The Moderating Effect of State Ownership in FDI
Ownership Decision of Emerging Economy Firms

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Motivations of study

- Institution-based view is highlighted in the strategy studies in EE context
  (Meyer et al., 2009; Peng et al., 2008; Gao et al., 2009)

However,

- Over-deterministic view?
- Role of organizational self-interests?
- Interact with other strategy determinants?
Influence of state-ownership (SO) on the institutional environment of EE firms is widely recognized.

(Globerman & Shapiro, 2009; He & Lyles, 2008; Yamakawa et al., 2008)

However,

- Theoretical explanation or common sense?
- Main effect or moderating effect?
From the institutional perspective, what is the role of SO in EE firm’s FDI ownership decision?

Why ownership decision?

- Decision complexity
- Irreversibility
- Performance impact
Firms respond to institutional pressure to protect and maximize their self-interests (Olive, 1991):

**Different response:**
- Acquiesce
- Compromise
- Avoid
- Defy
- Manipulate

**Conformity** → **Resistance**

**Self-interests:**
- Cost-benefit optimization
- Risk minimization
Active agency perspective

Institutional variables

FDI ownership decision

(Yiu & Makino, 2002; Chan Makino, 2007)

State-ownership

overseas

legitimacy liability

relational asset

at home

Confirm/Resist
Conceptual framework

State Ownership

H1 H2 H3 H4

Regulative Institution
Normative Institution
Institutional Support
Institutional Pressure

HOME

HOST

FDI Ownership Decision
(binary & linear)
Hypothesis 1

Justification - SO as a legitimacy liability

1) Institutional conformity redresses legitimacy liability at the cost of profit reduction.

2) Institutional conformity is preferred when the context is uncertain.
Justification - SO as a legitimacy liability

1) Ditto: institutional conformity redresses legitimacy liability.

2) Constituent unity (as oppose to multiplicity) leads to high risk of institutional resistance
Justification - SO as a relational asset

1) Resource dependency contributes to the legitimacy of firms as recipients of home country supports.

2) Trust removes uncertainty (risk) and therefore creates confidence.
**Hypothesis 4**

**Justification - SO as a relational asset**

1) Relational assets create channels through which institutional norms are diffused, elaborated, and implanted into cognitive mindsets of decision makers.

2) Resource dependency leads to goal consistency.
Preliminary results

- Context of empirical study: Chinese outward FDI
- Data collection: 138/588 (>20% response rate)
- Models:  binary models (DV: WOS vs. JV)  
  linear models (DV: FDI ownership %)

Supported: H1, H2, H4
Unsupported: H3
Preliminary results

Hypothesis 1

HostReg \[\rightarrow\] FDI ownership

SO

- Low SOP
- High SOP

FDI Ownership (%)

Low HostReg | High HostReg

0 | 10 | 20 | 30 | 40 | 50 | 60 | 70 | 80 | 90 | 100

Graph showing the relationship between HostReg and FDI ownership.
Preliminary results

Hypothesis 2

HostNor → SO → FDI ownership

Graph showing the relationship between HostNor, SO, and FDI ownership. The graph indicates a decrease in FDI ownership with an increase in HostNor, distinguishing between Low SOP and High SOP conditions.
Preliminary results

Hypothesis 4
Thank you!

Comments & Questions