. Recent studies on FDI in China consider special economic zones and open cities as institutions (Pan and Tse 2000, Zhou et al. 2002). Yet, none of these studies includes province level institutions, which this study focuses on.

To test hypotheses 2 and 3, we develop more specific sub-propositions based on specific institutions. To do that, we need to review first the evolution of institutions in Vietnam. Thereafter, we return to the theoretical discussion on the link between institutions and entry modes.

3. Institutions in Vietnam, and Impact

3.1. Institutional Evolution

Vietnam has been characterized a “a bureaucratic, yet entrepreneurial, business environment” (von Glinow and Clarke 1995). It started a gradual path of reform in 1986 following the Chinese example of gradualism. However, the communist party remains firmly in power, and many aspects of the economy are subject to regulation or direct interference by the authorities of the government or the party.

State-owned firms still generate more output than the domestic private sector, but their share is gradually declining from 40.5% in 1997 to 38.6% in 2001 (Co-coauthor et al. 2003). A restructuring program for state-owned firms has been initiated with the support of multilateral institutions such as the World Bank. This program envisages “equitization” (a synonym for privatization), reduction of subsidies, and restructuring of non-performing loans (Co-coauthor et al. 2003). Thus, similar to China a few years earlier, Vietnam’s state-owned firms gradually have to face more market-oriented performance criteria. Yet as any major reform, this would create resistance from stakeholders. Hence, our hypotheses on the influence of state-owned firms on provincial level FDI policies are of high relevance.

The private sector had historically been disallowed and was subject to substantial discretionary interference by governmental authorities. In 1999, policy changed towards supporting the establishment and operation of private enterprises, leading to the registration of about 34,000 new enterprises with registered capital of US$ 2.1 billion (Co-coauthor et al. 2003), a huge amount compared even to the recent past.

Foreign investment was first permitted in 1987, and over the next years step by step FDI regulations were liberalized such as to open more sectors to foreign investment, and to increase the maximum foreign equity holding. Official statistics report an increase of annual FDI capital inflows to over US$ 2 billion by 1995, when it stabilized at that level before falling in the late 1990's. The numbers of registered projects reached a peak between 1995 and 1997, then fell possibly due to the Asian crisis affecting major source countries, but recovered in recent years. However, compared to neighboring countries, "many areas, such as retail trade, goods distribution service, finance, insurance, and real estate business are still very restricted to foreign investors … while … lists [of industries open or closed to FDI] are general and unclear, leading to difficulties in practical implementation" (CIEM 1999, p. 52). Moreover, 100% foreign ownership is not permitted in a wide range of industries, and Vietnam lacks a one-stop agency supporting potential investors in implementing their projects (CIEM 1999, p. 52). Private ownership of land by foreigners is also limited, which make land-use-rights a key contribution of local partners to joint ventures in Vietnam. In consequence, observers have become more skeptical about FDI in Vietnam.

The legal framework for FDI has evolved with major and minor changes throughout the 1990's. The first FDI law has been passed in 1987, and major changes happened in 1990, 1992 1996 and 2000. Yet other legal and administrative changes have been equally important to investors including changes in the procedures and criteria to grant investment licenses, land lease regulation, regulation of recruitment and salaries, investment guarantee measures and taxation. The legal reform is essentially a gradual shift from a Soviet-style legal system to a civil law system along German or Japanese legal traditions (van Glinow and Clarke 1995). The process of institutional change is best described as gradual, rather than big-bang.

The reforms have decentralized some policy responsibilities, for instance for the registration process of FDI. Local authorities vary in how they use their newly gained authority, not only between the urban centers and rural area, but also between the North and the South, based on historical divisions. Hanoi is the political center, while the South has become more commercially vibrant. Yet value systems appear more individualistic in the North, while the

South shares the collective values of other East-Asian nations (Ralston et al. 1999). These historical and cultural differences form the basis for divergent provincial policy and institutional environment.

Decentralization was stipulated in the foreign investment law in 1996 and came into effect in 1997. It has given provincial authorities a much more active role in dealing with FDI. For the first time, local authorities have gained responsibilities to grant investment licenses for FDI projects at scale of up to US$ 5 million (US$ 10m for Hanoi and HCMC) and that not belong to a sensitive or regulated sector. For larger FDI projects, provincial authorities are responsible to support foreign investors in the preparation of the documentations to apply for investment licenses at a higher level of authorities. Moreover, since 1997, many regulatory and supervisory functions related to FDI have been delegated, for instance land lease rate, import & export licenses, labor recruitment etc., to provincial authorities, rather than line ministries in the past. This allowed provincial authorities to develop innovative ways of dealing with foreign investors.

3.2. Refinement of Hypotheses

Given the evolution of institutions in Vietnam over the past decade, how would we expect the foreign investors to adjust their entry strategies, with respect to location and mode choice? Specific institutions may have a positive or negative impact on FDI, and this effect may be an intended or unintended outcome of local policy (hypothesis 2). Moreover, local institutions influence the relative costs and benefits associated with either Greenfield or JV entry (hypothesis 3).

