

**An Analysis of Entry Mode Strategies and International  
Performance: Learning from Japanese Investment  
Experience in Australia and Europe**

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## **Abstract**

The objective of this study was to develop and test several hypotheses regarding the influence and the reliability of a range of variables related to the entry choice, location and performance of Japanese Foreign Direct Investments (JFDI).

The use of FDI has been expanding dramatically in recent years and has become a critical concern for international business because of its growing strategic importance. Despite their increasing importance, FDIs have often encountered performance problems. Efforts have been made to identify variables associated with FDI entry choice and performance. Ideally the variables may be managed in order to influence the outcomes of foreign subsidiaries.

This study contains on three empirical studies (Chapters 3, 4, and 5).

The first study, *Chapter 3*, focuses on Japanese manufacturers which have established new entities in the European Union in the manufacturing sector. The study concentrated on Multinational Enterprises (MNEs) and the choices they made: whether to take full ownership of their affiliate (establishing a wholly owned Greenfield subsidiary, or making a full acquisition); or share it with another firm (setting up a Greenfield joint venture, or making a partial acquisition). The results of the chapter provide initial support for a model which includes institutional variables, as well as transaction cost variables to predict firms' choices between joint venture or wholly owned subsidiaries in international expansion. The findings also suggest that influences of some host countries may affect the diversification mode choice.

In *Chapter 4*, the objective was to examine how the entry modes of Japanese multinational enterprises (JMNEs) determine the performance of their Australian subsidiaries. The study expected that firms would make choices regarding the FDI strategy in such a way as to make the best possible use of its resources in achieving its FDI goals. Firms had to decide which entry mode, wholly owned or shared ownership, best utilized their resources and was most likely to result in successful performance.

In *Chapter 4*, the performance results of 210 Japanese subsidiaries located in Australia were compared on the basis of ownership-based entry mode. Performance data at the subsidiary level provided strong evidence of poorer performance when the psychic distance between partners was significant. The results suggest that sharing the costs of the FDI with partners from the same country, or even better, from the same group, was a critical factor to improve performance. Intrafirm JVs had the best performance. Among the other four entry types, cross-national DJVs had the second best performance, followed by wholly owned and traditional JVs. Trinational IJVs were the worst performers.

The objective of the last empirical study, discussed in *Chapter 5*, was designed to answer a broad range of questions relating to the nature of Japanese investments in the United Kingdom (UK) and Australia. The study therefore aimed to ascertain whether strategic motives were an important factor in determining the location choices of the investments. The investment behavior of Japanese companies in the UK was compared to the investment pattern in Australia on the basis of the ownership-based entry mode. To identify the global strategy approaches of Japanese MNC's investment strategies in the two countries, 210 subsidiaries in Australia and 491 subsidiaries in the

UK were examined. The results reveal that there are differences in the characteristics and performance of JFDI between the two countries. Japanese FDI in Australia has a lower level of control within a subsidiary, performs better in the tertiary industrial sector, and was initiated by parent firms with the purpose of seeking markets and gaining access to natural resources. In contrast, JFDI in the UK has a higher level of control within a subsidiary, is more profitable in the Secondary industrial sector, and was initiated by parent firms with market-seeking and strategic-seeking purposes.

This study revealed that subsidiaries in Australia, on average, were superior in term of performance than those in the UK.

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## Abbreviations

FDI: Foreign Direct Investment
JFDI: Japanese Foreign Direct Investment
MNC: Multinational Company
MNE: Multinational Enterprise
JMNE: Japanese Multinational Enterprise
JV: Joint Venture
IJV: International Joint Venture
EIJV: Equity International Joint Venture
DJV: Domestic Joint Venture
OLS: Refers to the Eclectic Paradigm
UK: the United Kingdom
EU: European Union
BOP: Balance of Payments
GDP: Gross Domestic Product
GNP: Gross National Product
US\$: United States Dollar

# ***Chapter 1***

## ***General Introduction***

The world has entered into a new stage of worldwide economic activity embracing strategic alliances, global production, and worldwide distribution. To capitalize on this worldwide development and compete on the international arena, many firms have adopted a multinational strategy in order to globalize their operations.

Recently, strategic management research on the multinational corporations (MNCs) has come to emphasize the subsidiary rather than its corporate parent. After all, global competition takes place at the local level. Subsidiaries serve various critical roles within the MNCs and develop own initiatives (Bird and Beechlefl, 1995). Previous research suggests that the capacity of foreign subsidiaries to be entrepreneurial and enhance their competitive position depends on the state of their resources, capabilities (Birkinshaw and Hood, 1998; Tallman, 1992), their business strategies, and their location.

Japanese multinational corporations (MNCs) have aggressively moved into the global business arena once dominated by European and American<sup>1</sup> companies. Japanese foreign direct investment (JFDI) grew phenomenally after the Plaza Accord of

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<sup>1</sup> Among “The Fortune Global 500”, there were 100 Japanese firms, second highest after the US, which had 185. (Pak and Park, 2005)

1985<sup>2</sup>, which caused a steep drop in the value of the dollar against the yen. Today, Japanese MNCs represent a big international presence around the world. (Bird and Beechler, 1995)

Research shows that Japanese firms derive ownership advantages from their size, experience, and technological and marketing superiority. Perhaps having operated in the most-developed and sophisticated home market, many Japanese firms generate unique skills that give them absolute advantages over firms in almost all foreign host locations. (Dunning, 1998)

Although, Japanese foreign subsidiaries are believed to be well managed and that they share common management characteristics because they are Japanese, there is little empirical evidence to support these arguments (Bird and Beechler, 1995). Relatively little is known about Japanese foreign operations and much of what is known come from the popular press. With a few exceptions, the empirical studies that do exist show that the JFDI is seen as culturally deterministic: Japanese companies have instituted specific types of policies and practices both at home and abroad, and that Japanese firms are more inclined to respond in an incremental and reactive fashion to changes in their external environment. Managers are encouraged to apply parent company values and management approach. (Bird and Beechler, 1995)

## **1. Objective of the study**

The objective of this study is to develop and test several hypotheses regarding the influence and the reliability of a range of variables related to the entry choice,

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<sup>2</sup> The Plaza Accord was an agreement signed on September 22, 1985 by the then G5 nations (France, West Germany, Japan, the United States and the United Kingdom). The G5 agreed to devalue the US dollar in relation to the Japanese yen and German Deutsche Mark by intervening in currency markets.

location and performance of Japanese Foreign Direct Investments (JFDI).

The use of FDI has been expanding dramatically in recent years and has become a critical concern for international business because of its growing strategic importance. Despite their increasing importance, FDI's have often encountered performance problems. Efforts have been made to identify variables associated with FDI entry choice and performance. Ideally the variables may be managed in order to influence the outcomes of foreign subsidiaries.

The inability of a firm to build all the needed knowledge and competencies internally forces it to acquire these from outside, influencing its growth strategy. As resources and complementary assets are spread out, the firm has to deal with constraints, crucial when the firm enters into unfamiliar markets and areas of activity. In particular, when deciding the entry mode of foreign markets, a firm has to face transaction costs involving potential opportunistic partners, and costs related to acquiring information about new institutional environments and their workings. The choice of entry mode will have a long lasting effect on the investment's performance. (Andersen, 1997)

According to this view, resorting to co-operative solutions and joint ventures allows firms to reduce costs and uncertainty related to foreign markets. (Gomes-Casseres, 1989; Hennart, 1991)

The literature on foreign direct investment (FDI) has recently analyzed the nature of firms' entry mode choice in a foreign market (Gatignon and Anderson, 1988, Hennart, 1991, Padmanabhan and Cho, 1996). However, most studies have focused on only two types of investments, (1) Wholly Owned and (2) the International JV<sup>3</sup>. Although these structures dominate, this research makes a distinction between these two

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<sup>3</sup> Formed between local and home country firms, where the underlying assumption has been that a JV involves only two-partner firms.

types and “non-conventional” entry mode types. In today’s business environment, opportunities are complex and, in order to take advantage of these opportunities, firms are often required to collaborate with more than one player from the same and/or different countries. (Beamish and Kachra, 2004)

### 1.1 Field of interest and depth of the analysis

Japanese management practices have received considerable attention over the past fifteen years as Westerners have searched for the key to Japan’s economic success. This attention has shifted in the last few years from what the Japanese are doing at home to what they are doing overseas. This attention is due, in part, to the increased level of overseas investment by Japanese firms. (*Bird and Beechler, 1995*)

Japanese foreign direct investment (JFDI) activities have been well researched. Scholars have studied JFDI and its determinants (e.g., firm characteristics, environment) in the United States (Chen and Hennart, 2002; Hennart, 1991; Hennart and Park, 1994), Europe (Brouthers and Brouthers, 2000; Nitsch, et al., 1996), China (Tse, et al., 1997), and East Asia (Delios and Beamish, 1999). One shortcoming of the existing research, however, is that it has not considered alternative target locations. Because of that it has been unable to identify factors that determine JFDI location choices between two regions or between two countries. (Pak and Park, 2005)

Previous research on JFDI location selection has been limited to one target country or region, and only a few studies have considered how Japanese firms make location choices among different regions or countries.

By looking at the Japanese investments in the European Union and Australia,



and by comparing the characteristics of the Japanese investments among European countries in a first stage and between the United Kingdom and Australia in a second stage, this study aims at understanding the strategic motives of the Japanese investment.

Previous studies have extensively examined why MNEs exist and where FDI is likely to take place. The “why” question generally involves the issues of whether a firm possesses proprietary resources or capabilities that can be exploited or internalized across borders under the common ownership. The “where” question generally involves the issues of location. However, a majority of the previous studies have examined the “why” and “where” questions separately (Makino et al., 2002). This study incorporates both aspects into the analysis simultaneously.

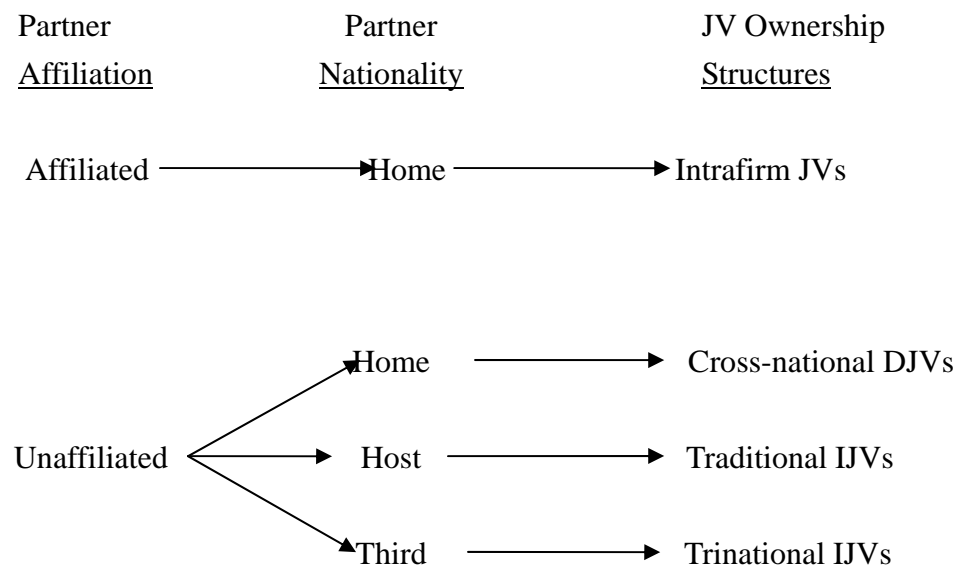
### 1.2 Scientific contribution and position of the study

This study examines the links between firm-specific factors, entry mode, location and performance of Japanese direct investment in the European Union and Australia, thereby adding theoretical contribution to the body of international business research in four areas.

- ✓ The first of these is to develop and test a model of diversification mode choice; how firms decide between joint ventures and wholly own ventures; by focusing on the choice of the MNE’s between taking full ownership of their affiliate, and sharing it with another firm.
- ✓ The second is Japanese-Australian foreign direct investment which had received little attention in the literature. FDIs in The United States, China and Europe have been a frequent subject of research. In recent years, Japan has attracted a

considerable scholarly attention as an outward investing country. In contrast, FDI in Australia has not been as frequent a subject of research.

- ✓ The third contribution is the effect of firm specific factors (e.g., size, product, international experience) and entry mode choice on subsidiary performance, using non-conventional forms of entry mode. Makino and Beamish (1998) introduced four distinct forms of JVs based on the JVs partners' nationality and equity affiliation. JVs that are formed between affiliated home-country based firms (Intrafirm JV); JVs that are formed between unaffiliated home-country based firms (Cross-national DJV); JVs that are formed between home-country based and local firms (Traditional JV); and JVs that are formed between home-country and third-country based firms (Trinational JV). Figure 1.1 visualizes the differences among these four forms of joint venture.



Source: Makino and Beamish (1998)

DJV: Domestic Joint Venture; IJV: International Joint Venture.

**Figure 1.1: Joint Venture Ownership Options from the Home-county Based Firm Perspective**

- ✓ The fourth contribution is to explain the profile and the characteristics of Japanese foreign direct investments and how they differ from a country to another country.

Two countries were chosen for the purpose of analysis; the United Kingdom and Australia. The last part of the study was made in order to apply a comparison between JFDIs in these two countries. Location advantages<sup>4</sup> were partially controlled-for by using only Japanese entries into those two markets (Vega-Cespedes and Hoshino, 2002). This focus on Japanese entries in the UK and Australia has three main advantages:

- ✓ First, because both countries have negligible government and structural barriers to investments, the study avoids the problem of having to control for them.
- ✓ Second, studying parents based in a single country and investing in a similar countries controls for the impact of national cultural differences in the mode of entry (Kogut and Singh, 1988), differences which are very difficult to model.
- ✓ Third is, the important environmental differences between the two countries. This study expects these environmental differences to lead to differences in the strategies and structures of Japanese firms investing in the two countries.

The relationship of the research with other studies in the International Management field is obvious from the above discussion. This study is a part of research that investigates foreign direct investment structures, to identify determinants of their profitability.

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<sup>4</sup> Reflect how attractive the specific country is (e.g. market potential and investment risk (Andersen 1997).

The outcome of this study is expected to clarify the relationship between ownership structure, location, and profitability. The significance of this analysis will be to understand the strategic motives of Japanese investments and how managers make entry mode decisions. It aims also at revealing the most successful type of investment.

## **2. Structure of the study**

This dissertation is organized into six chapters. After presenting the introduction and the objective of the study in Chapter 1, the research follows with Chapter 2 which gives a review of theories and conceptual framework. This study discusses in detail the theoretical insights used in previous researches and identifies their shortcomings. In doing so, a focus is placed especially on transaction cost theory, resource based theory and the eclectic paradigm<sup>5</sup>.

