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Research paper

Firm age, marketization, and entry mode choices of emerging economy firms: Evidence from listed firms in China

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ABSTRACT

Prior entry mode studies have not paid close attention to the impact of firm age. This study applies an organizational ecological perspective to address the impact of firm age on international entry mode choices. This study also utilizes the institution-based view to theorize on the interaction effect of firm age and the degree of marketization in a firm's local economy. Using listed firms from China as the study sample, an inverted U-shaped relationship between firm age and the choice of high-equity modes was found, and a higher degree of marketization further reinforced this relationship. Hence, this study contributes to entry mode research by building new theoretical mechanisms and by providing new empirical results, while incorporating marketization.

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1. Introduction

How does firm age influence entry mode choice? This question is helpful to address as researchers have tended to use firm age as a simple proxy for experience (e.g., Desai, 2008) in suggesting that firm age and related variables can influence areas such as firm risk-taking (Chrisman & Patel, 2012; Desai, 2008), firm survival (Carr, Haggard, Hmieleski, & Zahra, 2010), turnaround (Bruton, Ahlstrom, & Wan, 2001), and growth (Ahlstrom, Young, Chan, & Bruton, 2004). Yet research on entry modes (Brouthers & Hennart, 2007; Padmanabhan & Cho, 1999) has seldom examined the impact of firm age even though that research may have examined age in the context of firm experience and related variables.

This question is particularly interesting because firm age and experience are not exactly the same concepts (Baum & Ingram 1998; Desai, 2008), much in the same way human resources and education researchers remind us that the number of years working in a position or discipline is not the same as the years of actual quality-experience (Ur, 1996; Watson, 1991). Firm age and experience differ in their definitions and measures (Brouthers & Hennart, 2007), younger and older firms differ in their experiences and other aspects (Ouimet & Zarutskie, 2014), and different theories have different arguments about the relationship between firm age and experience (Desai, 2008). Therefore, the organizational ecological perspective can be used to address the impact of firm age on entry mode choice.

The liability of newness perspective proposes that younger firms lack resources (Hannan & Freeman, 1984; Stinchcombe, 1965), while older firms may be expected to choose high-equity entry modes that require firms to commit more resources (Hannan & Freeman, 1984; Musteen, Datta, & Herrmann, 2009). But the liability of obsolescence perspective suggests younger firms have learning advantages (Barron, West, & Hannan, 1994; Baum, 1989), and thus it may be also expected that older firms will choose low-equity modes, which enable older firms to rely on partners' knowledge and other resources to overcome their learning disadvantage/inertia.

Since the two perspectives suggest opposite predictions, it is proposed that the competing predictions can be explained by a curvilinear relationship between firm age and entry mode choice. Both the liability of newness and liability of obsolescence perspectives can be applied to firms at the low- to moderate-age stage because both the resource and learning issues are important to their main concerns-the survival and growth of their overseas subsidiaries (Barron et al., 1994; Carr et al., 2010; Hannan & Freeman, 1984); thus older firms at this age stage will prefer high-equity modes because they have increased resource advantages but fewer learning advantages (Barron et al., 1994; Hannan & Freeman, 1984; Musteen et al., 2009). The liability of obsolescence perspective can also be applied to firms at the moderate- to high-

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age stage because the learning issue is more important to their main concern-adaptation; and thus this research predicts older firms at this age stage will prefer low-equity modes because they rely more on partners to compensate for their learning disadvantages (Carr et al., 2010; Musteen et al., 2009; Sørensen & Stuart, 2000).

The joint effect of firm age and degree of marketization on entry mode choice is also interesting because organizations and institutions jointly may influence firm strategy (Peng, Sun, Pinkham, & Chen, 2009), such as strategies of Chinese firms in this study (Wang, Hong, Kafouros, & Wright, 2012). Drawing on institutional theory, past studies (Gao, Murray, Kotabe, & Lu, 2010; Liu, Lu, & Chizema, 2014) suggest the varying marketization processes (in transition from a planned economy to a more market-based economy) in the different provinces of China can influence market competition and indigenous firms' opportunities to access to external resources. Since firm age and degree of marketization are related to the resource and learning/adaptation issues, and since firms at different age-stages may respond differently to their regional marketization, the two factors may jointly influence entry strategies.