Firstly, pro-active investment policy is expected to attract more FDI. As argued in the previous section, provincial authorities have gained considerable degrees of freedom in designing their industrial policy. The most visible local initiative is the establishment of industrial zones. These have been established since 1994 for production of industrial goods and services for industrial goods. Enterprises operating in an industrial zone enjoy a lower profit tax, which is even lower if at least 80% of produce is exported. In 1997, these rater were further lowered, creating incentives for export oriented ventures to locate here (Suhomlinova 1999). Similar zones in China, with even more distinct economic regulation, have attracted major FDI at an early stage of economic opening, but attracted proportionally less FDI from the mid 1990's onwards (Zhou *et al.* 2002), Moreover FDI in these zones appears to have been less profitable and less likely to survive (Pan and Chi 1999). We use the space allocated to industrial zones, in terms of hectares, as proxy for the investor friendliness of the provincial authorities, and suggest as first specific proposition under hypothesis 2:

H2a: The more provincial governments pursue a pro-active policy towards FDI, the more FDI the province receives.

Moreover, we would expect that provinces engaging in pro-active policy towards FDI, are more open towards investors wishing to invest on their own. This makes it less necessary for firms to engage local partners to obtain business licenses, access to business networks and other intangible local resources. Hence, investor friendliness is likely to affect not only the extend of FDI received, but also the investors' preferred mode of entry:[4]

H3a: The more provincial governments pursue a pro-active policy towards FDI, the more FDI they receive in form of Greenfield.

The incumbent local industry influences potential inward investment directly and indirectly. A direct effect arises from local firms' role as partners for foreign investors. An indirect effect, however, may arise via incumbents influence over policy makers. Good relationship

[4] Pan and Tse (2000) include dummies for special economic zones and open cites and find that at these locations business with foreigners is more likely in form of FDI rather than non-equity modes, thus confirming similar inferences by Tse *et al.* (1997).

with governments and lobbying has been found to be important both in mature market economies like the USA (Schuler *et al.* 2002) and in emerging markets like China (Schlevogt 2002). More specifically, a strong local lobby of incumbent businesses or interest groups skeptical towards the concept of a competitive market economy is likely to inhibit foreign investment. In transition economies, such lobbies are often related to state-owned firms (SOEs) as they can draw upon long-standing personal networks with authorities (Suhomlinova 1999). Hence we expect that strong presence of state-owned firms would be associated with an institutional context less favorable to foreign investors:

H2b: The more state-owned firms dominate a provincial economy, the less FDI the province attracts.

On the other hand, where SOEs still dominate the economy, they also control access to crucial assets and work in old-style business networks. Hence, investors may find it more difficult to prosper on their own as Greenfield operators, but seek partnership with local firms to access such resources. The effect may be reinforced if incumbent firms lobby for regulation that favors JV over investors operating on their own. Hence, we propose:

H3b: The more dominant the role of state-owned firms in a local economy, the more FDI is in form of JV.

The institutional change in Vietnam has been a gradual process. In 1989, the first foreign investment law was passed, and since then the regulatory framework has been liberalized in many small steps. For instance, until 1996 only state-owned firms were permitted to contribute land-use rights to a joint venture, providing a potentially valuable resource. Since 1997 the administration of land-use rights has been delegated to the provincial authorities. Some authorities help foreign investors in obtaining land use rights directly, which leads to a regional variation. Yet this shift is only one of many; there has been no single big bang policy change like there has been in for instance Hungary or Poland. Hence, we expect that the pattern of modes shifts gradually over time:

H3c: *Gradual liberalization leads to a gradual shift over the 1990's in the entry modes from JV to Greenfield.*

Active industrial policy towards FDI often is aimed at influencing the type of FDI as well as its volume (Lall 1996). In particular, policy makers expect larger spillovers from export oriented ventures as they contribute to the exports of the country, and thus help improving the trade balance. In return for commitment to export, investors attain easier access to sought after local resources, business licenses and, in the Vietnamese context, land use rights. In consequence, joint venture partners are not needed as a means to access these resources that many market seeking investors obtain from or via their local partners. Thus we expect that, as a result of the institutional set-up, export-oriented FDI to be more frequently in form of Greenfield operations:

H3d: *The promotion of export-oriented FDI leads to more FDI in the form of greenfield among export-oriented investors*

4. Survey, Data and Methodology of Analysis

The empirical analysis of entry mode is employing data from a recent survey of FDI in Vietnam as part of comparative study in four emerging markets (author et al. 2002). Data from the Vietnamese survey are complemented with province-level variables.

The base population of the survey has been defined as FDI establishments that were set up during the period from 1991 to 2000, with at least 10 employees and registered capital of at least 100,000 US$. We used the database of Ministry of Planning and Investment (the government body in charge of FDI registration), but excluded contractual co-operations, such as those in the oil & gas industry. This yielded a population of 2454 FDI establishments. We use random sampling to construct a list of 900 firms, of which 731 actually had useable contact information, and were contacted an interview.