Chapter 3 is the first empirical chapter and discusses the type of entry mode choice by Japanese Multinationals which established new entities in the manufacturing sector in the European Union. The chapter focuses on the choice of the MNE's between taking full ownership of their affiliate (establishing a wholly owned Greenfield subsidiary, or making a full acquisition), and sharing it with another firm (setting up a Greenfield joint venture, or making a partial acquisition).

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<sup>5</sup> The existing literature has not reached to an agreement on which conceptual framework and constructs that should be used to explain a firm's foreign market entry mode. Still new conceptual frameworks and determinants of entry mode are introduced.(Andersen, 1997)

This chapter therefore aims at providing further empirical evidence on the influence of some key variables in explaining the choice between wholly own and joint ventures. The theoretical framework relates to the transaction cost theory of the firm and to the more recent resource-based theory.

This is interesting since it gives explanations for the entry mode choice. It also provides initial support for a model which includes institutional variables, as well as transaction cost variables to predict firms' choices between joint venture and wholly owned subsidiaries in international expansion. This chapter also suggests that a host country's influence may affect the diversification mode choice.

Chapter 4 examines how firm-specific factors and entry mode choice of Japanese multinational enterprises, considering also the non-conventional forms, determine the performance of their Australian subsidiaries. Previous research expected that the firm would make choices regarding the FDI strategy in such a way as to make the best possible use of its resources in achieving its FDI goals. Firms must decide what entry mode best utilizes their resources and is most likely to lead to successful performance. Likewise, the study assumes that investing firms' both possession and motivation are able to exert an influence over the ventures to help ensure that goals and interests are met. Part of this can be accomplished through the entry mode strategy. In this chapter, the performance of Japanese subsidiaries located in Australia is compared on the basis of the ownership-based entry mode of 210 subsidiaries between 1990 and 2000.

In Chapter 5, the main objective is to answer a broad range of questions regarding the nature of Japanese investments in the United Kingdom (UK) and Australia. The study aims to ascertain whether strategic motives (reasons for investment) were important factors in determining the location choices of the investments.

The investment strategy of Japanese companies in the UK was compared to the one in Australia on the basis of the ownership-based entry mode of 210 subsidiaries in Australia and 491 subsidiaries in the UK to try to identify and compare the global strategies of Japanese MNC's in the two countries.

Chapter 6, the last chapter of this thesis, brings together the insights from the empirical chapters. The chapter compares the previous three studies to answer the research questions concerning the relationship between ownership structure, location and profitability. Finally, the study discusses directions for future research on FDI's and International Expansions.

## ***Chapter 2***

# ***Conceptual Frameworks***

### **2.1 Introduction**

Internationalization can be perceived as a part of the ongoing strategy processes of most business firms (Melin, 1992). The main differences between internationalization and other types of strategy processes (or growth strategies) can be found in the following facets: first, the firm transfers products, services or resources across national boundaries. This implies that the firm has to select a country (countries) in which the transactions should be performed. Second, the firm has to select the international exchange transaction modality, that is, a foreign market entry strategy. The two facets – international market selection and choice of entry mode – represent the key strategy decisions regarding a firm's internationalization (Andersen 1997).

In the literature, several theories and conceptual frameworks exist, to explain the influences of different factors that affect the choice of entry and location and how these factors go in hand with different entry modes (Andersen, 1997). The following subsections will give a short overview on the most important theories to explain the choice of entry modes and location.

## 2.2 A review of the theories

### 2.2.1 Transaction Cost Theory

The Transaction Cost Theory is the most popular theory in explaining international mode choice decisions (Hennart and Park, 1993). This theory focuses on individual economic exchanges (Schaefer, 2002). Transaction costs are composed of the costs of finding and negotiating with an appropriate partner, and the costs of monitoring the performance of the partner.

In the transaction cost theory of foreign direct investment (FDI) the essence is the cross border<sup>6</sup> expansion of business. This expansion is based on the ideas that locating facilities abroad are more efficient than exporting to the country from the parent company and that the company finds it desirable to invest in that foreign country (Hennart and Park, 1993). Research shows that transaction costs play a very important role in the finding of an efficient and successful market entry mode (Hennart and Park 1993). Furthermore, they have found that when transaction costs are low, firms tend to rely on the market to deliver required target market benefits. As the costs increase they tend to switch to more hierarchical modes e.g. wholly owned subsidiaries. The core dimensions of these transactions are the asset specificity, the frequency of economic exchange, and uncertainty surrounding the exchange of resources between the focal parties (Andersen, 1997).

The transaction theory has been criticized for the fact that psychic distance<sup>7</sup> influence and institutional backgrounds are absent in the discussion of entry mode decisions. This is mainly due to the difficulties in understanding that social and cultural

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<sup>6</sup> Expansion of business in foreign market.

<sup>7</sup> Psychic distance is a disadvantage related to differences in customs, culture, legal and government system and business practices between two countries.



factors are only a part of the so called transaction atmosphere and that interaction effects between socio-cultural and transaction costs factors can't be determined in this simplified model theory (Schaefer, 2002). It has also been criticized for being unable to explain the evolution of entry modes (Lu, 2002) because it just offers a static view of organizational activities characterized by the absence of adequate social bonds. In addition to these facts recent scholars have begun extending transaction theory by including cultural context and institutional context factors.

### 2.2.2. Resource-based Theory

In contrast to the long-held of business strategy of focusing on the “fit” between the firm and its environment, the Resource-based Theory emphasizes factors internal to the firm<sup>8</sup>. It is argued that acquisition and retention of resources that are rare, non-substitutable and, in combination, difficult to imitate are a source of economic rent and accounts for the heterogeneity of firms in any industry (Reed and DeFillipi 1990; Mahoney and Pandian 1992; Oliver 1997).

According to this view, a company's competitive advantage derives from its ability to assemble and exploit an appropriate combination of resources. Sustainable competitive advantage is achieved by continuously developing existing resources and creating new ones and capabilities in response to rapidly changing market conditions.

According to resource-based theorists like Grant (1991) and Peteraf (1993), firms can achieve sustainable competitive advantage from resources like strategic plans, management skills, tacit knowledge, capital, employment of skilled personnel among others. The assets and resources owned by companies may explain the differences in performance. Resources may be tangible or intangible and are harnessed into strengths

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<sup>8</sup> The advent of resource-based theory in the management literature is a relatively recent phenomenon.

and weaknesses by companies and in so doing lead to competitive advantage (Saffu and Manu, 2004).

### 2.2.3. Psychic distance Factors

Psychic distance factors are important because they help to define profit potential and/or the risks associated with a specific market. They can be defined as different host country economics, legal, political and cultural systems, as well as market attractiveness (Brouthers and Brouthers, 2000). They affect the firm's entry mode choice because firms tend to be selective, preferring to enter more attractive, less risky markets e.g. culturally similar countries with stable economic, social and political conditions.

When a foreign firm acquires a local firm, it inherits an existing staff of employees, with their own routines and business practices. Integrating such employees is difficult, particularly so if there are psychic differences between the two firms (Hennart and Reddy, 1997). These psychic differences may arise because firms come from different industries or countries. A joint venture safeguards the incentives that employees of both firms have to maximize the profits of the joint venture. The management of the joint venture's labor force can therefore be left to the local partner (Hennart and Reddy, 1997). Hence joint ventures may be preferred over greenfield by firms which are inexperienced in managing a foreign labor force, and by firms venturing outside their core industry.

### 2.2.4 Mergers and Acquisition Theory

The "Mergers and Acquisitions" Theory focuses on the advantages of acquisitions. Hennart and Park (Hennart and Park, 1993) pointed out three main

advantages that could influence the entry mode choice. The first advantage refers to market power. In the acquisition of a rival, the foreign investor may reduce competition. The second advantage is a speedy entry of acquisitions, especially in markets with high growth rates this could be a very important advantage compared with entering by greenfield investment, which requires a lot of time to establish the new company in the market. The third advantage is that, if entering by acquisition capacity expansion is prevented, it doesn't add capacity to the market and a fall in prices is prevented.

This could be a very important factor, especially in markets with high scale economies and high concentration. There are also inherent problems by entering a market through acquisition. On the one hand there is a problem of information asymmetric between the seller of the firm and the buyer of the firm. On the other hand there is a problem of integrating a new business unit into the parent company. The acquired unit will have its own business practices which may be difficult to integrate into the parent company.

#### 2.2.5 Eclectic Paradigm (OLI theory)

The eclectic paradigm has been one of the leading frameworks for explaining and examining the international production and foreign direct investment decisions of firms and multinational activity over the past two decades. (Madhok and Phene, 2001)

Dunning (1993, 2000) looks at the international production of MNEs in terms of three constructs, namely, O (ownership), L (location), and I (internalization) advantages. (Pak and Park, 2005)

According to the eclectic paradigm and in order for a direct investment in a foreign country to be beneficial, the following advantages must be present: (1) Product

or company specific advantages, such as a comparative advantage (the ownership or O advantage). (2) Location specific advantages - where the company derives greater benefit through a foreign establishment. (3) Market internalization - meaning it is better for the company to exploit a foreign opportunity itself, rather than through an agreement with a foreign firm or through more arms-length contractual mechanisms like licensing or market mechanisms such as exports. (Madhok and Phene, 2001)

The eclectic framework represents a multi-theoretical approach for studying the choice of entry mode: International trade theory, resource based theory and transaction cost theory are the basic theories used. The eclectic paradigm permits researchers to use new determinants in order to predict entry mode. (Andersen, 1997)

The eclectic framework has been also applied to analyse entry mode for small and medium sized enterprises and in the service sector. (Brouthers et al. 1996)

## **2.3 Modes of Entry**

The following discussion will focus on Equity International Joint Ventures and Greenfield. Advantages and disadvantages will be described and possible surroundings that favor the use of the one or the other will be discussed<sup>9</sup>.

### 2.3.1 Equity International Joint Ventures

Equity International Joint Ventures (EIJV) can be defined as: "... a separate legal organizational entity representing partial holdings of two or more parent firms, in which

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<sup>9</sup> Other entry modes, such as export, licensing, and franchising will not be discussed at this time because of the low relevance.

the headquarter of at least one is located outside the country of operations of the joint venture” (Zeira and Newburry, 1999). Equity International Joint Ventures (JV’s) are a very popular entry mode, especially in the Asia/Pacific area. Despite this popularity, they seem to have poor performance records and high failure rates. Scholars found a less than 50% survival rate (Zeira and Newburry, 1999).

The main idea behind an EIJV is that the transaction costs of entering a foreign market are much lower than those faced when establishing a wholly owned subsidiary. The entering firm is able to benefit from the local partners knowledge of the host country’s competitive conditions, culture, language, political and business systems. The local partner sees a joint venture as an attractive way to profit from the EIJV partner’s specific competitive advantages. It is this complementarity of interest that makes the EIJV appealing especially in markets that are determined by high industry specific market barriers. Another important advantage of EIJV is the possible sharing of costs that may be needed for research and development.

Despite these advantages, EIJV’s do have some serious drawbacks. A firm entering a foreign market, through an EIJV, risks giving control of its technology to his partner. This technology and know-how could be a former competitive advantage, and may arise the risk of opportunistic behavior by a joint venture partner, who does not share this knowledge within the JV and only want to benefit from the other’s technology as a free-rider.

Another disadvantage of EIJV’s could be the different business objectives of the EIJV partners. Agreements on how to operate, fund, and benefit from the venture can be difficult, and some times impossible, to reach.

### 2.3.2 Greenfield Entry

In the hierarchical model of market entry modes, the greenfield entry can be categorized into the high equity based entry modes, because it requires a major resource commitment in the overseas location (Pan and Tse, 2000). That resource commitment usually refers to the set up of a new plant, requiring involvement of capital, human resources and a transfer of the firm's know-how and/or technology. Greenfield entries can be categorized under the term of wholly owned subsidiaries, where the firm owns 100 percent of the stock. Establishing a wholly owned subsidiary can be done in two ways, by acquisition (to acquire an established firm), or by greenfield entry (the setting up of a new venture).

The common goal behind acquisitions and greenfield investments is to combine a firm's specific advantages with other assets available in the foreign country. The difference is that a greenfield entry uses resources of the investor and combines them with assets acquired locally, whereas an acquisition uses primarily assets of local firms and combine them with the investors resources e.g. management capabilities (the level and nature of the firm specific advantages).

What investors want to exploit abroad will determine whether the entry will be greenfield or acquisition. Location specific advantages don't play a significant role, as it is equally important for either an acquisition or greenfield entry to be in the most preferable location (Hennart and Park, 1993). One advantage of a greenfield investment is the transferring of firm-specific advantages to a foreign market, without the risk of losing control over that competence, as is described in the case of Equity International Joint Ventures. This is especially the case when a firm's competitive advantage is based on technological know-how which is one of the core competencies of a firm. Another

inherent advantage of greenfield investments is that they give a firm tight control over operations in different countries, which is necessary in a global strategy.

Establishing a wholly owned greenfield subsidiary is a very costly way of entering a foreign market. Companies must bear the full costs of setting up a new plant, finding suitable employees, costs of learning different government restriction and different law systems.

One additional disadvantage of greenfield investment compared with acquisition is that greenfield investment adds capacity to the entering market. This argument against greenfield investments could be very important in markets with high competition or fed up markets.

Overall greenfield investment can be a very risky market entry mode, as the investors may have to carry the risk of sunk cost alone in a new and uncertain marketplace.

### 2.3.3 Non-conventional forms of entry mode

The international joint venture literature has focused on two parent Joint Ventures (JVs) formed between one foreign and one local firm. But other types of JVs also exist.

In their study, Makino and Beamish (1998) observed that over half of the Japanese IJVs involved more than two partners and that traditional JV, two-partner ventures, made up less than one-third of Japanese IJVs.

Until 1998 when Makino and Beamish defined non-conventional forms of entry mode, only little research explicitly identified and considered JVs that were formed by multiple partners, or JVs that were formed between a foreign firm and a

partner not based in the host country. One of the exceptional studies that examined this problem is Hennart (1988).

Makino and Beamish (1998) identified four types of JVs. (1) traditional IJVs refer to JVs between a foreign partner and a local partner. The two other most common forms of JVs were (2) Intrafirm JVs, where all partners are home country firms affiliated with each other at the corporate level and (3) cross-national JVs, which are IJVs between unrelated, or non affiliated, home country firms. The fourth type of IJVs, which is not as commonly used as the previous three, is the (4) trinational IJV. These are JVs that are formed between home-country and third-country based firms.

