Journal of Business Research xxx (2016) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

Factors leading to foreign subsidiary ownership: A multi-level perspective☆

Fang-Yi Lo

Department of International Trade, Feng Chia University, 100 Wenhwa Rd., Seatwen, Taichung, Taiwan

ARTICLE INFO

Article history:
Received 1 February 2016
Received in revised form 1 March 2016
Accepted 1 April 2016
Available online xxxx

Keywords:
Foreign subsidiary ownership
fsQCA
Hierarchical Linear Model
Multi-level perspective
Multinational enterprises

ABSTRACT

Entry strategy influences the success and survival of multinational enterprises (MNEs) in foreign market. Because foreign-market entry is a multilevel phenomenon, foreign ownership research could greatly benefit from studies using multilevel modeling and statistical analysis. Therefore, this research discusses these factors at the subsidiary level, the parent company level, and the dyad level between the subsidiary and its parent company. This research helps MNEs clarify the theoretical framework when deciding their ownership percentage in foreign investment. By using Hierarchical Linear Model (HLM) analysis and fsQCA (fuzzy-set Qualitative Comparative Analysis) to simultaneously consider 3-level factors, MNEs may reduce blind search costs, and gain enhanced understanding of various perspectives. The complementariness between the 2 parties, and the number and capabilities of subsidiaries affect the parent company's subsidiary-ownership decision, providing managerial insights for making optimal ownership decisions, and improving foreign investment performance.

1. Introduction

Most studies in the current literature focus on several theories of entry mode research, such as transaction cost, ownership, location and internalization (OLI), culture difference, internalization, institutional theory, and the resource-based view. Various theories hold distinct perspectives and assumptions; therefore, the empirical studies integrate theories to complement diverse lenses (Chiao, Lo, & Yu, 2010). Beyond those existing theories, the purpose of this study incorporates the crucial variables proposed in these theories, embeds the different lenses concept into the model, and examines the methodology regarding the level of analysis. Canabal and White (2008) review empirical studies regarding international entry strategy starting from the 1980s, and call for future research addressing the level of analysis in entry mode studies. Because foreign-market entry is a multi-level phenomenon, entry mode research could greatly benefit from an analysis using multi-level modeling and statistical analysis, and could also contribute to the academic field in international business management. The literature introduces multi-level research design as a valuable tool for empirically testing management related hypotheses (Luo, 2001).

This study addresses the current research gap and focuses on the multi-level perspective. The decision regarding foreign ownership includes several actors: the foreign subsidiary, the parent company that decides how much ownership to have over the subsidiary, and the dyad level that captures the relationships between the foreign subsidiary and the parent company. The structure of this article is as follows: Section 2 reviews the literature on the determinants of ownership strategy, and develops relevant hypotheses building on three levels. Section 3 presents a description of the research methods regarding data, variables, and measurements, and Sections 4 and 5 conclude with the results and contribution of this research.

2. Literature review and hypotheses

This study builds on previous theories and focuses on three levels of factors, including the lower level (i.e., subsidiary level variables), the higher level (i.e., parent company level variables), and the dyad level (i.e., the relationships between the parent company and the subsidiary).

2.1. Subsidiary level (lower level)

The decision regarding foreign subsidiary ownership involves two actors: the parent company and the foreign subsidiary. The foreign subsidiary plays a crucial role. Subsidiaries are a critical source of information and knowledge contributing to MNEs due to the recent globalization trend (Birkinshaw, Hood, & Jonsson, 1998; Birkinshaw & Hood, 2000; Chan, To, & Chu, 2016). The subsidiary in MNEs, subsidiary resources or capabilities, and subsidiary's previous experience influence the ownership decision of the parent company.

H1. : Lower level variables about subsidiary influence the percentage of subsidiary ownership.

International experience indicates a firm's knowledge of a foreign market and foreign activity decisions (Eriksson, Johanson, Majkgard, &

☆ The author thanks the financial support of Ministry of Science and Technology (NSC 102-2410-H-035-043), and Kun Huang Huarng and Feng-Chi Lin, Feng Chia University, for their careful reading and suggestions.
E-mail address: fylo@fcu.edu.tw.

http://dx.doi.org/10.1016/j.jbusres.2016.04.117
0148-2963/

Sharma, 1997; Johanson & Vahlne, 2009) and is advantageous for the firm to assess foreign market information (Delios & Henisz, 2003). Previous studies focus on the international experience of the parent company, but do not emphasize the international experience of the subsidiary, which influences the ownership decision of the parent company. A subsidiary possessing more international experience has a greater ability to understand the complexity of the transnational market. A subsidiary with the ability to overcome international hazards independently and to operate successfully does not require the help of the parent company.

H1a. Internationalization of the subsidiary negatively influences the percentage of subsidiary ownership.