We spend great effort on getting high returns from all major business centers, and across all groups of foreign investors. The questionnaire was translated to Vietnamese, and back translated to English, as it is common practice in management research. Moreover, we prepared a Chinese translation using a similar procedure to target firms with Chinese origins, as they are known to be reluctant to complete questionnaires in English or Vietnamese. Moreover, it has in most cases been necessary to contact firms in person, by face-to-face meeting or by telephone. This process led to 171 completed questionnaires, which is 23.4% of the firms contacted.[5]

Comparing the base population and the sample, we could confirm that the sample is representative by all major criteria, including country of origin, industry, location, mode and registering authority in Vietnam. Table 1 compares the sample and the population for the countries of origin, illustrating the good fit between sample and base population. The table also shows that FDI in Vietnam is largely an intra-Asian phenomenon, with European and American investors being relatively less important.

*** Table 1 approximately here ***

The survey data is complemented by archival data, notably for province-level and industry level data. Most were obtained from the 1999 issue of the Statistical Handbook for Vietnam, with additional information from a directory of industrial zones; see appendix 1 for details of measurement and sources.

[5] Of these 171 questionnaires, 2 had to be excluded because the firms did not meet the minimum employment criterion, and 3 were excluded from the analysis for this paper because they were acquisitions. Moreover, in the regression analysis some observations were lost due to missing values, especially for parent-firm specific variables.

The empirical analysis proceeds in two stages. First we analyze the pattern of FDI in terms of the proposed interdependencies between mode, location and time, using chi-square tests. Then we analyze determinants of location, incorporating variables identified in studies on the national level but analyzing them on a sub-national level. With 61 provinces, Vietnam offers a unique opportunity to conduct such an analysis with conventional OLS regression method. In the next section, we present a more formal analysis of the choice between JV and Greenfield, incorporating institutional variables in a Logit model.

*** Figure 2 and Table 2 (chi-square tests) approximately here ***

5. FDI in Vietnam

5.1. Location, Mode and Timing

Figure 2 categorizes observations according to the dimensions proposed in Figure 1. As Vietnam's geography is more complex, we adopt four broad categories for provinces. Table 2 presents chi-square tests over these categories. These show that:

- Investors after 1996 vary significantly their mode choice across locations. In the early 1990's there was no significant variation of modes across provinces.
- Greenfield investors significantly varied their preferred location over time, moving toward Dong Nai and Binh Duong and to lesser extend Ho-Chi-Minh City (HCMC). Joint ventures did not change their preferred mode over time. While the North appeared to benefit most from early joint ventures (Economist 1993), the focus has clearly shifted toward the South in the mid 1990's when investors were permitted to establish Greenfield operations.
- Investors in the main investment locations Hanoi, HCMC, Binh Duong and Dong Nai significantly shifted their mode over time. In the less central provinces, there has been no shift of preferred mode over time.

Hence, we find significant support for hypothesis 1 that mode, timing and location pattern would systematically vary. Moreover, the fact that some of these relationships are significant while others are not illustrates the interdependence of the different dimensions of mode choice. This is important empirical evidence supporting our theoretical approach depicted in Figure 1.

*** Table 3 (OLS) and 4 (correlations) approximately here ***

5.2. Locational Choice

Table 3 shows the results of an OLS regression of province level FDI against a vector of province-level variables expected to influence locational choice. Table 4 reports the correlation between the variables used in this analysis. Provincial FDI has been operationalized in alternative ways to capture both the relative and the absolute importance of foreign investors: the share of foreign investors in the provincial GDP (equation 1) and the number of FDI projects registered (equation 2). We moreover took the log of number of project (equation 3) as the results for equation 2 might be strongly influenced by outliers like HCMC.

In addition to the institutional variables, state-ownership and size of industrial zones, we include control variables for provincial market size (population) and market growth (GDP growth), as well as for human capital development (education) and infrastructure (transport). The results show that the overall explanatory power of the models is high with R^2 of over 60% for relatively parsimonious models.

The hypothesis **2a** that a pro-active approach towards FDI increases FDI receives strong support in the analysis, as the coefficients on industrial parks are positive and highly significant in all equations. We also used other measures of industrial zones such as the number of zones, reported investment in the zones and a dummy for the existence of zones in the province. They too were significant in this equation, but the here reported *industrial park size* variable had the highest explanatory power.

On the other hand, SOEs do *not* significantly inhibit the inflow of FDI at a local level. The coefficient is negative, but never significant. Thus contrary to our hypothesis **2b**, state-owned firms do not appear to use their relative economic bargaining power at provincial level to lobby for protecting their markets and keeping foreign investors out.

Other variables show that the size of the province in terms of *population* affects the count of investors, and is thus an important control variable. But in large provinces, FDI has a relatively lesser role in the economy (equation 1). The educational level in the province has the predicted positive effect, though this is not significant when considering the relative role of FDI. The *transport* infrastructure and the *GDP growth* are significant in equation 3, similar to results by Zhou *et al.* (2002). Yet in equation 2 they are not significant, which indicates that the largest recipient provinces, i.e. the outliers, may not excel by these criteria.

Overall, we interpret the regressions results as support for our hypothesis **2**, i.e. foreign investors prefer to locate where provincial institutions are favorable. However, this effect does not apply to state-ownership of firms in the ways that we had predicted.