Moving from intrafirm to cross-national to traditional IJVs to trinational IJVs, the percentage of partner affiliation decreases and psychic distance increases. (See Figure 1.1 page 18)

Resources in intrafirm IJVs would be more similar than in cross-national or traditional IJVs because of the degree of interconnectedness via cross-shareholdings, vertical integration, cross-staffing, and central financing. One disadvantage, when the degree of affiliation between the parent companies is high, is that the subsidiary will not benefit from different environmental scanning mechanisms, new and different managerial expertise or significantly different ways of thinking. (Beamish and Kachra, 2004)

## **2.4 Foreign Direct Investment and Location selection**

Location has been a key consideration for foreign investment activities (Buckley and Casson, 1996; Dunning, 1998). Besides, foreign investment location



decisions are thought to be influenced by a number of country-specific variables. Market size and growth are widely associated with the mode of investment.

Tariff and non-tariff barriers to trade, input costs and geographic proximity affect the economics of direct investment. Legal, political and economic conditions are considered important factors in investment decisions (Delios and Beamish, 1999; Gomes-Casseres, 1989) and the host country's similarity (e.g. language, business practices, and legal and government system) to the investing firm's home country has also been hypothesized to affect location decision. (Kobrin, 1979)

The literature suggests also that both asset-exploitation and asset-seeking aspects of investments are predictive of the firms' location choice of investment. (Makino, et al. 2002)

Lately, international locations have gained more strategic importance as sources of new learning, of knowledge creation, and of new or enhanced competitiveness (Dunning, 1998; Makino, et al. 2002; Pak and Park, 2005).

DeCarolis and Deeds (1999) tested the importance of location as a spatial clustering of innovative activities and knowledge networks, and have shown that location is a significant predictor of firm performance.

When an innovation community is centered in a geographic area, the concentration of successful firms, qualified suppliers, skilled workers, informed investors, idea generators and shared resource arrangements will be partly responsible for an increasing proportion of industry innovations (Pouder and John, 1996). The emerging networks within the innovation community also help in creating an environment of creativity and idea exchange (Saxenian, 1990).

Therefore, a firm located in a geographic area with high concentration of similar firms, specialized suppliers, such as research universities, and a large pool of trained labor will have access to knowledge flows which may be unavailable or difficult to attain by similar firms which are geographically isolated. It is likely that firms located in geographic hot spots have more and frequent access to knowledge flows which will be accumulated internally and generate superior performance. (DeCarolis and Deeds, 1999)

## **Chapter 3**

# ***The Choice between Joint Ventures and Wholly Owned Subsidiaries : the Case of Japanese Direct Investment in the European Union<sup>10</sup>.***

### **3.1 INTRODUCTION**

The new rules of the world economy, made by globalization, which started with the lowering and dismantling of customs barriers, have made necessary a continuous lookup for the new markets. Globalization and internationalization have become keywords in daily business newspapers. But gaining access to markets is not that easy. It is necessary to overcome geographic, economic and even political difficulties and barriers. However, the enterprises have at their disposal the means and tools for

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10 Ben Youssef, K. and Hoshino, Y. “*The Choice between Joint Ventures and Wholly owned Subsidiaries: the Case of Japanese Direct Investment in Europe*”, Japanese Journal of Administrative Science, Vol.17 No.1 2003, 31-46

An earlier version of this chapter was presented as a research paper at:

- ✓ 6th Annual Convention, Japanese Association of Administrative Science, 2003, Tokyo (Japan). “*The Choice between Joint Ventures and Wholly owned Subsidiaries: the Case of Japanese Direct Investment in Europe*”, Ben Youssef, K. and Hoshino, Y.
- ✓ German Institute for Japanese Studies, DIJ Business & Economics Study Group, June 2005, Tokyo (Japan). “*The Choice between Joint Ventures and Wholly owned Subsidiaries: the Case of Japanese Direct Investment in Europe*”, Ben Youssef, K. and Hoshino, Y.

overcoming those barriers, which allow them the study of markets, penetration into, and establishment of their position in, the markets.

Europe has often been depicted in the popular and business press as homogeneous entity, especially since the late 1980s. Managers were exhorted to pay attention to EU, or to go to Europe, without regard for where their business would be located once behind the EU barrier. Infact Cultural, political regulatory and other differences exist among Western European countries. Indeed, many writers have described these differences. However, much of the material about country differences (international differences) in Western Europe has been neither normative nor based on single-subject case studies (Nitsch, et al., 1996).

Factors such as the launch of the Euro, greater investment in Eastern Europe<sup>11</sup> and the increasing pace of globalization caused European FDI flows to grow in 1998<sup>12</sup>. Eurostat figures indicate that EU FDI outflows grew 150%, while inflows grew 160%. (JETRO white paper 2000)

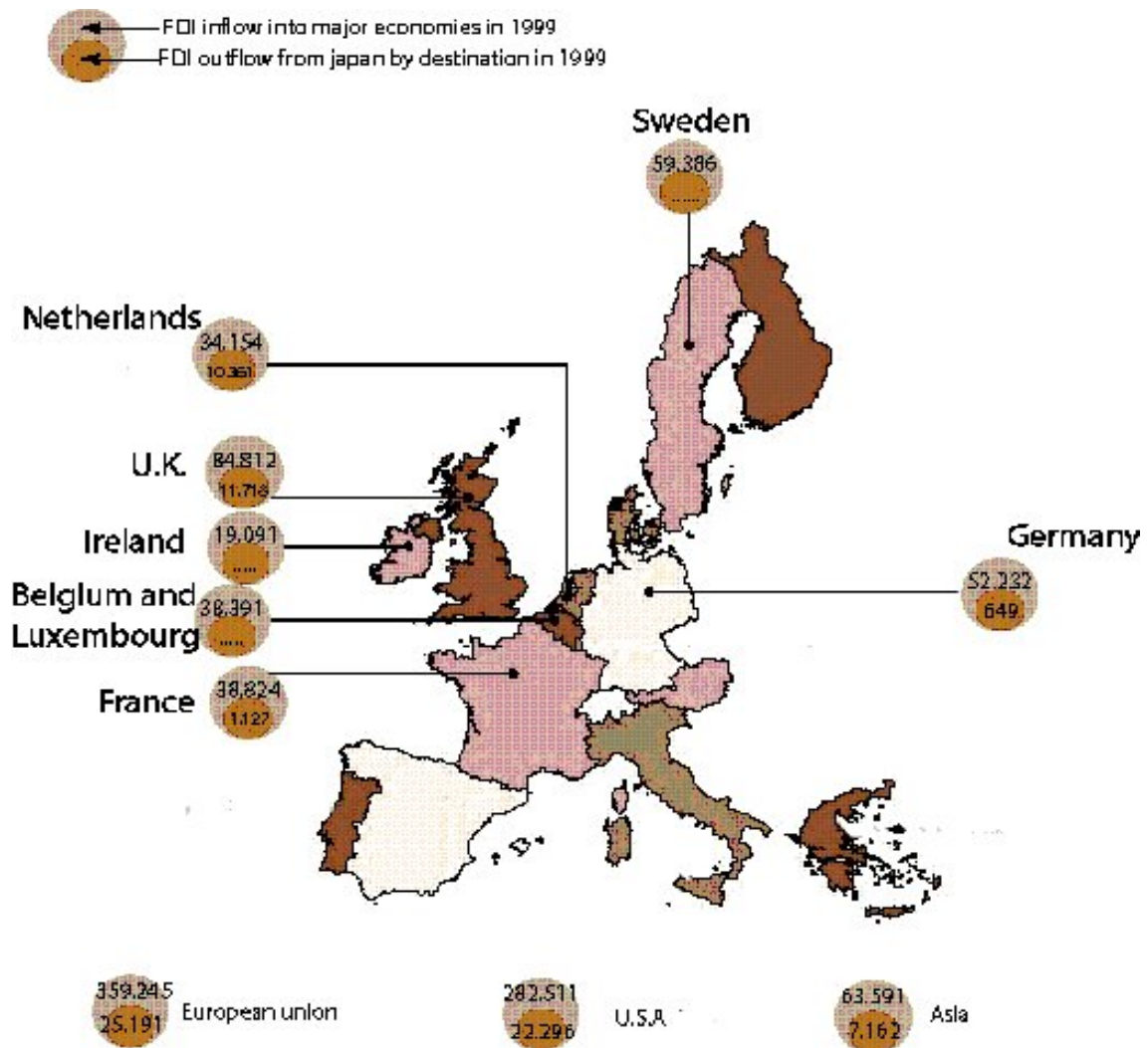
Measured on a BOP<sup>13</sup> basis, net EU FDI inflow increased 50% from the previous year to 304.3 billion euros, and net FDI outflow increased 47% to 479.4 billion euros, both record highs in 1999. This was due principally to the increase in the number and scale of mergers and acquisitions within the EU, which was in turn accelerated by the launch of the single currency in January 1999 and the fact that firms could begin to raise the financing for such deals through large-scale bond issues on the Eurobond market. (JETRO white paper 2001)

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<sup>11</sup> Regions to which companies are considering exporting their products, about 30% of Japanese companies in the European Union pointed out Eastern Europe. (JETRO, 1996)

<sup>12</sup> Business conditions regarded as important are “good-quality labor” and access to the European market. (JETRO, 1996)

<sup>13</sup> Balance of Payments



**Figure 3.1 Japanese Foreign Direct Investment by Destination.**

There was also a rise in the number of companies transferring or consolidating their financial operations in subsidiaries in the Netherlands or Belgium to take advantage of these countries' more attractive tax regimes. (JETRO white paper 2001)

International strategies of companies are based on the decision of how to enter the foreign market: the entry mode. The impact of such decision may not be

immediately and directly apparent, but it is crucial for the survival of the company in the foreign market place. The definition of Internalization includes both entry mode strategy and international market selection. Entry mode has been defined as an institutional arrangement for organizing and conducting international business transactions, such as contractual transfers, joint ventures, and wholly owned operations. The choice of the correct entry mode for particular foreign market is one of the most critical decisions for firms in international marketing. (Andersen, 1997)

This research develops and tests a model of entry mode choice (how firms decide between joint ventures and wholly own ventures) using a sample of Japanese firms entering the European Union.

## **3.2 THEORETICAL BACKGROUND**

Firms interested in foreign markets face a difficult decision with regards to the choice of an entry mode. Several factors that determine the choice of a specific foreign market entry mode have been identified in the previous literature. These factors can be classified into three categories: ownership advantages of a firm (Dunning, 1988; Brouthers et al., 1996), location advantages of a market (Agarwal and Ramaswami, 1992; Dunning 1993), and internalization advantages of integrating transactions (Williamson, 1981; Dunning, 1988).

Joint ventures and strategic alliances have developed quite rapidly in a number of sectors from the end of the 1970s. They have generally been interpreted as the types of transactions undertaken by two or more partners and which are intermediary between

spot transactions on a market and mergers or acquisitions. They may actually be regarded as organizational forms that under specific circumstances allow the firm to economize on the costs associated with the use of both arm's length transactions based on market mechanisms and the administrative mechanisms typical of hierarchies (Mutinelli and Piscitello, 1998). The literature on foreign direct investment (FDI) has also recently analyzed the nature of the firm's entry mode choice in a foreign market, particularly the choice between a joint venture and a wholly owned subsidiary.

Early research emphasized the relationship between a firm's characteristics, environment, and selected entry mode (Woodcock et al., 1994). In order to consider foreign expansion via FDI, a firm must possess resources and skills of sufficient superiority that allow it to compete against a host country's firms in their own markets and against other MNEs (Konopaske et al., 2002). To compete in these markets, a firm must utilize its resources and skills such as size, profitability, productivity, and the ability to identify opportunity (Dunning, 1980).

Several studies have addressed the relationship between a firm's resource base and its chosen entry mode (Woodcock et al., 1994; Konopaske et al., 2002). Recent research indicates that the resource base that a firm has developed over time affects the entry mode selection (Hennart and Park, 1993). Resources, such as financial and physical assets, serve as tools for the firm to implement its strategy. A firm can draw on its reserve of international experience (Agarwal and Ramaswami, 1992), host country experience (Gomes-Casseres, 1989; Hennart, 1991; Padmanabhan and Cho, 1996), and entry mode experience (Delios and Beamish, 1999).

The literature identifies several theories and conceptual frameworks that should explain the influences of different factors on the choice of entry and how these factors

go hand in hand with different entry modes (Andersen, 1997).

While scholars have developed and tested several models of entry mode selection (deciding whether to choose a wholly owned venture, joint venture, or license agreement), no well-developed theory of diversification mode choice (using an acquisition or greenfield start-up) exists (Barkema and Vermeulen 1998; Hennart and Park, 1993). Previous diversification mode studies “have examined the influence of a variety of factors, but have offered no coherent theoretical framework for exploratory variables.”

Following the recommendations of previous work (Aganval and Ramaswami, 1990; Mutinelli and Piscitello, 1998; Brouthers and Brouthers, 2000; Konopaske et al., 2002), this study took a step toward developing a more comprehensive theory by investigating the influence of institutional, and transaction cost advantages on international diversification mode choice.

It also made a distinction between the types of entry mode. Whether entry is effected through an acquisition or through a greenfield subsidiary, an independent variable was modeled by a dummy variable, equal to one, if entry is made through an acquisition and zero if it is a greenfield entry.

The inability of the firm to build internally all the needed knowledge and competencies forces it to acquire these from outside, influencing their growth strategy. As resources and complementary assets are spread out, the firm has to deal with constraints, which become more crucial when the firm enters into unfamiliar markets and areas of activity. In particular, when deciding about the entry mode on foreign markets, the firm has to face transaction costs concerning factors and potential partners,



their opportunism, and costs related to the need for acquiring information about new institutional environments and their workings.

According to this view, the resort to co-operative solutions and joint ventures allows firms to reduce costs and uncertainty related to foreign markets.

### **3.3 HYPOTHESIS DEVELOPMENT**

Previous researchers (Hennart and Park, 1993; Thomas and Gross, 2001; Tadesse and Ryan, 2004) have focused on exchange rate that provides incentives for firms of one nation to invest in another. They included variables that reflect the strength of exchange rate between the origin and host country currencies. The assumption is that firms do consider the impact of exchange rate on their entry mode choice.

Oster (1990) points out that a key difference between entry through whole ownership and entry through joint venture is that the complementary inputs needed for entry are purchased in different markets. Hence the choice between these two entry modes hinges on the relative cost of buying complementary inputs. The relative cost of the investment depends on the value of the US Dollar<sup>14</sup>. (Bayoumi and Lipworth, 1997)

***Hypothesis 1:*** *The stronger the value of the Yen relative to the US Dollar, the more likely a firm to prefer wholly own.*

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<sup>14</sup> With the appreciation of the yen, about 40% of the Japanese subsidiaries in Europe increased imports of parts and materials from Asia, and more than 90% of companies reduced imports from Japan. (JETRO, 1996)

Gomes-Casseres (1989) and Delios and Beamish (1999) have used industry type to study the tendency of MNEs to form joint ventures. Whether an industry is resource-intensive has been considered one of the key determinants of foreign entry modes, since foreign investors are likely to seek access to local raw materials (Dunning, 1998; Hennart, 1991). Japanese investment in Europe grew significantly in the late 1980s, but was heavily concentrated in a few industries (Nitsch et al., 1996). A number of studies have argued that, in natural resource industries, local firms are benefiting from differential rents, while the policy of government tends to prohibit the full ownership by foreign companies. Comes-Casseres (1989), Hennart (1991) and Hennart and Larimo (1998) found that foreign firms have higher propensity to joint ventures in resource-intensive industries.