Since younger firms at the low- to moderate-age stage have resource disadvantages and learning advantages, a higher degree of marketization of a firm's environment will increase the preference for low-equity modes because that firm may lack initial resources to compete for external resources and must rely more on foreign partners to share costs and accumulate resources (Barron et al., 1994; Hannan & Freeman, 1984; Musteen et al., 2009). And since older firms at the moderate- to high-age stage have adaptation problems (Barron et al., 1994), a higher degree of marketization will increase their preferences for low-equity modes because they should rely more on foreign partners to increase the adaptability of their overseas subsidiaries to host countries and enhance their own adaptability to increased domestic competitions (Barron et al., 1994; Liu et al., 2014; Musteen et al., 2009).

This study thus tests how firm age independently influences and interacts with the degree of marketization to influence ownership mode choices of Chinese listed firms. This study finds a curvilinear relationship between firm age and the choice of high-equity modes, with the degree of marketization moderating this relationship. As such, this study contributes to past research (e.g., Desai, 2008) by enriching researchers' understanding that firm age and experience are different concepts. This study also makes a theoretical contribution (Ahlstrom, Bruton, & Zhao, 2013) by applying the organizational ecological perspective to explain why there is a curvilinear relationship between firm age and entry mode choice. By combining this theory with the institution-based view, the theoretical mechanism by which the degree of marketization moderates this relationship is built. This contributes to theory in that prior entry mode studies generally ignored why the hypothesized relationships exist among firm age, degree of marketization and ownership mode even though the three factors are not new theoretical constructs. This study also makes an empirical contribution by collecting data to test these theoretical relationships together. It suggests that firms at different age stages may choose different or similar strategies and that different institutional forces may also impact firms at different age stages in choosing different or similar strategies but for different reasons; hence, this study also has made some practical contributions by reminding management to notice the characteristics of firms at different age stages and their formal and informal institutional contexts when they make strategic choices (Chrisman & Patel, 2012; McCloskey, 2013; Peng et al., 2009).

2. Theoretical background and hypotheses

2.1. Ownership mode choice

Entry modes differ in several respects (Musteen et al., 2009). First, foreign firms investing overseas would likely commit more resources if they select a higher level of ownership in their overseas investments, but they can also ask joint venture (JV) partners to commit more resources if they instead choose the lower JV mode of ownership (Erramilli & Rao, 1990). Second, choosing a lower level of ownership enables foreign invested firms to reduce investment risks because risk-sharing is largely based on the percentage of ownership possessed by each investor (Musteen et al., 2009). Lower initial resource commitments can reduce sunk costs, increase flexibility and thus reduce risk (Gatignon & Anderson, 1988). Third, choosing a lower level of ownership also enables foreign investors to learn from local partners at a lower cost (Musteen et al., 2009). Local partners with more ownership are encouraged to help foreign investors to understand local culture, accumulate local knowledge and obtain other valuable resources (Ahlstrom, Bruton, & Lui, 2000), which will shorten the time of organizational learning, reduce potential mistakes in experimental learning and thus facilitate resource accumulation and competence building (Musteen et al., 2009; Slangen & van Tulder, 2009).

In sum, low-equity modes require a lower resource commitment, can reduce investment risks and facilitate organizational learning and competence building (Ahlstrom, Levitas, Hitt, Dacin, & Zhu, 2014), while high-equity modes have the opposite characteristics in terms of resource commitment, though learning can vary more (Erramilli & Rao, 1990; Musteen et al., 2009; Slangen & van Tulder, 2009).

2.2. Firm age and experience

Firm age and experience are two different theoretical constructs in spite of their self-evident connection (Baum & Ingram 1998; Desai, 2008). First, older and younger firms differ not only in their experiences. Older firms are more likely to have grown larger and thus generally have more resources at their disposal (Kirchhoff, 1994), of which experience is but one resource. For example, older firms are more likely to have more external networks and stronger legitimacy (Hannan & Freeman, 1984; Ouimet & Zarutskie, 2014).

Second, there are different experiences in entry mode research, such as international experience and mode experience (Padmanabhan & Cho, 1999). There are different measures of experiences in entry mode research, such as the number of years abroad, the number of overseas subsidiaries, and the number of host countries (Barkema & Vermeulen, 1998; Li & Meyer, 2009). Firm age and experiences also differ in their definitions and measures (Desai, 2008).

In addition, because "experience accrues through the repetition of routines" and disruptive events (e.g., work stoppages or accidents) which can "interject discontinuities into an organization's experience over time" (Desai, 2008: 597), some studies, based the organizational learning perspective or knowledge-based view, suggest older firms may not necessarily have more experience if their histories are replete with these interruptions (Desai, 2008; Zellmer-Bruhn 2003). Meanwhile, "organizational experience may be discounted or forgotten over time . . . .If rates of forgetting vary across organizations due to some characteristic other than time, the relationship between experience and age would be decoupled" (Desai, 2008: 597).

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