6. Empirical analysis: Mode Choice of FDI

6.1. Methods of Analysis

We analyze the third hypothesis with a Logit regression model using the survey data complemented with province level data (Tables 5 and 6). The dependent variable is a binary variable taking the value 1 for Greenfield entry and 0 for joint ventures. Acquisition entries are excluded from this analysis, as there are only 3 of them in our survey.

As independent variables we include the same province level variables as in the location analysis. However, due to the high correlation of some of these variables within this dataset, we can only include subsets at any time. Further hypotheses are tested based on the year of establishment and market orientation, which is measured as percentage of sales in the domestic market in the first year of operations. Firm level control variables are two dummy variables measuring respectively if the investing firm had prior investment experience in Vietnam and whether it pursues a focused single business strategy. Source country control variables are the psychic distance between Vietnam and the source country, based on a Kogut-Singh (1988) index, and the volume of FDI flows from the source country as measure of international business experience shared in the business community of the source country. We also include industry growth (at 3-level ISIC) and a set of six industry dummies.

*** Table 5 (Logit model) and 6 (correlations) approximately here

6.2. Results of the Analysis

Overall, the regression analysis generates statistically significant equations, with high chi-square statistics and high proportions of correctly classified observations (Table 5). Hypothesis **3a** on the impact of pro-active industrial policy receives strong support, as our proxy, the size of *industrial zones* in the province, is significant at 5% or 10% level in all equations. Hence, investors locating in provinces that offer real estate and favorable investment conditions are more likely to choose Greenfield investment.

On the other hand, provinces with strong presence of firms in *state-ownership* are more likely to receive JV investment, as predicted in hypothesis **3b**. In the fourth equation we test whether this significance may be caused by the correlation of state-ownership with provincial *GDP growth*. Replacing the state-ownership variable with the *GDP growth* variable however leads to a substantial loss in the O^2 and Nagelkerke R^2 statistics, yet the effect of GDP growth is not significant. Hence this effect arises directly from the role of state-owned firms, and not indirectly via GDP growth. Thus, investors in areas where incumbents control access to crucial resources or can lobby local governments, find it preferable to work with the local firms in establishing their foreign investment operation. Hence, our province-level institutional variables support our proposition that institutions at this level influence mode strategies.

Among other province-level variables, *transportation* infrastructure has, may be unexpectedly, a negative effect, i.e. in areas with higher transport density foreign investors prefer joint ventures. This might be due to the fact that existing transport infrastructure has been build to serve existing businesses rather than new ones. In these areas existing firms thus have better access to infrastructure, which is one argument to cooperate with them. Other province level variables have been included only one at a time because of the high correlation between them. However, none of them is significant, providing evidence that institutional influences dominate over conventional locational variables.

Our hypothesis **3c** predicted a time trend from JV towards Greenfield entry and is supported by the positive and significant coefficient on the *Year* variable. We also experimented with adding dummies for specific years associated with change, notably 1995 and 1997. However, they did not add explanatory power to the model beyond the time variable. They were significant only when the time trend variable was excluded. This analysis supports the view that the gradual liberalization of various aspects of the legislation affecting FDI, rather than one particular legal change, led to change of investment modes.

Our final hypothesis **3d** suggested that export promotion policies facilitate Greenfield investment in the export-oriented sector. This too is confirmed with very high levels of significance of the coefficient on *market-orientation*. Hence, also our project specific variables affected by institutions and institutional change confirm the impact of the institutional framework on investor strategies.

The firm and source country control variables are mostly signed as we would expect, but they are only marginally significant. With Wald-statistics of around 2.7, the levels of significance in different equations are in some cases over the common 10% benchmark, and in others not. The parent strategy dummy is not significant, nor is any of the industry dummies.

Overall, these results show support for our four sub-hypotheses, and in consequence for our overall hypothesis **3** that institutions and institutional change at both provincial and national level affect foreign investor's entry mode choice.

7. Interpretation, with a case study of Dong Nai

The liberalization in 1995 to 1997 created more autonomy for provincial authorities. As our empirical analysis has shown the variation in both investors' preferred locations and their entry mode increased since that time. To explore further how provincial authorities have used their relative autonomy, we have conducted a case study of one of the provinces that attracted most FDI, and a very high share in form of Greenfield: Dongnai.

Dongnai has inherited some industrial infrastructure, having been an industrial production area before 1975 (before reunification of Vietnam, then known as Bienhoa Industrial Zone). Given its relatively well-developed infrastructure and good location (next to HCMC, a commercial center of Vietnam, and with access to various kind of transport etc.), Bienhoa has attracted foreign investors soon after the country opened for FDI. However, the effort of local authorities made the province a prime destination for FDI projects in Vietnam.

By the end of 2001, Dongnai had 330 projects with total registered capital of US$5.1 billion. Among these, 225 projects were in operation, 18 were under construction. Disbursed FDI reached US$2.3 billion, at 45% of registered capital, and employing about 93000 people. With 330 projects, 258 are wholly foreign own enterprises, 70 are Joint ventures, and 2 are foreign investments in form of business cooperation. Taiwanese investors are the largest group with 118 projects (US$ 1.5 billion), followed by Japan with 35 projects (US$ 838 million).