***Hypothesis 2:*** *The Japanese investors are more likely to choose joint ventures when their subsidiary is in the resource intensive industries.*

International product diversification strategy is generally thought to affect the mode of foreign market entry (Gomes-Casseres, 1989; Hennart, 1991; Padmanabhan and Cho, 1996; Delios and Beamish, 1999). When the parent company is diversifying through a FDI, uncertainty and information costs may be higher, so less-control ownership modes may be preferred. Foreign investors are also more likely to enter a foreign market through joint ventures or strategic alliances if they are diversifying into a different industry, as they need tacit industry-specific knowledge, which is subject to relevant transaction costs and is also costly to acquire on the market (Hennart and Park, 1993). When a firm follows a strategy of product diversification it may not have the necessary resources, knowledge and experience to pursue the new venture. Under such

circumstances necessary resources and product-specific knowledge may be obtained through joint venture (Dunning, 1993; Hennart and Park, 1993).

**Hypothesis 3:** *Wholly owned subsidiaries will be preferred to joint ventures when the Japanese shareholder is in the same industry as the planned subsidiary.*

Firms with large sizes usually possess vital assets (e.g. intensive investments in advanced technology, product differentiation and extensive advertising) and oligopolistic advantages, as their dominant positions have been attributed to their intensive investments in advanced technology, product differentiation and extensive advertising. (Siripaisalpipat and Hoshino, 2000)

It is reasonable that a larger investing firm is more likely to process the necessary financial resources for full ownership of its foreign operations and is better positioned for a (more resource-demanding) full ownership structure than a smaller firm (Padmanabhan and Cho, 1996). However, Kogut and Singh (1988) and Hennart (1991) found that the size of the parent company was not significantly related to full ownership structure for foreign firms investing in the U.S.

**Hypothesis 4:** *When the size of the parent company is large, wholly owned subsidiaries will be preferred to joint ventures<sup>15</sup>.*

Relative investment size (size of the new investment relative to the size of the firm) has been found to be an important determinant of entry mode (Hennart and Park, 1993; Kogut and Singh, 1988). The higher level of capital intensity of a foreign expansion demands greater resource commitment. Such a commitment not only strains

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<sup>15</sup> The size is measured with the total assets of the Japanese parent firm (Siripaisalpipat and Hoshino, 1999)

a company's capital and human resources, but also increases business and political risks (Hennart, 1988). Firms attempting to create a large greenfield venture (relative to the firm's size) may experience a shortage of financial and/or managerial resources (Hennart and Park, 1993). Joint venture provides new managerial and financial resources, easing the financial and managerial burden on the parent firm. The higher costs suggest that as the investment size increases, multinationals are more likely to choose a shared control mode such as a joint venture<sup>16</sup>. Kogut and Singh (1988) found that the size of the subsidiary was positively and significantly related to share ownership of foreign affiliates.

***Hypothesis 5:*** *The greater the size of the subsidiary relative to that of the Japanese mother company, the higher the probability of an entry through joint venture.*

As a firm expands its operation overseas, it learns more about how to cope with different environments in terms of economic, political and legal systems, as well as the Psychic distances (Cho, 1985; Gatignon and Anderson, 1987, Agarwal and Ramaswami, 1992). These learning skills can be applied to new foreign investment opportunities. When firms make international investments, specific knowledge of the host country is gained together with more general knowledge of conducting international operations (Barkema et al., 1996). As argued by the internationalization theorists (Lecraw, 1984; Makino and Delios, 1996; Padmanabhan and Cho, 1996), firms with more experience in a host country tend to develop organizational capabilities suited to that country, and are able to make greater commitments to foreign investments (Johanson and Vahlne, 1977).

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<sup>16</sup> The size of the subsidiary may change in the future. In this research the interest is in the "planned size" of the investment which is the size of the subsidiary at the time of the entry

More experienced Japanese firms have well established domestic organizational routines which they expect to transfer abroad. Wholly own entry mode make it easier for firms to transfer such routines. Less experienced Japanese firms lacking such routines may prefer joint ventures. (Brouthers and Brouthers, 2000)

**Hypothesis 6:** *The more the Japanese firm's multinational experience, the greater its propensity to enter through wholly own.*

A problem arises when foreign employers' expectations clash with local employees' expectations. With the enormous increase in cross-border corporate integration over the recent years, this problem is looming increasingly large (Segalla, 2001). A parent's human resources endowment may also affect its mode of expansion (Luo, 1999; Konopaske et al., 2002). When a foreign firm acquires a local firm, it inherits an existing staff of employees, with their own routines and culture. Integrating such employees is difficult, particularly so if there are cultural differences between the two firms (Hennart and Reddy, 1997). The management of the joint venture's labor force can therefore be left to the local partner (Hennart and Reddy, 1997). Hence joint ventures may be preferred over greenfield by firms, which are inexperienced in managing a foreign labor force, and by firms venturing outside their core industry.

**Hypothesis 7:** *Whole ownership will be preferred to joint venture when the subsidiary's manager is Japanese.*

Choice of any entry strategy is driven by the structure of revenues and costs, which is in turn determined by a firm's environment. Market size is one of these environmental factors (Chen and Hu, 2002). Although there can be a tendency to minimize the importance of the country choice, once the decision to locate in Europe

has been made, the country choice is not without consequences. The size of a foreign market influences entry mode decisions (Buckley and Casson, 1996). The large market potential justifies the high control modes because of the benefits of economies of scale and long-term market presence. In their study Agarwal and Ramaswami (1992) and Agarwal (1994) found empirically that high control mode is more likely when the size of host country market increases.

**Hypothesis 8:** *Wholly own will be preferred to joint venture when the Japanese company invests in a country with a high GDP.*

## **3.4 METHODOLOGY**

### **3.4.1 Scope of the study**

This empirical study focuses on Japanese manufacturing, which established new entities in the manufacturing sector<sup>17</sup> in the European Union. This study is focusing on the choice of the MNE's between taking full ownership of their affiliate (establishing a wholly owned greenfield subsidiary, or making a full acquisition), and sharing it with another firm (setting up a greenfield joint venture, or making a partial acquisition)

### **3.4.2 Sample**

The data used for this study was obtained from Toyo Keizai Inc., Japanese overseas investment, listed by country, (Toyo Keizai Inc., 1992-2001). The classification of the entry mode is based on the percentage of share ownership of major shareholders, reported in this database. The data for the independent variables are

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<sup>17</sup> Slightly less than 80% of Japanese companies in Europe are engaged in manufacturing and sales, close to 40% of the companies have established R&D divisions. (JETRO, 1996)

derived from Nikkei Kaisha Nenkan, Toyo Keizai Inc., Japanese overseas investment, listed by firms and Toyo Keizai Inc., the Japan Company Handbook, when unavailable from the former source. In this study, only operations in the European Union countries were established between 1990 and 2000 examined. The final sample size was 213 subsidiaries (fully owned and shared subsidiaries). This reduction in the sample did not result in a significant bias, since the proportion of joint ventures in the sample (39.4%) is comparable to that of the population as a whole (41.2%).

The database consists of 213 manufacturing affiliates; of which 84 (39.4%) were partially owned and 129 (60.6%) were wholly owned. Figure 3.2 presents the distribution, in this sample, of the entry mode over time. (See ANNEX to chapter 3, p.143).

### 3.4.3 Dependent Variable

The proxy considered for the dependent variable is the equity share held by the Japanese parent company at the moment of entry (entry mode). In order to maintain homogeneity with almost all the other empirical studies in the literature (Gomes-Casseres 1989; Hennart, 1991; Padmanabhan and Cho, 1996), the dependent variable was built considering the threshold between full control and joint venture as 95% ownership of the capital of the foreign unit.

One alternative would be the actual level of ownership. However, this is inadequate since it treats the intervals as constant over the range of ownership level. Implications of the interval between, for example 60% foreign ownership and 40% would be different from that between 30% and 10% (Padmanabhan and Cho, 1996). In addition, in order to confirm the stability of the findings, and to investigate further the influence of the host countries on the choice of the entry mode, this research also

considers the threshold between full control and joint venture as 80% ownership of the capital of the foreign unit, and after that as 51% ownership of the capital of the foreign unit. Similarly, the threshold between FDI and financial investment is assumed as 10%. Thus, the dependent variable is equal to unity in the case of a joint venture subsidiary (i.e., the equity owned by the Japanese investor is at least 10% and less than 95% of the foreign unit's at the moment of entry), and zero in the case of a wholly owned subsidiary (i.e., if the Japanese investor owned more than 95% of the foreign unit's equity at the moment of entry). Shared equity affiliates include both joint ventured greenfield and partial acquisition, while wholly owned affiliates are both wholly owned greenfield's and full acquisitions.

Because of the nature of the dependent variable, a binomial logistic model is used, in which the regression coefficients estimate the impact of independent variables on the probability that the affiliate will be partially owned.

#### 3.4.4 Independent Variables

The regression coefficients estimate the impact of the explanatory variables on the probability that the foreign unit is a joint venture by the Japanese parent company. A positive coefficient means that the corresponding independent variable tends to increase the probability that a joint venture arrangement mode will be chosen, while a negative coefficient means that the independent variable tends to increase the probability of wholly owned entry. Concerning the explanatory effects, the following set of independent variables was used.

YENPOWER is a variable indicating if the Yen, in the year of entry was strong or weak compared to the US Dollar. It is a dummy variable equal to one, if the exchange



rate of the Yen over the US Dollar is lower than 110 yen in the year before the entry. Aliber (1970) suggests that MNEs must possess advantages to overcome the incurring of additional costs associated with their FDIs and those MNEs of nations with stronger currencies have such advantages over companies of weak currency nations.

According to previous studies (Tadesse and Ryan, 2004), from conception to securing the real estate, firms approximately take 12 to 24 months to select an overseas investment site. Thus, this study follows Tadesse and Ryan (2004) in their assumptions in selecting the length of time that firms consider in forming their expectation about the impact of exchange rate on their location choice. This study takes 12 months as the length of time that firms take in making their expectations. The assumption here is that firms make one-year static expectation of the exchange rate behavior prior to their entry decisions. That is they take the exchange rate behavior one year prior to their entry as the appropriate estimate of the future. (Tadesse and Ryan, 2004)

The exchange rate was obtained from the Toyo Keizai Inc., Japanese overseas investment, listed by country, published in the year before the corresponding Japanese entry.

Following previous studies (Hennart and Reddy, 1993; Balakrishnan and Koza, 1993) the product similarity variable is a dummy variable equal to one, if one of the products manufactured by the subsidiary was also produced by the parent, and zero otherwise (COMMON). This variable has been empirically shown to be related to the entry choice. (Gomes-Casseres, 1989; Hennart, 1991; Padmanabhan and Cho, 1996; Delios and Beamish, 1999)

The size of subsidiaries has been related to the entry mode (Kogut and Singh, 1988; Hill et al., 1990; Woodcock et al., 1994), and recent studies have used capitalization and sales as proxies for size (Agarwal and Ramaswami, 1992; Kogut and Singh, 1988). Natural logarithm<sup>18</sup> of the parent's global sales is used to provide more comparable scale units as other variables used in the model (LOGSALMO). This variable captures the parent size at entry. The data was obtained from the issue of Toyo Keizai Inc., a complete listing by firms; and the Nikkei Kaisha Nenkan database published in the year before the corresponding Japanese entry. This variable is a proxy of the parent company's size and a transaction-specific advantages variable.

Capital intensity in a foreign invested enterprise is reflected in the total investment committed to a project (RELASIZE). Relative investment size (size of the new investment relative to the size of the firm) has been found to be an important determinant of the choice of the entry mode (Hennart and Park, 1993; Kogut and Singh, 1988). It is the relative ratio of the size (investment) of the subsidiary to the size (sales) of the parent company.

Following previous research (Gomes-Casseres, 1989; Hennart, 1991; Hu and Chen, 1996; Luo, 1995, Delios and Beamish, 1999) a dummy variable equal to one, if the subsidiary is in a resource-based industry and zero otherwise (INDUSTRY) is used as a resource-based industry variable.

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<sup>18</sup> Since the distribution of monetary values usually does not follow the normal distribution curve, the use of the natural logarithm of the quantity is applied, instead of the monetary value itself, to smooth the values and to bring them closer to the normal distribution.

Parent's experience in the host country is important for the subsidiary's operation in that the management learns from prior experience about how to deal with market, employees, business counterparts, or host country government (Siripaisalpipat and Hoshino, 2000). Export ratio of the parent firm has been also used to measure foreign market knowledge and multinational experience (Tallman and Li, 1996; Penner-Hahn, 1998, Delios and Beamish, 1999). The international experience variables are the export ratio<sup>19</sup> of the parent company (EXPRATIO) and a dummy variable, equal to one if the parent company had an experience in the same country (SAMECOUN). The greater these variables are, the lower the need to enter into a joint venture. They should therefore be negatively signed.

A psychic distance variable is also used. It is a dummy variable indicating whether the subsidiary's manager is Japanese or not (MANAGER). Because nationality, customs, and business practices are good determinants of many common managerial problems related to human resource management, the variables MANAGER was added. The variable MANAGER is equal to one when the manager is Japanese and zero otherwise. (Hennart and Park, 1993)

Size of a foreign market influences entry mode decisions (Buckley & Casson, 1996). Choice of any entry strategy is driven by the structure of revenues and costs, which is in turn determined by a firm's environment. Market size is one of these environmental factors (Chen and Hu, 2002). The three largest economies in the European Union (United Kingdom, France and Germany) account for more than

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<sup>19</sup> Export revenue/sales

63.38% per cent of the subsidiaries in the sample. Because of the large number of firms available for study in each of these countries<sup>20</sup>, more detailed observations can be made about them. FRANCE, GERMANY, UNITED KINGDOM and OTHERS<sup>21</sup> are dummy variables used to capture the effect of these countries on the entry mode. They are the country variables (Host country risk or restrictive ness)

The relationship between the ownership structure and the establishment mode (acquisition or new venture) for a foreign affiliate is not well established (Padmanabhan and Cho, 1996). Though they are generally regarded as being independent of each other (Hennart and Park, 1993), Kogut and Singh (1988) argue that the degree of ownership (joint venture) is usually determined in conjunction with the mode of establishment. However, empirical evidence supporting this view is sparse. Whether entry is effected through an acquisition or through a greenfield subsidiary, an independent variable, (ENTRYMOD) will be modeled by a dummy variable, equal to one if entry is made through an acquisition and zero if it is a greenfield entry. It is the control variable. This variable is expected to be insignificant. If the coefficient of this independent variable is significant, this suggests that Japanese subsidiaries created through acquisitions tend to be shared-equity ventures.