From a resource-based view, a subsidiary in the initial stage requires the help of parent company resources and international operation capabilities, which grants greater ownership to the parent company. Higher levels of ownership also enable the parent company to manage the subsidiary more easily. However, the subsidiary that becomes established and possesses substantial resources and capabilities no longer requires the help of the parent company. The subsidiary lacks the motivation for parent company control and thus lowers parent company ownership. Therefore, the more resources or capabilities the subsidiary owns, the lower the levels of parent company ownership of the subsidiary.

H1b. Resources and capabilities of the subsidiary negatively influence the percentage of subsidiary ownership.

More industry experience provides subsidiaries with a greater understanding of the local network, which helps the subsidiaries to develop new products successfully (Nerkar & Roberts, 2004). In addition, subsidiaries are in less need of cooperating with powerful or experienced venture partners to assess the local market, and are more capable of operating and running their businesses independently. A subsidiary possessing more industry experience has a greater ability to operate independently, lowering the extent of parent company ownership.

H1c. Subsidiary's industrial experiences negatively influence the percentage of subsidiary ownership.

2.2. Parent company level (higher level)

In addition to subsidiary level variables, another crucial actor in this transaction is the higher-level construct, which is the parent company variable. Most previous studies focus on the parent company perspective of the international entry strategy choice (Chiao et al., 2010; Delios & Beamish, 1999), and this article cannot ignore this critical lens. The parent company holds decision power over the subsidiary's international operation.

H2. Higher level variables about parent company influence the percentage of subsidiary ownership.

An in-depth examination decomposes the international experience into two parts: the depth and breadth of internationalization. According to the previous hypothesis, the depth of internationalization enables the parent company to enhance the international experience on certain focal international markets. The parent company successfully transfers its expansion advantages over focal markets to increase subsidiary ownership. However, when the parent company increases the breadth of internationalization, the broad scope of the international market prevents the parent company from transferring its existing advantages to highly differentiated international markets, and thus foreign subsidiary ownership decreases.

H2a. The breadth of internationalization of the parent company negatively influences the percentage of subsidiary ownership.

As to the depth of internationalization, scholars stress that firms accumulate experience over time. Thus, firms with accumulated experience can overcome the foreignness liability, and progress in their export activities to engage in investments that are more complex, such as joint ventures or wholly owned subsidiaries (Eriksson et al., 1997; Johanson & Vahlne, 1977). Through international experience, MNEs develop greater capability to overcome internal uncertainty, supervise overseas operations, and perform appropriate organizational control (Mariotti & Piscitello, 2009). Accumulated international experience also benefits firms in developing organizational capabilities that suit that country, and allows for greater foreign investments in the local market (Johanson & Vahlne, 1977). Empirical research also indicates a positive relationship between international experience and the level of ownership (Delios & Beamish, 1999; Li, 1995). An MNE parent company that possesses accumulated international experience increases its management capabilities through its international operations. MNEs with a lower probability of failure in foreign markets use higher control modes and assume a higher level of ownership.

H2b. The depth of internationalization of the parent company positively influences the percentage of subsidiary ownership.

From the resource-based view, the parent company's resource endowment influences the entry strategy choice. When entering the international market, a parent company with fewer resources tends to search for a joint venture partner to compensate its lack of financial support or management skill. On the contrary, a parent company possessing abundant resources can enter the international market independently, and conduct a wholly-owned foreign subsidiary (Kogut & Singh, 1988; Meyer, 2001). A parent company with greater capabilities has the ability to control the subsidiary, and increase its ownership's degree. Using the transaction cost theory as a base, a parent company that invests more resources in the subsidiary distrusts a joint venture partner, and tends to wholly control the subsidiary.

H2c. The resources and capabilities of a parent company positively influence the percentage of subsidiary ownership.

To check the diverse effects of experience on the level of ownership by a foreign parent, this study examines international and industry experience. Industry experience indicates a firm's advantage in assessing information from industry partners (Delios & Henisz, 2003; Rey-Moreno & Medina-Molina, 2016). According to the resource-based view, each firm possesses unique resources that have the qualities of imperfect imitability and non-substitutability. Industry experience represents industry knowledge, technology transfer, skills, and the learning capabilities that an enterprise possesses. In the competitive environment, firms with more industry experience may benefit by gaining new technology, skills, and creating an enhanced competitive position. Accumulating industry experience clarifies client preferences and allows recognizing market opportunities to lower operational risks. Firms can obtain unique resources by accumulating industry experience to overcome the foreignness liability. A parent company possessing more industry experience increases its ability to control the subsidiary, resulting in increased ownership of the foreign subsidiary.

H2d. The industrial experiences of the parent company positively influence the percentage of subsidiary ownership.

2.3. Relationships between parent company and subsidiary (dyad level)

The model incorporates the dyad level variable, which also constitutes a crucial contribution of this article. The relationship between the parent company and the subsidiary influences the degree of subsidiary ownership.

Please cite this article as: Lo, F.-Y., Factors leading to foreign subsidiary ownership: A multi-level perspective, *Journal of Business Research* (2016), http://dx.doi.org/10.1016/j.jbusres.2016.04.117