In the early 1990s, realizing potential of industrial zones in attracting FDI, Dongnai has developed master plans for industrial zones within its territory. By the end of 2001, it had completed master plans of 17 industrial zones with total area of 8112 hectars. 10 zones (2725ha) had approval from the Government and occupancy rate reached 55.31%.

Beyond the establishment of industrial zones, the provincial authorities used both formal and informal institutions to establish a favorable business climate. The following aspects were pointed out by businesspersons to one of the authors when conducting interviews in the province:

(1) Authorities interpret formal institutions timely, clearly and consistently, such that foreign investors know the ‘rules of the game’ for their decision. Since laws and regulations issued at central level are often somewhat ambiguous, local authorities have an important role in establishing how rules are to be implemented.

(2) Authorities provide the most favorable terms within the allowed range, for instance for land lease rate, tax rate, etc.

(3) Within their delegated autonomy, the local authorities have created flexible mechanisms to facilitate the process of obtaining an investment license. It is reported that in some cases, the chairman of the Provincial People Committee (effectively, the provincial government) accompanied investors in person to support investors’ investment plan in front of higher authorities. Such commitment of local authorities is highly appreciated by investors.

(4) First try, report later: In some incidences where the formal regulations proved to be complicated without any significant gain, local authorities simplified them and apply simplified regulation first. Only later, they reported to higher level of authorities for amendments in formal institutions.

(5) The authorities provided support to FDI enterprises in their operation after they have got investment license. This is very valuable to investors given complicated regulations on import, export, labor recruitment, construction, land lease, etc.

(6) Last not least, the infrastructure has been developed in line with needs of foreign investors, including transport, electricity, water supply, and human capital.

The relative attraction of Dongnai as investment location can be attributed to a combination of the above mechanisms. In recent years, other provinces follow Dongnai’s practices, and this has created a new wave of effective decentralization in other parts of the country. Yet, Dongnai has created a first-mover advantage and is becoming the core of a foreign investment cluster.

This case study supports our hypotheses on the importance of local institutions for foreign investors. Beyond this, it provides indications of a broader range of both formal and informal institutions that ought to be considered for future research.

8. Conclusion and Directions for future Research

We have introduced two innovations to the study of entry strategy analysis in the international business literature. Firstly, we argue that different aspects of entry strategies are interdependent, and thus ought to be considered in context. The sequence of decisions may vary among investors, as they vary in the entry strategy issues that they prioritize, while other decisions are taken such as to fit the decision on the primary decision. Our data permit two interpretations: Some investors may have specific locational preferences, and then decide on their mode (as implicit e.g. in Luo 2001b). Other investors may decide whether to form a JV or not, and if not choose an optimal site for their Greenfield project. We believe that latter is more common as evidenced for example by investors bargaining with different authorities for most favorable conditions.

This leads us to our second contribution, the impact of institutions on sub-national level affecting foreign investment strategies. We have provided first empirical evidence that province level institutions such as the industrial ownership structure and FDI policy affect not only the volume but also the mode of foreign investment.

Every single country study raises the issue of generalizability of the findings. We have conducted case research (author, 2002) and interviews with expatriate managers in China, in which they pointed to the policies and attitudes of the local government as an important factor influencing their investment decisions. Hence we believe that this issue is highly relevant in China, as well as other administratively decentralized countries. Hence, it merits further systematic analysis, testing the propositions presented in this paper in other contexts.

Future research ought to provide deeper analysis of the phenomena outlined in this study:

- *Entry Strategies as a multi-dimensional phenomenon:* We have argued that timing, location and mode choice are interdependent aspects of entry strategy, rather than separate *ceteris paribus* decisions. Future research ought to incorporate the multiple dimensions of entry strategy, and account for endogeneity when analyzing any particular one of them.
- *Sub-national institutions and foreign investment:* National and local institutions of a host economy, including political institutions, simultaneously affect foreign investment. Future research ought to develop more sophisticated measures of political and other institutions at multiple levels of society. This study pointed for instance to industrial zones as a phenomenon that has yet to be addressed by business scholars.

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Disguised references:

Author (2002): a case study by one of the authors of this paper.

Author et al. (2002): a different paper from the same research project with overlapping co-authors.

Co-author et al. (2003): a study of the Vietnamese business environment, with overlapping co-authors.

Tables

Table 1: Population and Sample

	Population		Sample	
Home country	Obs	Proportion	Obs	Proportion
Europe	314	12.8%	23	13.5%
North America	141	5.7%	7	4.1%
ASEAN	375	15.3%	25	14.6%
Hong Kong	169	6.9%	10	5.8%
Japan	310	12.6%	27	15.8%
Korea	255	10.4%	26	15.2%
Taiwan	626	25.5%	44	25.7%
Other	264	10.7%	9	5.3%
Total	2454	100.0%	171	100.0%