Table 3.1 lists all the independent variables entered into the model.

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<sup>20</sup> UK 79 cases, Germany 31 cases, France 25 cases and Others 78 cases.

<sup>21</sup> The other countries are: Austria, Belgium, Denmark, Finland, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden and the Netherlands.

**Table 3.1 Variable descriptions and expected signs**

Variable	Definition	Hypothesis	Expected relation to level of ownership
LOGSALMO	Sales of the Parent company	Hyp 4	-
EXPRATIO	Export revenue/sales	Hyp 6	-
MANAGER	Nationality of the subsidiary's' manager	Hyp 7	-
INDUSTRY	Entry into resource-based industry	Hyp2	+
SAMECON	Experience in the host country	Hyp 6	-
RELASIZE	Relative size: subsidiary/parent	Hyp 5	+
YENPOWER	The power of the yen against the dollar (dummy Variable)	Hyp 1	-
ENTRYMOD	Type of ownership		Insignificant
COMMON	Sameness of products between parent and subsidiary	Hyp 3	-
France		Hyp 8	-
Germany		Hyp 8	-
UK		Hyp 8	-
Rest		Hyp 8	-

### 3.5 RESULTS

**Table 3.2 Pearson correlation**

Variables	Coefficients								
	dependent Variable	Logsalmo	Yenpower	Relasize	Samecoun	Manager	Expratio	Industry	Common
<b>Logsalmo</b>	0.102								
<b>Yenpower</b>	0.003	0.039							
<b>Relasize</b>	-0.033	-0.201***	-0.048						
<b>Samecoun</b>	0.142**	0.434***	-0.006	-0.043					
<b>Manager</b>	-0.181**	0.033	-0.005	0.059	-0.052				
<b>Expratio</b>	-0.007	0.344***	0.044	-0.037	0.181***	-0.069			
<b>Industry</b>	0.025	-0.099	-0.047	0.043	-0.070	-0.075	0.045		
<b>Common</b>	0.474***	0.091	-0.004	-0.092	0.060	-0.036	0.047	-0.001	
<b>Entrymod</b>	-0.049	0.154**	-0.014	-0.067	0.017	0.048	0.138**	-0.069	-0.069

*Descriptive statistics*

	LOGSALMO	YENPOWER	RELASIZE	SAMECOUN	MANAGER	EXPRATIO	INDUSTRY	COMMON	ENTRYMOD
<b>N</b>	213	213	213	213	213	213	213	213	213
<b>Mean</b>	3.2780	.45	.05252	.41	.64	.2503	.92	.65	.14
<b>Std. Deviation</b>	.73179	.499	.15370	.494	.480	.18904	.272	.479	.349
<b>Range</b>	3.8610	1	1.9523	1	1	.8652	1	1	1

\*\*\* Correlation is Significant at the 1 percent level. \*\* Correlation is Significant at the 5 percent level. Actual number of cases: 213; LOGSALMO: Sales of the parent company; YENPOWER: The power of the yen against the US dollar; RELASIZE: Relative size: subsidiary/parent; SAMECOUN: Experience in the host country; MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese= 0); EXPRATIO: Export revenue/sales; INDUSTRY: Entry into resource-based industry (Resource-based = 1; otherwise = 0); COMMON: Sameness of products between parent and subsidiary; ENTRYMOD: Type of ownership.

<b>Collinearity Statistics (Table 3.2 continued)</b>		
<b>Variables</b>	<b>Tolerance</b>	<b>VIF</b>
<b>LOGSALMO</b>	.680	1.470
<b>YENPOWER</b>	.993	1.007
<b>RELASIZE</b>	.941	1.063
<b>SAMECOUN</b>	.800	1.250
<b>MANAGER</b>	.972	1.029
<b>EXPRATIO</b>	.853	1.172
<b>INDUSTRY</b>	.968	1.033
<b>COMMON</b>	.971	1.030
<b>ENTRYMOD</b>	.948	1.055

Table 3.2 gives statistics and the correlation matrix for the variables used in the study. The matrix of the independent variables suggests little collinearity. Almost all correlations are low. In addition Tolerance and Variance inflation factor (VIF) are examined to determine the existence of multicollinearity (Chatterjee et al., 1995). All of the scores show that multicollinearity should not be a problem with these data.

To investigate the influence of the host countries on the choice of the entry mode, three degrees of ownership of the Japanese parent company in the foreign investment and two models were specified. For each degree, the test results are discussed for each of the two models. Ultimately, the result will be compared across the three degrees, and differences between them and their potential causes will be discussed.

This study considered the thresholds between full control and joint venture using 95%, 80% and 51% ownership of the capital of the foreign unit. They are called:

*“Cut off 95%” when the Japanese parent has a stake of 95% or more in the European subsidiary.*

*“Cut off 80%” when the Japanese parent has a stake of 80% or more in the European subsidiary.*

*“Cut off 51%” when the Japanese parent has a stake of 51% or more in the European subsidiary.*

An original model (basic model) will be first studied and then will be compared with others. The original model is the model 1 when the cut off = 95% (the degree of ownership of the Japanese parent company in the foreign investment is 95% or more). The results of the binomial logistic regression are presented in Tables 3.3 to 3.5.

In the binomial logistic regression analysis, two separate models were evaluated: Model (1) illustrates the regression of the full sample according to the transaction cost and the resource-based theories adding the product differentiation variable, the control and country variables. Model (2) illustrates the regression only for Japanese FDI in the 3 more advanced economies in Europe (UK, France and Germany) according to the transaction cost theory. (Reduced sample)

Overall, the data supported the model, although some specific hypotheses were not supported. The tables show the values of the coefficients and the level of significance. In addition, the number of cases correctly predicted by the model, the respective percentage of the total and the values of the likelihood function are reported.

The tables report the results for the full and the reduced sample. The models have a high overall explanatory power, for example, in the original model (model 1), an 82.110\*\*\* (df=12).



In the original model (model 1 at 95% cutoff) and with the exception of LOGSALMO and SAMECOUN, significant variables (LOGSALMO, MANAGER, SAMECOUN, COMMON and GERMANY) have the predicted signs. The coefficient of SAMECOUN, the measure of the experience, is positive and significant at 0.05 levels. This means that having already an investing experience in the same country will raise the probability of choice of joint ventures.

LOGSALMO is significant at 0.10, but entering with a positive sign, suggesting that Japanese investors tend to prefer joint ventures to wholly own when the size of the parent company is large. This contradicts hypothesis 4 which conjectured that when the size of the parent company is big, wholly own will be preferred to joint venture.

As predicted by Hypothesis 7, the coefficient of MANAGER, the measure of endowment in human resources, is negative and significant. Whole ownership is therefore desired when the top manager of the subsidiary is Japanese.

The coefficients of EXPRATIO, RELASIZE and YENPOWER are insignificant, suggesting that investor's experience of the foreign markets, the size of the subsidiary and the stronger the value of the yen relative to the US Dollar does not increase the probability that the Japanese entrant will opt for a joint venture, as suggested in hypothesis 1, 6, and 5.

Regarding the size, and the GDP of host country markets, and for the country dummy, only GERMANY was significant. It has the sign predicted by the hypothesis 8, suggesting that a high control mode is more likely when the Japanese invest in Germany.

The product differentiation variable COMMON is significant and has the predicted negative sign. This means that when the parent also produced one of the products manufactured by the subsidiary, the Japanese investors will prefer wholly own entry mode. As predicted in hypothesis 3, wholly own will be preferred to joint venture when the Japanese investor is in the same industry as the planned subsidiary. Adding the variable INDUSTRY changed nothing from the previous result, and the coefficient of INDUSTRY is insignificant. This means that the type of industry does not effect the decision of the entry mode of the Japanese investors in Europe.

The variable ENTRYMOD is not significant. This variable was expected to be insignificant. If the coefficient of this independent variable was significant, this suggests that Japanese subsidiaries created through acquisitions tend to be shared-equity ventures. But it is not the case in this sample.

**Table 3.3 The results of the binomial logistic regression: joint venture versus wholly owned subsidiary (cut off 95%)**

Variables	Model 1	Model 2
Intercept	-1.480 (.771)	-1.832 (.547)
YENPOWER	-0.102 (.987)	-0.308 (.405)
LOGSALMO	0.988 (.084)*	0.612 (.056)*
EXPRATIO	-1.083 (.546)	-1.475 (.167)
MANAGER	-1.129 (.023)**	-0.772 (.086)*
SAMECOUN	1.287 (.033)**	0.617 (.126)
RELASIZE	2.670 (.240)	2.324 (.617)
France	-0.269 (.364)	
Germany	-2.602 (.074)*	
UK	-0.434 (.576)	
INDUSTRY	0.183(.946)	
COMMON	-0.567(.088)*	
ENTRYMOD	0.984 (.170)	
<b>Number of Cases</b>	<b>213</b>	<b>135</b>
<b>Proportion of correct classifications</b>	<b>76.5</b>	<b>71.7</b>
<b>Model Chi-squared</b>	<b>82.110***</b> df=12	<b>17.177**</b> df=6

Note: Significance in parentheses. \*\*\* Correlation is Significant at the 1 percent level. \*\* Correlation is Significant at the 5 percent level.\* Correlation is Significant at the 10 percent level. LOGSALMO: Sales of the parent company; YENPOWER: The power of the yen against the dollar; RELASIZE: Relative size: subsidiary/parent; SAMECOUN: Experience in the host country; MANAGER: Nationality of the subsidiary's' manager (Japanese= 1; not Japanese= 0); EXPRATIO: Export revenue/sales; INDUSTRY: Entry into resource-based industry (Resource-based = 1; otherwise = 0); COMMON: Sameness of products between parent and subsidiary; ENTRYMOD: Type of ownership; France, Germany and UK: dummy variables used to capture the effect of these countries on the entry mode.

Changes appear in the reduced sample (model 2). The variable SAMECOUN is no longer significant and the variable MANAGER is weakly significant at 0.10 level. This can mean that when the Japanese decide to enter the three more advanced countries in Europe, their experience in these countries and the nationality of the manager has no effect on their choice of the entry mode.

Following a method used by some other authors (Padmanabhan and Cho, 1996; Mansour 2003), this study developed, for this sample, different degrees of ownership of the Japanese parent company in the foreign investment. The study regressed the dependent variable on the full set of exogenous variables where the cut off is also 80% and 51%. Generally speaking, the coefficients of the explanatory variables maintain their sign. Nevertheless, some interesting aspects do emerge.

COMMON and GERMANY lose their previous strong significance and are no longer significant at 51%. (COMMON is not significant at 80% too). MANAGER remains significant in both 80% and 51%, and it gains a strong significance at 0.01 levels.

The independent variable LOGSALMO remains positively significant at 0.10 levels.

The significance of RELASIZE rises in both models at 80% and 51%. The positive significance of RELASIZE suggests that the Japanese prefer joint ventures to wholly ownership when the size of the subsidiary is relatively large. This confirms hypothesis 5, which predicted that with higher costs and as the investment size increases, multinationals are more likely to choose shared control modes such as joint ventures.

In particular, it is worth noticing the non-significance of SAMECOUN, the measure of the experience, in both 80% and 51%. Having experience in the same country does not increase the probability that the Japanese entrant will opt for a joint venture, as conjectured in hypothesis 6. It probably depends on the foreign investments undertaken by the Japanese firms that have a very high control on the European subsidiary (more than 95%).

**Table 3.4 The results of the binomial logistic regression: joint venture versus wholly owned subsidiary (cut off 80%)**

Variables	Model 1	Model 2
Intercept	-1.546 (.381)	-1.141 (.263)
YENPOWER	-0.162 (.633)	-0.438 (.271)
LOGSALMO	0.667 (.064)*	0.169 (.179)
EXPRATIO	0.988 (.844)	-0.188 (.935)
MANAGER	-1.008 (.004)***	-1.528 (.083)*
SAMECOUN	0.282 (.474)	0.337 (.481)
RELASIZE	2.596 (.054)*	2.082 (.357)
France	0.725 (.166)	
Germany	-0.906 (.072)*	
UK	-0.630 (.376)	
INDUSTRY	0.207 (.753)	
COMMON	-0.619 (.175)	
ENTRYMOD	-1.098 (.109)	
<b>Number of cases</b>	<b>213</b>	<b>135</b>
<b>Proportion of correct classifications</b>	<b>76.5%</b>	<b>71.9%</b>
<b>Model Chi-squared</b>	<b>42.137*** df=12</b>	<b>10.745* df=6</b>

Note: Significance in parentheses: \*\*\* Correlation is Significant at the 1 percent level.

\*\* Correlation is Significant at the 5 percent level.

\* Correlation is Significant at the 10 percent level.

LOGSALMO: Sales of the parent company.

YENPOWER: The power of the yen against the dollar.

RELASIZE: Relative size: subsidiary/parent.

SAMECOUN: Experience in the host country.

MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese= 0).

EXPRATIO: Export revenue/sales.

INDUSTRY: Entry into resource-based industry (Resource-based = 1; otherwise = 0).

COMMON: Sameness of products between parent and subsidiary.

ENTRYMOD: Type of ownership.

France, Germany and UK: dummy variables used to capture the effect of these countries on the entry mode.

**Table 3.5 The results of the binomial logistic regression: joint venture versus wholly owned subsidiary (cut off 51%)**

Variables	Model 1	Model 2
Intercept	-1.418 (.249)	-1.724 (.213)
YENPOWER	-0.385 (.286)	-0.793 (.175)
LOGSALMO	0.616 (.061)*	0.332 (.229)
EXPRATIO	0.183 (.854)	-0.574 (.628)
MANAGER	-1.561 (.000)***	-0.950 (.029)**
SAMECOUN	0.412 (.329)	0.441 (.343)
RELASIZE	3.658 (.081)*	2.325 (.246)
France	0.554 (.313)	
Germany	-0.512 (.391)	
UK	-0.215 (.627)	
INDUSTRY	-0.337 (.645)	
COMMON	-0.602 (.113)	
ENTRYMOD	-1.246 (.121)	
<b>Number of cases</b>	<b>213</b>	<b>135</b>
<b>Proportion of correct classifications</b>	<b>78.4%</b>	<b>77.0%</b>
<b>Model Chi-squared</b>	<b>41.860*** df=12</b>	<b>11.375*** df=6</b>

Note: Significance in parentheses: \*\*\* Correlation is Significant at the 1 percent level.

\*\* Correlation is Significant at the 5 percent level.