Figure 2: Categorization of FDI in Vietnam

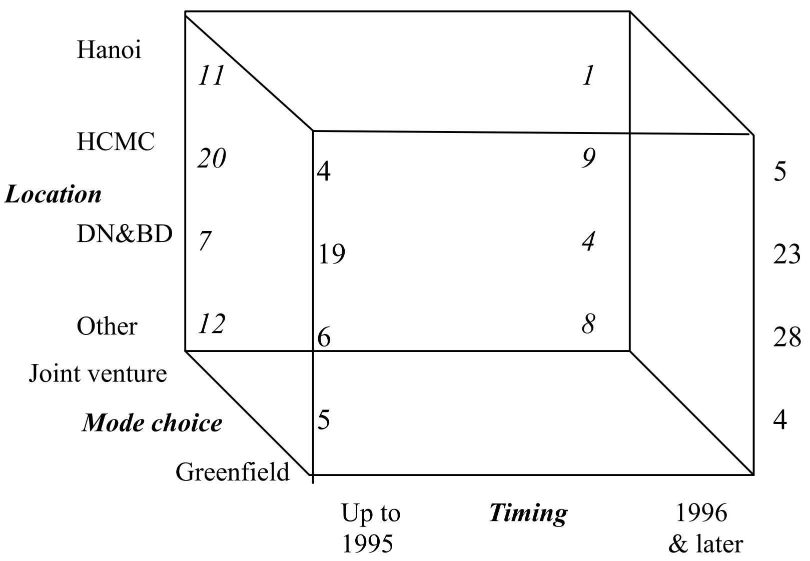

Table 2: O^2 tests for categories in Figure 2

For 2x2 or 2x4 matrices

Variable kept constant	Category	Observations	O^2	Degrees of freedom
Timing	Up to 1995	84	3,33	3
	1996 and later	82	13,39****	3
Mode	Greenfield	94	8,28**	3
	JV	72	3,81	3
Location	Hanoi	21	5,62**	1
	HCMC	71	3,90**	1
	DN & BD	45	8,56****	1
	Other	29	0,05	1

Notes: DN&BD = Dong Nai and Binh Duong. Note: * = 10%, ** = 5%, *** = 1%, **** = 0.05%.

Table 3: Determinants of FDI Location
Province-level data; OLS Regression Model

	Foreign share in output, in %	t	FDI count	t	Log (FDI count)	t
Model	1		2		3	
(Constant)	2,290E-02	,354	-54,833	-1,498	,334	1,508
Population	-8,569E-06***	-,339	6,740E-02****	4,720	2,188E-04**	2,534
Transport	,274	2,712	-18,017	-,316	,946***	2,741
Education	4,225E-02	1,020	71,641****	3,059	,376***	2,653
State-ownership	-,145	-1,621	-53,130	-1,053	-,263	-,860
GDP growth	1,296E-03****	6,605	3,907E-02	,352	1,431E-03**	2,134
Industrial Park size	1,887E-04****	4,812	,161****	7,281	5,942E-04****	4,435
N (provinces)	61		61		61	
F	16.0		28.9		15.9	
R^2	67.9%		76,3%		63.8%	

Note: * = 10%, ** = 5%, *** = 1%, **** = 0.05%

Table 4: Correlations of the Variables used in Table 3

		1	2	3	4	5	6	7	8	9
1	Foreign share	1,000								
2	FDI count	,325	1,000							
3	Log (FDI count)	,633	,652	1,000						
4	Population	,098	,631	,467	1,000					
5	Transport	,304	,222	,406	,075	1,000				
6	Education	,196	,511	,461	,367	,080	1,000			
7	State-own	-,033	,135	,115	,122	,072	,299	1,000		
8	GDP growth	,550	,028	,144	-,126	-,174	-,002	-,031	1,000	
9	Industrial Park s.	,579	,753	,683	,354	,363	,301	,172	,075	1,000

Table 5: Entry Mode Choice

FDI Survey Data; Logistic Regression with dependent variable: Greenfield = 1, joint-venture = 0.

Model	1		2		3		4	
	B	Wald	B	Wald	B	Wald	B	Wald
Industrial Park size	,001**	6,480	,001*	3,422	,001**	6,521	,001	3,566*
State-ownership	-3,853****	7,800	-4,596****	8,765	-4,362****	8,324	--	--
Transport	-3,064*	2,943	-5,222**	3,847	-3,677*	3,427	-1,194	,626
GDP Growth	--	--	--	--	--	--	,002	,125
Population	--	--	,000	1,788	--	--	--	--
Education 2	--		--	--	,000	1,105	--	--
Year	,230*	5,909	,241**	6,041	,224**	5,395	,271****	8,798
Market orientation	-,022****	11,503	-,023****	11,294	-,023****	11,392	-,017****	8,453
Psychic distance	-,384+	2,555	-,430*	2,993	-,393+	2,636	-,383+	2,664
FDI flows	,000*	2,750	,000*	2,801	,000+	2,631	,000	2,284
Parent Strategy	,406	,727	,362	,551	,439	,828	,365	,633
Newcomer	-,982+	2,647	-1,097*	3,219	-,918	2,271	-,837	2,137
Industry growth	,085*	3,200	,081*	2,934	,078+	2,680	,089*	3,769
ISIC1_2	-1,710	1,679	-1,746	1,732	-1,660	1,564	-1,862	2,014
ISIC5	-1,288	,729	-1,254	,719	-1,313	,753	-1,152	,681
ISIC35	-,080	,009	-,018	,000	-,026	,001	-,389	,222
ISIC36_8	,936	1,329	,900	1,222	,875	1,165	,142	,039
ISIC831	-,350	,069	-,453	,115	-,556	,171	-1,036	,652
ISIC6_9	,743	,868	,701	,727	,653	,643	,027	,001
Constant	-464,7**	5,994	-483,962**	6,099	-450,0**	5,452	-548,576	9,029
n (projects)	150		150		150		150	
O^2 (df)	73.1 (16)		75.1 (17)		74,3 (17)		63,8 (16)	
Nagelkerke R^2	,518		,528		,524		,465	
Correctly classified	82.0%		81.3%		81.3%		81.3%	