\* Correlation is Significant at the 10 percent level.

LOGSALMO: Sales of the parent company.

YENPOWER: The power of the yen against the dollar.

RELASIZE: Relative size: subsidiary/parent.

SAMECOUN: Experience in the host country.

MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese= 0).

EXPRATIO: Export revenue/sales.

INDUSTRY: Entry into resource-based industry (Resource-based = 1; otherwise = 0).

COMMON: Sameness of products between parent and subsidiary.

ENTRYMOD: Type of ownership.

France, Germany and UK: dummy variables used to capture the effect of these countries on the entry mode.

### **3.6 DISCUSSION**

This study developed and tested a framework of diversification mode choice (how firms decide between joint ventures and wholly owned ventures), which includes resource-based industry, product differentiation, and transaction cost variables. Using a sample of 213 Japanese firms (in mining and manufacturing industries over the period 1992–2000) entering Western Europe, the results show the model correctly predicts over 76.5% of the mode choices<sup>22</sup>. Thus, it provides strong initial evidence to support using resource-based industry, product differentiation and transaction cost variables to predict firms' choices between joint ventures and wholly owned subsidiaries in international expansion.

Table 3.6 represents the independent variables descriptions, and their expected signs compared with the results. The variable related to the endowment in human resources confirms the hypothesis 7, that a manager's nationality influences the propensity of a firm to go abroad through wholly owned initiatives rather than joint ventures. The coefficient of MANAGER is negative as expected and is significant in all three degrees of ownership ("cut offs").

When nationality, customs, and business practices assume a crucial role, when they are good determinants of many common managerial problems related to human resource management and when the competitive success of the firm depends on the capability of the company to manage them, wholly own subsidiaries represent the best solution.

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<sup>22</sup> The original model (model 1, cut off 95%).



**Table 3.6 Variable descriptions, and expected signs compared with the result of the original model (model 1, cut off=95%)**

Variable	Definition	Hypothesis	Expected relation to level of ownership	Result
logsalmo	Sales of the Parent company	Hyp 4	-	+ ( <b>significant</b> ) Hyp 4 is not supported
Expratio	Export revenue/sales	Hyp 6	-	- (insignificant)
Manager	Nationality of the subsidiary's manager	Hyp 7	-	- ( <b>significant</b> ) Hyp 7 is supported
Samecoun	Experience in the host country	Hyp 6	-	+ ( <b>significant</b> ) Hyp 6 is not supported
Relasize	Relative size: subsidiary/parent	Hyp 5	+	+ (insignificant)
Yenpower	The power of the yen against the dollar	Hyp 1	-	- (insignificant)
France		Hyp 8	-	+ (insignificant)
Germany		Hyp 8	-	- ( <b>significant</b> ) Hyp 8 is supported
UK		Hyp 8	-	- (insignificant)
Industry	Entry into resource-based industry	Hyp 2	+	+ (insignificant)
Common	Sameness of products between parent and subsidiary	Hyp 3	-	- ( <b>significant</b> ) Hyp 3 is supported
Entrymod	Type of ownership		(Insignificant)	(insignificant)

Conversely, very large and highly internationalized firms show a propensity towards collaborative ventures. Although previous empirical results have been conflicting, there is some support for the position that organizations that are large, face more turbulent environments, and have a higher mass output orientation tend to be more decentralized. (Mutelli and Piscitello, 1998)

Results also show that the proxies of the different aspects of the firm's experience in managing foreign operations due to previous FDI undertaken in the same country (SAMECOUN) positively influence the propensity to use a joint venture for the foreign subsidiary at "cut off 95%".

Likewise, RELASIZE has a positive impact on the dependent variable but the influence is only for "cut off 80%" and "cut off 51%". The positive impact of RELASIZE is consistent with problems, which could arise in case of full control when there are differences in the relative size of the target firm with respect to the parent company. The higher level of capital intensity of a foreign expansion demands greater resource commitment. As the investment size increases, multinationals are more likely to choose a shared control mode such as a joint venture. When the parent company is diversifying through a FDI, uncertainty and information costs may be higher, so that less-control ownership modes should be preferred. That is shown by the negative sign of the variable COMMON. As conjectured in hypothesis 3, wholly ownership will be preferred to joint venture when the Japanese investor is in the same industry as the planned subsidiary. COMMON, the product differentiation variable and SAMECOUN, the measure of the experience, are no more significant in both 80% and 51%. Having experience in the same country does not increase the probability that the Japanese entrant will opt for a joint venture, as conjectured in hypothesis 6. It probably depends

on the foreign investments undertaken by the Japanese firms that have a very high control on the European subsidiary (more than 95%). Likewise, the fact that the affiliate produces a product also manufactured by the parent, does not seem to affect the parent's choice between wholly owned subsidiaries and joint ventures when the degree of ownership is lower than 95%. (80% and 51%)

The proxy of traditional resource-based industries INDUSTRY, the international experience variable EXPRATIO and the variable indicating if the Yen, in the year of entry was strong or weak, compared to the US Dollar YENPOWER have no impact on the dependent variable. ENTRYMOD is insignificant, suggesting that whether entry was undertaken through greenfield or through acquisitions does not affect the level of equity taken by the Japanese investors in their European affiliates. (ENTRYMOD is insignificant in all runs).

The objective of using a reduced sample was to investigate further the influence of the host countries on the choice of the entry mode. In fact changes appear in this reduced sample (model 2).

The variable SAMECOUN is no longer significant and the variable MANAGER is weakly significant at 0.10 level. This can mean that when the Japanese decide to enter the three more advanced countries in Europe, their experience in these countries and the nationality of the manager has no effect on their choice of the entry mode. The same for the relative size (in cut off 80% and 51%) is no longer significant in model 2 when we do the regression only for Japanese FDI in the 3 countries with the highest GDP in Europe (UK, France and Germany). This can conclude that some host country influence may affect the diversification mode choice. The host country GDP (level of economy and power of the market) has a significant influence on mode choice.

In the 3 more advanced economies in Europe, and when the Japanese choose a high degree of ownership (more than 95%), what influences the entry mode choice is the size of the parent company. When the degree of ownership is less high but not too low (more than 80% in this case), both the size of the parent company and the socio-cultural distance variable are important in the choice of the entry mode. But when the degree of ownership is a little bit low (more than 51% in this case), the size of the parent company is no longer important in the choice of the entry mode but the socio-cultural distance variable becomes very important.

### **3.7 CONCLUSION**

In conclusion, the results provide initial support for using a model which includes institutional and cultural variables, as well as transaction cost variables to predict firms' choices between joint venture and wholly owned subsidiaries in international expansion. The findings also suggest that some host country influence may affect the diversification mode choice. For example, the results shows that host country levels of economy (power of the market) affected transaction costs and had a significant influence on mode choice. It also shows that firms with high level of multinational experience prefer joint venture to greenfield investment, thus it provides an empirical support for previous studies (Mansour and Hoshino, 2002).

This result is in contradiction with the previous studies perspectives (Mutelli and Piscitello, 1998; Mansour and Hoshino, 2002) that the probability of undertaking a wholly owned subsidiary increases when the firm has a larger size.

The main findings of this study can be summarized as follows.

The greater the Japanese firm's investment in Europe the more likely it will choose joint ventures over wholly owned subsidiaries.

Likewise, very large, and highly internationalized firms show a propensity toward joint ventures.

The results also show that the probability of undertaking a wholly owned subsidiary increases when the parent company has the same product as the established subsidiary and when the manager in Europe is Japanese.

Nevertheless, this study also has limitations. One limitation stems from the manufacturing emphasis of this study. The investigation of other sectors (service sectors, for example) remains to be undertaken to test the generalizability of these findings.

And also other studies could use a firms' direct response rather than secondary data as input in conducting a relatively large-scale empirical investigation of this topic.

Although this study has its limitations, it has clearly provided a theoretical and practical insight into the factors affecting the entry mode. Future studies might extend this line of research to further advance the understanding of how managers make entry mode decisions.

## **Chapter 4**

# ***The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: Evidence for Japanese Foreign Direct Investment in Australia<sup>23</sup>.***

### **4.1 INTRODUCTION**

Japanese management practices have received considerable attention over the past fifteen years as Westerners have searched for the key to Japan's economic success. This attention has shifted in the last few years from what the Japanese are doing at home to what they are doing overseas. This attention is due, in part, to the increased level of

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23 Ben Youssef, K. and Hoshino, Y., "*The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: the Case of Japanese Foreign Direct Investment in Australia*", International Journal of Services Technology and Management, (accepted Paper)

an earlier version of this chapter was presented as a research paper at:

- ✓ 2006 Academy of International Business Annual Meeting, June 2006, Beijing (China). "The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: the Case of Japanese Foreign Direct Investment in Australia", Ben Youssef, K. and Hoshino, Y.
- ✓ 2005 Academy of International Business Southeast Asia Regional Conference, November 2005, Manila (Philippines), "The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: the Case of Japanese Foreign Direct Investment in Australia", Ben Youssef, K. and Hoshino, Y.
- ✓ 8th Annual Convention, Japanese Association of Administrative Science, November 2005, Tokyo (Japan), "The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: the Case of Japanese Foreign Direct Investment in Australia", Ben Youssef, K. and Hoshino, Y.

overseas investment by Japanese firms especially after the Plaza Accord of 1985, which caused a steep drop in the value of the dollar against the yen. (Bird and Beechler, 1995)

With the preponderance of foreign investment projects, Australia provides a fruitful ground for an empirical test of the theoretical framework. Further, by focusing on one host country, Australia, it eliminates the between country variation that clouds the relationships to be examined. (Chen and Hu, 2002)

Japanese investment in Australia was \$US32 billion, as of June 2003, making Japan the third largest investor in Australia. Japanese investments in Australia are concentrated in real estate, mining, commerce and the services sector. (Australian Ministry of Foreign Affairs, 2005)

This study examines the links between firm-specific factors, entry mode and the financial performance of Japanese direct investment in Australia, thereby adding to the body of international business research in two areas.

First is Japanese-Australian foreign direct investment (FDI) which had received little attention in the literature. The United States, China and Europe have been a frequent subject of research. In recent years, Japan has attracted considerable scholarly attention as an outward investing country. In contrast, Australia has not been so frequent a subject of research.

The second area investigated is the effect of firm specific factors and entry mode choice on subsidiary performance, using non-conventional forms of entry mode which means that ownership structure does not imply that all JVs involve a local partner. (See Figure 1.1 Page 18)

## **4.2 THEORETICAL BACKGROUND AND HYPOTHESIS DEVELOPMENT**

Several factors that determine the performance of foreign subsidiaries have been identified in the previous literature. These factors can be classified into three categories: ownership advantages of a firm, location advantages of a market, and entry mode strategies (Mansour and Hoshino, 2001).

Japanese investment in Australia grew significantly in the late 1980s, but was heavily concentrated in a few industries (Australian Ministry of Foreign Affairs, 2005). Previous research found that 90% of Japanese FDI in Australia is concentrated in the non-manufacturing sectors, especially real estates, services, commerce and mining and with a small presence in the manufacturing sector (Hutchinson and Nicholas, 1994). According to many authors (Porter, 1980; Schere, 1980; Montgomery and Porter, 1991) the firm performance is determined by the industry structure. Several empirical studies (Schmalensee, 1985; Wernerfelt and Montgomery, 1988) have shown that industry effects are the most important determinants of firm performance.

***Hypothesis 1: The manufacturing industry of the Japanese foreign subsidiary in Australia negatively affects its performance.***

Foreign firms that expand into a product market, not related to the parent's main line of business, incur a greater need for new knowledge and assets as well as a greater risk of unsuccessful entry (Li, 1995; Hennart et al., 1998). When the parent company is diversifying through a FDI, uncertainty and information costs may be higher. Foreign investors are also more likely to face more risks if they are diversifying into a different industry, as they need tacit industry-specific knowledge, which is



subject to relevant transaction costs and is also costly to acquire on the market (Hennart and Park, 1993). This contradicts the portfolio theory that suggests that diversification can potentially reduce both the return variance and the probability of failure of a portfolio (Ling et al., 2005).

For example, Ling et al. provide strong evidence of a link between diversification, risk and financial performance of the banking industry in Taiwan. Their empirical examinations suggest that diversification may provide an important motive for risk reduction and performance enhancement for the banking industry (Ling et al., 2005). Because administrative routines differ systematically across industries, post investment's integration problems would be lower for Japanese investors whose subsidiary manufactures the same product as they do. (Hennart and Reddy, 1997)

**Hypothesis 2:** *Japanese Investments in Australia will perform better when the Japanese shareholder is in the same industry as the planned subsidiary.*

Dimensional aspects are the key resources, which have been accumulated inside the firm over the time it has been in operating, and which are necessary to compete efficiently in certain business transactions or certain industries. A firm will enjoy competitive advantages over its rivals if it owns some of those vital assets (e.g. intensive investments in advanced technology, product differentiation and extensive advertising). Parent Firms with large sizes<sup>24</sup> usually possess vital assets and oligopolistic advantages, as their dominant positions have been attributed to their intensive investments in advanced technology, product differentiation and extensive advertising. (Siripaisalpipat and Hoshino, 2000)

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<sup>24</sup> The size is measured with the total assets of the Japanese parent firm (Siripaisalpipat and Hoshino, 1999)

**Hypothesis 3:** *The large size of the parent company is associated with better performance by the subsidiary.*

Transaction costs are determined by several factors. One of them is the capital cost of establishing a physical presence overseas (Chen and Hu, 2002). The higher level of capital intensity of a foreign expansion demands greater resource commitment. Such a commitment not only strains a company's capital and human resources, but also increases business and political risks (Hennart, 1988). The lower costs suggest that as the investment size decreases, subsidiaries are more likely to perform<sup>25</sup>.

Previous studies have shown that a subsidiaries size has an important effect on its performance (Li, 1995; Pangarkar and Lim, 2003).

**Hypothesis 4:** *The greater the size of the subsidiary relative to that of the Japanese mother company, the higher the probability of a loss.*

As a firm expands its operation overseas, it learns more about how to cope with different environments in terms of economic, political and legal systems, as well as the psychic distances<sup>26</sup>. These learning skills can be applied to new foreign investment opportunities. When firms make international investments, specific knowledge of the host country is gained together with more general knowledge of conducting international operations (Barkema and Vermeulen, 1998). As argued by the internationalization theorists, firms with more experience in a host country tend to

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<sup>25</sup> The "planned size" of the subsidiary at the time of entry.

<sup>26</sup> Psychic distance is a disadvantage related to differences in customs, culture, legal and government system and business practices between the Japanese and Australian economies.

develop organizational capabilities suited to that country, and are able to make greater commitments to foreign investments (Johanson and Vahlne, 1977).

**Hypothesis 5:** *The Japanese firm's experience in the host market will be associated with better performance by the FDI in that country.*

A problem arises when foreign employers' expectations clash with local employees' expectations. With the enormous increase in cross-border corporate integration over the recent years, this problem is looming increasingly large (Segalla, 2001). A parent's human resources endowment may also affect its performance. When a foreign firm goes abroad, it has to deal with a staff of employees, with their own routines and business practices. Integrating such employees is difficult, particularly so if there are psychic differences between the two countries (Hennart and Reddy, 1997). The management of the subsidiary's labor force can therefore be left to the local manager (Hennart and Reddy, 1997). Hence performance will be greater when the subsidiary's manager is non Japanese.

**Hypothesis 6:** *Subsidiaries with non Japanese managers will exhibit better performance.*

Costs and benefits initialized, when the entry mode decisions are made, will be reflected in the subsequent performance of the venture. Thus, a correct decision on entry mode should improve a company's long-term performance (Anderson and Gatignon, 1986). Similarly, a mode inappropriately chosen will lead to high transaction costs and low transaction benefits, conditions under which a venture's performance will suffer (Chen and Hu, 2002). In the hierarchical model of market entry modes, the wholly

owned entry can be categorized into the equity based entry modes, because it requires a major recourse commitment in the overseas location (Pan and Tse, 2000). One advantage of a wholly owned investment is the transferring of firm-specific advantages to a foreign market, without the risk of losing control over that competence. This is especially the case when a firm's competitive advantage is based on technological know-how which is one of the firms' core competencies. (Hennart and Park, 1993) Another advantage of wholly owned investments, compared to other entry modes<sup>27</sup>, is that they give a firm tight control over operations in different countries, which is necessary for a global strategy.

**Hypothesis 7-a:** *Wholly owned investments achieve higher financial performance than other entry mode types.*

On the other hand, Equity International Joint Ventures (JV's) are a very popular entry mode, especially in the Asia/Pacific area. Despite this popularity, they seem to have poor performance records and high failure rates. Scholars found a less than 50% survival rate (Zeira and Newbury, 1999). The main idea behind an IJV is that the transaction costs of entering a foreign market are much lower than those faced when establishing a wholly owned subsidiary. The entering firm is able to benefit from the local partners knowledge of the host country's competitive conditions, culture, language, political and business systems. Joint venture ownership structure has traditionally been defined by the percentage of equity held by the foreign parent. Where the foreign parent has a greater than 50 percent equity stake, the JV is called a majority-owned JV. If ownership is equal to 50%, the JV is considered co-owned. And if the equity holding is

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<sup>27</sup> Other entry modes are: Intrafirm JV, Cross-national DJV, Trinational IJV and Traditional JV.

less than 50%, the JV is identified as a minority-owned (Makino and Delios, 1996). Some rare studies explicitly identified and considered JVs that were formed by multiple partners, or JVs that were formed between a foreign firm and a partner not based in the host country (Hennart, 1988). However, the international joint venture literature has focused on two parent JVs formed between one foreign and one local firm. But other types of JVs exist. Makino and Beamish (1998) introduced new forms of JVs that are frequently emerging on the global market. They introduced a new typology which looks at JVs formed by multiple (three or more) firms; with non-local firms (home- and third country based firms); and by affiliated firms (JVs formed between the parent firm and its domestic or foreign subsidiaries). See Figure 1.1 page 18

However, subsidiary performance is also threatened by psychic distance differences. That's why it is important to take into account the effects of psychic distance and to improve the understanding of how it impacts performance. Previous researches (Birkinshaw and Hood's, 1998) came to the conclusion that the foreign subsidiary development and performance depend on parent company, subsidiary, and host country factors. Yet, psychic differences moderate these relationships and may even eliminate the ability of MNEs to create or make use of valuable resources (Uhlenbruck, 2004).

Psychic distance at the corporate level has often been investigated in terms of differences in core businesses, management practices, and decision making process, need, and learning capabilities between alliance partners (Makino and Beamish, 1998). Further, there is some evidence that both forms of psychic distance impact alliance performance. Parkhe (1991), for example, has suggested that the diversity in the national contexts as well as in business practices of alliance partners may hamper

effective inter-partner collaborations and negatively affect the performance of the subsidiary.

**Hypothesis 7-b:** *Intrafirm JVs achieve high financial performance compared to other entry mode types.*

**Hypothesis 7-c:** *Trinational IJVs and Traditional JVs achieve lower financial performance than other entry mode types.*

## 4.3 METHODOLOGY

### 4.3.1 Scope of the study

The main objective of this study examines how firm-specific factors and entry mode choice of Japanese multinational enterprises determine the financial performance of their Australian subsidiaries. This study presumes that different entry modes have different financial performance outcomes based upon their resource and organizational control demands. Likewise, it assumes that firm-specific factors are able to exert influence on the financial performance of the Japanese subsidiaries in Australia.

### 4.3.2 Source of the data

The data used for this study were obtained from Toyo Keizai Inc., Japanese overseas investment, listed by country, (Toyo Keizai Inc., 1990-2001). The data for the independent variables are derived from Nikkei Kaisha Nenkan, Toyo Keizai Inc., Japanese overseas investment, listed by firms and the Toyo Keizai Inc., the Japan Company Handbook, when unavailable from the former source. In this study, only operations in the Australian market were examined. Because of the tendency for new

subsidiaries to take a few years before their performance can be assessed, this study follows previous research (Woodcock et al., 1994; Nitsch et al., 1996; Siripaisalpipat and Hoshino, 2000; Pangarkar and Lim, 2003) in analyzing only those subsidiaries which were at least two years old at the time of data collection.

Woodcock et al. (1994) used piece-wise linear regression with a break-point on the entire dataset to determine that two years after subsidiary foundation the performance stabilized and remained constant.

The sample was selected from the period between 1990 and 2000 because of the high number of investments in this period comparing to other decades. The time after the bubble's collapse and with Japan's economy driven by its high rates of reinvestment, the lost decade hit particularly hard. In that period of time, investments were made increasingly out of the country. The final sample size was 210 subsidiaries.

#### 4.3.3 Dependent variable

Financial performance of subsidiaries was measured by asking top Japanese managers in each subsidiary to specify one of three possible financial performance categories for the unit, which were coded as “loss”, “breakeven”, and “gain”. The dependent variable, therefore, is a three-point item assessing the subsidiary’s financial performance in 2001. The scale points were (1) Gain, (2) break-even, and (3) loss. It is a subjective measure of performance, reported by the manager as his or her assessment of the subsidiary’s financial performance.

Although this measure is very limited in its ability to capture variance, it is the

only private performance information the Japanese managers were willing to give<sup>28</sup> (Woodcock et al., 1994). This trichotomous measure of performance has also been used repeatedly in various studies on IJV performance (Makino and Delios, 1996; Makino and Beamish, 1998; Vega-Cespedes and Hoshino, 2002; Makino et al., 2004).

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<sup>28</sup> The study's statistical power may have been reduced by the trichotomous dependent variable. However there are a number of factors that recommend its use:

1. It is the only private performance information the Japanese managers were willing to give (Woodcock et al., 1994). Performance data on subsidiaries is not often available, as most large organizations do not publish financial results by subsidiary.
2. In some previous research (Geringer and Herbert, 1991; Makino and Delios, 1996; Makino and Beamish, 1998; Konopaske et al 2002; Vega-Cespedes and Hoshino, 2002; Makino et al., 2004), managers' perceptions of performance have been demonstrated to be correlated with objective financial measures, suggesting the feasibility of using a subjective performance measure.
3. Firms, sometimes, are expecting their subsidiaries to perform roles such as supplying low-cost components or finished products. If a subsidiary is fulfilling such a role, its performance needs to be assessed on a broader set of criteria than a continuous (objective) measure of profitability.
4. The foreign ventures may also be exhibiting growth, an important objective for many MNC parents. Hence a subsidiary may be judged as successful even if it is not profitable. (Pangarkar and Lim, 2003)
5. Since the survey respondents were the IJV general managers, it is reasonable to expect a certain level of consistency in how they perceive IJV performance (Makino and Delios, 1996). Sometimes, despite low scores for the profitability measure, firms are moderately satisfied with the overall success of their FDI initiatives. (O'Connor and Chalos, 1999)
6. Objective financial measures of performance would not have allowed comparing performance across industries and countries, as different accounting systems and customs can limit the validity of this comparison (Brown et al., 1994).



#### 4.3.4 Independent variables

This study took a step toward developing a more comprehensive theory by investigating the influence of firm-specific factors and entry mode on financial performance using variables that are frequently cited as factors that influence the performance of Japanese foreign subsidiaries (Nitsch et al. 1996; Siripaisalpipat and Hoshino, 2000; Chen and Hu, 2004).

This research also made a distinction between the types of entry mode by using non-conventional entry mode types<sup>29</sup>. Concerning the explanatory effects, this study uses the following set of independent variables.

#### *Entry mode variables*

FDI entries with at least 95 percent Japanese ownership are categorized as wholly owned subsidiaries; and as international joint venture (IJV) if otherwise (Anderson and Gatignon, 1986). In this study, non conventional types of entry mode were used. Makino and Beamish (1998) introduced four distinct forms of JVs based on the JVs partners' nationality and equity affiliation. JVs that are formed between affiliated home-country based firms (Intrafirm JV); JVs that are formed between unaffiliated home-country based firms (Cross-national DJV); JVs that are formed between home-country based and local firms (Traditional JV); and JVs that are formed between home-country and third-country based firms (Trinational IJV).

A variable, TRAENTRY, to check whether there is a difference in performance between conventional and non-conventional types of entry mode was added to the multinomial logistic regression. This dummy variable is equal to one if the entry mode

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<sup>29</sup> The international joint venture literature has focused on two parent Joint Ventures (JVs) formed between one foreign and one local firm. But other non- conventional types of JVs also exist.(Makino and Beamish, 1998)

type is a conventional entry mode (Traditional JV or a Trinational IJV), and zero if it is non-conventional (Cross-national DJV, Intrafirm JV).

#### *Firm-specific variables*

Because administrative routines differ systematically across industries, post investment's integration problems would be lower for Japanese investors whose subsidiary manufactures the same product as they do. (Hennart and Reddy, 1993)

Following Delios and Beamish (1999) and Padmanabhan and Cho (1996), the product similarity variable in this study is a dummy variable equal to one, if one of the products manufactured by the subsidiary was also produced by the parent, and zero otherwise (COMMON). Previous studies have shown that COMMON is significantly and substantively related to performance. (Hennart and Reddy, 1993; Balakrishnan and Koza, 1993)

Firms with large sizes usually possess vital assets and oligopolistic advantages, as their dominant positions have been attributed to their intensive investments in advanced technology, product differentiation and extensive advertising. (Siripaisalpipat and Hoshino, 2000) many previous studies have found a significant relationship between size and performance (Li, 1995; Dhanaraj and Beamish, 2004)

Natural logarithm of the parent's Capital is used to provide more comparable scale units as other variables used in the model (SIZEMOTH). This variable captures the parent size at entry. The data was obtained from the issue of Toyo Keizai Inc., a complete listing by firms; and the Nikkei Kaisha Nenkan database published in the year before the corresponding Japanese entry. This variable is a proxy of the parent company's size. (Shaver, 1998; Vega-Cespedes and Hoshino, 2002)

Capital intensity in a foreign invested enterprise is reflected in the total investment committed to a project (RELATIVE). It is the relative ratio of the size (investment) of the subsidiary to the size (Capital) of the parent company. RELATIVE have been empirically shown to be related to subsidiary performance (Luo, 2001; Pangarkar and Lim, 2003).

A dummy variable, equal to one if the subsidiary is in the manufacturing industry and zero otherwise (INDUSTRY) is also used. The study included this variable to control for possible industry bias because only 22.4% of the JFDI cases in this sample were in the manufacturing industry. Previous studies have shown that the variable industry is significantly and substantively related to performance. (Hu and Chen, 1996; Makino and Delios, 1996)

The international experience variable is a dummy variable, equal to one if the parent company had an experience in the same country (EXPERIEN). Parent's experience in the host country is important for the subsidiary's operation in that the management learns from prior experience about how to deal with market, employees, business counterparts, or host country government (Makino and Delios, 1996; Siripaisalpipat and Hoshino, 2000).

This Variable was frequently used by previous research (Andrew and Beamish, 1999; Padmanabhan and Cho, 1999)

#### *Control variable*

Following previous studies (Geringer and Hebert, 1991; Luo, 1999; Konopaske et al., 2002) a psychic distance variable is also used. It is a dummy variable indicating whether the subsidiary's manager is Japanese or not (MANAGER). Because nationality

and business practices are good determinants of many common managerial problems related to human resource management, the variables MANAGER was added. The variable MANAGER is equal to one when the manager is Japanese and zero otherwise.

## **4.4 RESULTS**

The analytical framework in this study is implemented in two stages. First, it attempts to establish the relationship between prescribed modes of entry and their impact on performance.

In the second stage of the analysis, the study verifies the influence of the firm specific factors, the entry mode type variable and the control variable on the performance of the Japanese foreign direct investment in Australia.

Because of the nature of the dependent variable, a three-point item, which violates a fundamental assumption of Ordinary Least Squares regression (that the dependent variable is normally distributed), this study uses a multinomial logistic regression, which is more appropriate in such cases (Agarwal and Ramaswami, 1992 ).

Table 4.1 gives statistics and the correlation matrix for the variables used in the study. The matrix of the independent variables suggests little collinearity. Almost all correlations are low, the highest coefficient being the ones between EXPERIEN and SIZEMOTH (.326). In addition Tolerance and Variance inflation factor (VIF) are examined to determine the existence of multicollinearity (Chatterjee et al., 1995). All of the scores show that multicollinearity should not be a problem with these data.