Note: + = 11%, * = 10%, ** = 5%, *** = 1%, **** = 0.05%.

Table 6: Correlations of the Variables used in Table 5

		Mean	SD	-	1	2	3	4	5	6	7	8	9	10
-	Greenfield	,57	,50	1,00										
1	State-ownership	,63	,22	-,28	1,00									
2	Industrial Park s.	1603	722	,22	,05	1,00								
3	Education 2	3372	3177	-,05	,37	,04	1,00							
4	GDP Growth	76,7	44,7	,18	-,54	,21	-,59	1,00						
5	Transport	,36	,18	-,03	-,17	,28	,13	-,23	1,00					
6	Population	302898	179992	,05	,29	,41	,68	-,67	,39	1,00				
7	Year	1995,9	2,7	,34	-,29	,07	-,12	,27	-,08	-,12	1,00			
8	Market orientation	49,2	47,0	-,37	,08	-,04	,05	,03	-,07	-,10	-,13	1,00		
9	Psychic distance	1,72	1,27	-,08	,10	-,18	,12	-,17	-,05	,06	-,03	,05	1,00	
10	FDI flows	17449	22469	-,09	,07	-,12	,11	-,13	,05	,04	-,15	,21	,66	1,00
11	Parent Strategy	,43	,50	,27	-,13	,10	-,16	,21	-,11	-,07	,30	-,21	-,11	-,17
12	Newcomer	1,18	,39	-,15	-,02	-,15	-,08	-,02	-,03	-,03	,00	,06	-,06	-,07
13	Industry growth	112,8	7,0	,34	-,14	,12	-,00	,10	,01	,05	,08	-,24	-,01	-,07
14	ISIC1_2	,02	,16	-,11	,02	-,00	-,03	-,02	,02	,03	-,12	-,08	-,08	,01
15	ISIC5	,02	,14	-,07	-,05	,09	-,07	,09	-,02	-,03	,04	,06	-,08	-,09
16	ISIC35	,15	,36	,07	-,07	,14	-,06	,12	,05	-,03	,03	,10	,03	,07
17	ISIC36_8	,21	,41	,03	,19	-,06	,03	-,01	-,24	-,02	-,05	,13	,03	-,02
18	ISIC831	,02	,25	-,25	,13	-,01	,20	-,10	,06	,05	-,17	,23	-,13	,00
19	ISIC6_9	,17	,38	-,17	,15	-,00	,15	-,20	,18	,13	-,06	,29	,14	,16

		11	12	13	14	15	16	17	18	19
12	Newcomer	-,12	1,00							
13	Industry growth	,09	-,07	1,00						
14	ISIC1_2	,03	-,08	-,08	1,00					
15	ISIC5	-,03	-,07	-,12	-,02	1,00				
16	ISIC35	-,11	-,10	,39	-,07	-,06	1,00			
17	ISIC36_8	-,05	,14	,24	-,09	-,07	-,22	1,00		
18	ISIC831	-,18	,22	-,28	-,04	-,04	-,11	-,14	1,00	
19	ISIC6_9	-,04	-,12	-,40	-,08	-,07	-,20	-,24	-,12	1,00

Level of significance (two-tailed): 5% for correlations larger than 0.16; 1% for correlations larger than 0.21; n = 150.

Appendix: Variables Measurements and Data Sources

Variable	Definition	Source
Foreign share	Ratio of output of FDI firms over total output in the province 1999	Statistical Handbook of Vietnam, 2000
FDI count	Number of FDI projects licensed, 1999	
Log (FDI count)	Log of the above	
Greenfield	Dummy: 1 = Greenfield, 0 = joint-ventures, acquisitions omitted from the analysis.	FDI Survey
Population	Average population, 1999	Statistical Handbook of Vietnam, 2000
Transport	Volume of passenger traffic of local transport, (mill pers km), divided by population.	
Education	University teachers per 1000 inhabitants	
State-ownership	Ratio of output by state-firms over output of domestic firms	
GDP growth	GDP growth from1995 to 1999	
Industrial Park size	Square meters of industrial real estate summed over all industrial zones in the province.	List of industrial zones in Vietnam 1999.
Year	Year of legal establishment	FDI Survey
Market orientation	% of sales into Vietnam (rather than exports)	
Psychic distance	Kogut Singh index calculated based on Hofstede indices for 5 dimensions.	
FDI flows	Average FDI flows from source country 1990-2000	
Parent Strategy	Dummy: 1 = focused single business strategy, 0 = related or unrelated diversification.	
Experience	Dummy: 1 = investor had FDI earlier, 0 = first affiliate in Vietnam.	
Industry growth	Average growth 1990-1999 (HUNG, how exactly did you obtain C26A?)	Statistical Handbook of Vietnam, 2000
Industry dummies	Six Industry dummies	FDI survey

Appendix 2: Additional Data

Figure A1: Recent Studies on entry mode strategies into emerging markets

Studies of Entry Mode Choice

Authors	*Country*	*Choice between*	*Local context variables*
Pan and Tse (JIBS 2000)	China	Non-equity, JV, wholly-owned	3 Location dummies for SEZ, open cities pre 1984, open cities post 1984
Siripaisalpipat & Hoshino (J&WE, 2000)	Thailand	JV, wholly-owned	./.
Luo (JMS 2001)	China	JV, wholly-owned	Location dummy for special economic zones
Tse, Pan & Au (JIBS 1997)	China	Contractual, JV, wholly-owned	3 pt scale for location (SEZ, open city, other); 3 pt scale for level of govt. [6]
Meyer (JIBS 2001)	Eastern Europe	Export, contracts, JV, wholly-owned	EBRD Transition Index for institution building

Studies of Performance as function of Entry Strategy

Authors	*Country*	*Performance measures*	*Strategies considered*	*Local context variables*
Makino and Beamish (APJM 1998)	8 Asian countries	Financial (3 pt), survival	Mode	Ownership restrictions
Pan & Chi (SMJ 1999)	China	Profitability (survey, 7 pt), survival	Timing (year), mode, share of sales in local market	4 location dummies for types of cities, incl. SEZ. Transport infrastructure.
Pan, Chi & Tse (JIBS 1999)	China	Market share, profitability (official statistics)	Timing (relative to first in industry), mode	5 broad regional control dummies
Chen and Hu (IBR 2001)	China	Mention in 'honor roll of outstanding performance'	2 stage analysis: determinants of mode, then fit of predicted and actual mode on performance.	None.

[6] The variable definitions are a bit strange. More seriously it seems that they inverted the scale on the SEZ/open cities in the table of variables, or a negative sign got lost.

Table A2: Mode, Location and Time
With O^2 tests for hypothesis H2.

	Hanoi	Other North	HCMC	Dong Nai	Binh Duong	Other South	Total	O^2 (df)
JV	12	9	29	8	3	11	72	
Greenfield	9	6	42	13	21	3	94	
Total	21	15	71	21	24	14	166	20,108 (5) ****

	1991-92	1993-94	1995-96	1997-98	1999-2000	Total	O^2 (df)
Hanoi	1	5	10	2	3	21	
Other North	3	3	3	3	3	15	
HCMC	10	17	18	8	18	71	
Dong Nai	1	7	5	5	3	21	
Binh Duong		1	4	8	11	24	
Other South	3	1	7	2	1	14	
Total	18	34	47	28	39	166	27,435 (9) ****

	1991-92	1993-94	1995-96	1997-98	1999-2000	Total	O^2 (df)
JV	11	20	25	8	8	72	
Greenfield	7	14	22	20	31	94	
Total	18	34	47	28	39	166	18,251 (4) ****

Note: O^2 (df) is a Pearson Chi-Square test reported with its degrees of freedom, asymptotical significance: **** = 0.1%.

Table A3: Acquisitions in the Vietnamese Sample – on outlier analysis

	1	2	3
Industry	Manufacturing: household products (ISIC 381)	Construction: property development (ISIC 831)	Manufacturing / agriculture: plants and food (ISIC 111)
Parent firm	Korean firm with 700 employees worldwide, high R&D, focused on one industry.	Taiwan, focused on one industry.	Taiwan, focused on one industry.
Market focus (initial year)	Global 80% Vietnam 20%	Regional 100%	Regional 80% Vietnam 20%
Time	**2000**	**2001**	**1998**
Mode	**Acquisition**	**Acquisition**	**Acquisition**
Location	**Binh Duong**	**HCMC**	**HCMC**
Most important resources	Equity, Marketing capabilities, management capabilities	Buildings & real estate, marketing & management capabilities	Marketing & management capabilities, business networks
Employment (latest)	570	7	110
Capital stock, US$ (initial year)	1.16	53	1.8

Notes: All of the three firms have prior experience in Vietnam (C3P1), which does include the possibility that the business was run as JV and then taken over by the foreign investor. The Taiwanese investors are both small and quantitative information on both the parent and the local affiliate is not available.

Comments: Acquisitions appear to be linked to progressive locations in terms of reform, export oriented business, and recent entries by entrants from Asian NICs that would face relatively lower cultural and geographic distance – which would be supportive of the view that in this context acquisitions are favoured by the same determinants as joint ventures.

Moreover, it is remarkable that all three have both marketing and management capabilities among their top three resources. On the other hand, the projects are in quite dissimilar industries, and in consequence their size varies. It might be surprising that all investors appear to be small or medium size businesses (to the extend that we can infer that given vague data).

Appendix 3: Graphs for Presentation