**Table 4.1: Pearson correlation**

Variables	dependent Variable	Coefficients					
		INDUSTRY	COMMON	SIZEMOTH	RELATIVE	EXPERIENCE	MANAGER
<b>INDUSTRY</b>	-0.001						
<b>COMMON</b>	-0.202***	-0.118					
<b>SIZEMOTH</b>	-0.148**	0.006	-0.191***				
<b>RELATIVE</b>	-0.050	0.065	0.077	-0.117			
<b>EXPERIENC</b>	0.050	0.087	-0.182***	0.326	-0.141**		
<b>MANAGER</b>	-0.181***	-0.038	0.002	-0.088	-0.207***	-0.047	
<b>TRAENTRY</b>	0.092	-0.053	0.152**	-0.064	0.242***	-0.073	-0.231***

<i>Descriptive Statistics</i>							
	INDUSTRY	COMMON	SIZEMOTH	RELATIVE	EXPERIENC	MANAGER	TRAENTRY
<b>N</b>	210	210	210	210	210	210	210
<b>Mean</b>	.27	.38	7.26	674.50	.56	.78	.18
<b>Range</b>	1	1	8	57455	1	1	1
<b>Std. Deviation</b>	.443	.487	1.114	4786.288	.497	.418	.382

Collinearity Statistics (Table 4.1 continued)		
Variables	Tolerance	VIF
<b>INDUSTRY</b>	.975	1.026
<b>COMMON</b>	.921	1.086
<b>SIZEMOTH</b>	.859	1.164
<b>RELATIVE</b>	.893	1.120
<b>EXPERIENCE</b>	.866	1.155
<b>MANAGER</b>	.905	1.105
<b>TRAENTRY</b>	.886	1.129

Actual number of cases: 210. \*\*\* Correlation is Significant at the 1 percent level. \*\* Correlation is Significant at the 5 percent level. INDUSTRY: Entry into manufacturing industry (manufacturing industry = 1; otherwise = 0); COMMON: Sameness of products between parent and subsidiary; SIZEMOTH: capital of the parent company; RELATIVE: Relative size: subsidiary/parent; EXPERIENC: Experience in the host country; MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese=0); TRAENTRY: Entry mode type (Traditional JV& Trinational IJV=1, otherwise=0)

#### 4.4.1 Analyzing the results of the cross-tabulation analysis

Table 4.2 illustrates the results of the classification. In the Australian sample, 129 subsidiaries (61.4%) were wholly owned, 33 (15.7%) were Traditional JVs, 21 (10%) were Intrafirm JVs, 24 (11.4%) were Cross-national DJVs and 3 (1.5%) were Trinational IJVs. The first column from the left lists the number of partners. In this sample, the number of two-partner venture represented 29% of the total cases and less than 75% of the total JVs. Almost 26% of the JVs had three or more partners.

**Table 4.2: Comparison of the Entry mode Formation by the Ownership Structure**

		Entry Type					Total
		Intrafirm					
Total No of Partners		WH	JV	DJV	Traditional	Trinational	
<b>1</b>	Count	128	0	0	0	0	<b>128</b>
	% within No of Investors	100%	.0%	.0%	.0%	.0%	<b>100%</b>
<b>2</b>	Count	1*	19	13	26	2	<b>61</b>
	% within No of Investors	1.6%	31.2%	21.3%	42.6%	3.3%	<b>100%</b>
<b>3</b>	Count	0	1	5	6	1	<b>13</b>
	% within No of Investors	.0%	7.7%	38.5%	46.1%	7.7%	<b>100%</b>
<b>4</b>	Count	0	1	4	1	0	<b>6</b>
	% within No of Investors	.0%	16.7%	66.6%	16.7%	.0%	<b>100%</b>
<b>5</b>	Count	0	0	2	0	0	<b>2</b>
	% within No of Investors	.0%	.0%	100%	.0%	.0%	<b>100%</b>
<b>Total</b>	Count	<b>129</b>	<b>21</b>	<b>24</b>	<b>33</b>	<b>3</b>	<b>210</b>
	% within No of Investors	<b>61.4%</b>	<b>10.0%</b>	<b>11.4%</b>	<b>15.7%</b>	<b>1.5%</b>	<b>100%</b>
		<b>Value</b>		<b>Df</b>		<b>Significance</b>	
<i>Pearson Chi-Square</i>		241.096		16		.000	

\* in one case, the percentage of the main Japanese investor was over the threshold of 95% (wholly own) but less than 100%, and the rest was brought from a different partner.

**Table 4.3: Entry mode Structure and Performance: Result of the Cross-tabulation Analysis**

Entry Type		Performance			Total
		Profit	Break-even	Loss	
WH	Count	82	15	32	129
	% within Entry Type	63.6%	11.6%	24.8%	100.0%
Intrafirm	Count	17	3	1	21
	% within Entry Type	81.0%	14.2%	4.8%	100.0%
DJV	Count	15	6	3	24
	% within Entry Type	62.5%	25.0%	12.5%	100.0%
Traditional	Count	19	4	10	33
	% within Entry Type	57.6%	12.1%	30.3%	100.0%
Trinational	Count	1	0	2	3
	% within Entry Type	33.3%	.0%	66.7%	100.0%
Total	Count	134	28	48	210
	% within Entry Type	63.8%	13.3%	22.9%	100.0%
		Value	Df		
<i>Pearson Chi-Square</i>		13.463*	8		

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

Table 4.3 provides the results of the cross-tabulation analysis which examined the relationship between financial performance and ownership structure. Marginal frequencies show that 63.8% of the subsidiaries were profitable, while 22.9% had a loss in 2001. Intrafirm JVs had the best performance, 81% of Intrafirm JVs were classified as profitable, or “gain.” Among the other four entry types, Wholly Own had the second best performance (63.6%), followed by Cross-national DJVs (62.5%) and Traditional JVs (57.6%). Trinational IJVs were the worst performers with 66.7% of unprofitable cases.

#### 4.4.2 Analyzing the results of the multinomial logistic regression

The results of the multinomial logistic regression are presented in Tables 4.4. Overall, the data supported the model, although some specific hypotheses were not supported. The table shows the values of the coefficient, the standard error, the exponential expression and the level of significance of each independent variable for predicting a subsidiary's performance as Gain or Break-even. Loss is not reported because only two equations are determined for a three-level dependent variable in multinomial logistic regression. However, the loss coefficients would be the same magnitude as the Gain coefficients but in the opposite direction (Konopaske et al., 2002). In addition, the number of cases correctly predicted by the model, the chi-square of the model, the value of the likelihood function and the expected signs of the variables are reported as well. The table reports the results for the full sample. The model has a high overall explanatory power, a chi-square of 37.347\*\*\* (df=14)<sup>30</sup>

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<sup>30</sup> Significant at the 1 percent level



**Table 4.4: The results of the multinomial logistic regression**

<i>Variables</i>	<i>Hypothesized sign</i>	<b>Profit</b>		<b>Break-even</b>	
		<i>Regression coefficient (St. err.)</i>	<i>Exp(B)</i>	<i>Regression coefficient (St. err.)</i>	<i>Exp(B)</i>
INDUSTRY	-	0.449 (0.443)	1.567	1.027 (0.558)*	2.792
COMMON	+	1.522 (0.468)***	4.582	0.678 (0.615)	1.971
SIZEMOTH	+	0.609 (0.202)***	1.839	0.488 (0.285)*	1.629
RELATIVE	-	0.002 (0.001)	1.000	0.001 (0.001)	1.000
EXPERIEN	+	-0.588 (0.428)	.556	-1.212(0.571)**	.297
MANAGER	-	0.992 (0.442)**	2.697	0.932 (0.638)	2.538
TRAENTRY	-	-0.889 (0.477)*	.411	-0.898 (0.700)	.407
Intercept		-4.173(1.555)***		-4.354(2.193)**	
<b>-2 Log likelihood</b>			326.824***		
<b>Proportion of correct classifications</b>			67.8%		
<b>Model Chi-squared</b>			37.347***	<b>df=14</b>	

Number of cases: 210; Note: Standard Error in parentheses. \*\*\* Correlation is Significant at the 1 percent level.  
\*\* Correlation is Significant at the 5 percent level.\* Correlation is Significant at the 10 percent level. INDUSTRY:  
Entry into manufacturing industry (manufacturing industry = 1; otherwise = 0); COMMON: Sameness of products  
between parent and subsidiary; SIZEMOTH: capital of the parent company; RELATIVE: Relative size:  
subsidiary/parent; EXPERIEN: Experience in the host country; MANAGER: Nationality of the subsidiary's manager  
(Japanese= 1; not Japanese= 0); TRAENTRY: Entry mode type (Traditional JV& Trinational IJV=1, otherwise=0).

COMMON, SIZEMOTH, TRAENTRY and MANAGER were all found to be significant predictors of subsidiary's profitable performance (Gain). The variables INDUSTRY and EXPERIEN are, however, significantly related to break-even. With the exception of MANAGER EXPERIEN and INDUSTRY, significant variables have the predicted signs.

The coefficient of COMMON is positive and significant; this means that when the parent also produced one of the products manufactured by the subsidiary, it will raise the probability of success by 4.582 times. As predicted by Hypothesis 3, SIZEMOTH is positively related to profitable performance. As the size of the parent company increases the probability of success also increases by 184%. The coefficient of MANAGER, the measure of endowment in human resources is significant, but entering with a Positive sign, suggesting that with a Japanese manager the subsidiary will perform better. Subsidiaries with a Japanese manager perform 2.697 times better than subsidiaries that have a non Japanese manager. This contradicts hypothesis 6 which conjectured that subsidiaries with non Japanese managers will exhibit better performance. As predicted by Hypothesis 7-c, the coefficient of TRAENTRY is significant and entering with a negative sign, suggesting that the Traditional and Trinational entry types tend to achieve lower financial performance (less than half 41.1%) than other entry mode types.

In contradiction to what was hypothesized, EXPERIEN is negatively related to profitable performance, but not at a statistically significant level. The variable is, however, significantly negatively related to break-even. The same, INDUSTRY, is significantly positively related to break-even.

The coefficient RELATIVE is insignificant, suggesting that the size of the investment do not increase the probability that the Japanese subsidiary will exhibit better performance, as suggested in hypothesis 4.

## **4.5 DISCUSSION**

Using a sample of 210 Japanese firms entering Australia over the period 1990–2000, the results show that the model correctly predicts over 67.8% of the mode choices. Thus, this study provides strong initial evidence to support the use of firm specific factors and ownership structures to predict subsidiaries performance. The analysis showed that Intrafirm JVs provided the greatest opportunity to achieve superior performance, and Trinational IJVs had the greatest likelihood of Loss; Cross-national DJVs and Wholly own provided the second highest opportunity for attaining superior performance, and compared to Traditional IJVs, they attain a superior performance. These results suggest that management complexity from inter-partner psychic distance may have a significant impact on the performance of the subsidiary.

The result suggests that sharing the costs of the FDI with partners from the same country, or even better, from the same group, was the critical factor that improved performance. Differences at both country and corporate levels were strongly related to the performance of the FDI. This provides an empirical support for previous studies (Makino and Beamish, 1998) that Intrafirm JVs and Cross-national DJVs with a small psychic distance between the partners perform better than other types of entry modes. Previous studies have found that an Intrafirm JV and a Cross-national DJV represent longer-term solutions for attaining JV success. A Trinational IJV is usually the least desirable of the ownership-structure types, as it incurs the highest termination rate and achieves the lowest performance (Makino and Beamish, 1998).

The variable related to the endowment in human resources shows that a manager's nationality influences the profitability of an international investment. The

coefficient of MANAGER is positive, contrary to what was expected. When nationality and business practices assume a crucial role, when they are good determinants of many common managerial problems related to human resource management and when the competitive success of the firm depends on the capability of the company to manage them, a Japanese manager represents the best solution. This result is consistent with the idea that expatriates can play a pivot and strategic role that lead to higher performance

Conversely, very large firms' subsidiaries show a propensity towards high profits. Although previous empirical results have been conflicting, there is some support for the position that organizations that are large face less turbulent environments and have a higher mass output orientation (Mutelli and Piscitello, 1998). Usually large firms usually possess vital assets, as their dominant positions have been attributed to their intensive investments in advanced technology, product differentiation and extensive advertising, and therefore can take higher risks and expect better results. Likewise, the fact that the affiliate produces a product also manufactured by the parent seems to affect positively the performance. When the parent company is diversifying through a FDI, uncertainty and information costs may be higher, so that less gain will be generated. That is shown by the positive sign of the variable COMMON. As conjectured in hypothesis 2, financial performance will be higher when the Japanese shareholder is in the same industry as the planned subsidiary. Results show also that the proxies of the different aspects of the firm's experience in managing foreign operations due to previous FDI undertaken in the same country (EXPERIEN) negatively influence the propensity to get a high profit and that the type of industry (INDUSTRY) positively influence the propensity to have a high performance<sup>31</sup>. One interpretation of this is that,

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<sup>31</sup> although these two variable are significant only in the case of Break-even

additional investment tends to create more coordination problems (as opposed to learning effects) among subsidiaries, which in turn negatively affect subsidiary performance. The relative size of the subsidiary (RELATIVE) has no impact on the subsidiary's performance. Usually large subsidiaries receive greater support and resources from the parent company; however it might not be that critical to their performance in a new and challenging environment.

## **4.6 CONCLUSION**

This study examined the influence of firm specific advantages and entry mode choice on performance. This research examines these issues by answering the following questions. First, when investing in Australia, how do Japanese firm specific factors affect the performance? Second, what is the impact of entry modes on performance of these investment projects?

The main findings of this research can be summarized as follows: When the parent company has the same product as the established subsidiary, and when it chooses to be in the manufacturing industry, its subsidiary will exhibit a high profit. Likewise, very large firms' subsidiaries show a propensity toward high profits. This research also found that the probability of subsidiary's loss increases when the parent company has experience in the Australian market and when the subsidiary's manager in Australia is non Japanese.

This research examines also the performance of entry modes that have been rarely considered in previous studies. The Trinational IJV mode was the least successful

choice, while Intrafirm JV entries were the most likely to show a financial gain followed by wholly own entry mode and Cross-national DJV.

However, this study has limitations. The empirical study was conducted using the samples of Japanese subsidiaries in Australia only. This restricted the study to the behavior of one-nationality parents in one host market. Future studies may be able to conduct more extensive tests with the samples including multiple-nationality parents in one host country or one-nationality parents in several host countries. Also other studies could use a firms' direct response rather than secondary data as input in conducting a relatively large-scale empirical investigation of this topic. Finally, Joint effects of firm-specific advantages and entry mode on performance rest to be undertaken. The findings of this study provide the implication of firm specific factors and of the importance of entry mode decision on performance. Although each entry mode has different performance profile, performance of subsidiaries is also affected by the fit between the parent firm's-specific advantages and entry mode choice.

Though this study has its limitations, it has clearly provided a theoretical and practical insight into the factors affecting the performance of foreign subsidiaries. Other studies could extend work in this area toward a better understanding of the link between foreign entry mode, firm specific-advantages and subsidiary performance.

## ***Chapter 5***

# ***Entry Type, Performance and Characteristics of Japanese FDI in Australia and the United Kingdom: a Comparative Study***

### **5.1 INTRODUCTION**

Extending international activity to Foreign Direct Investment (FDI) adds to the complexity and uncertainty of the management environment and therefore presents managers with increased risk. (Fenwick et al., 2003)

The location of Japanese Foreign Direct Investment (JFDI) activities has been well researched. Many previous studies have studied JFDI and its determinants (e.g., firm characteristics, environment) in the United States (Chen and Hennart, 2002; Hennart, 1991; Hennart and Park, 1994), Europe (Brouthers and Brouthers, 2000; Nitsch, et al., 1996), China (Tse, et al., 1997), and East Asia (Delios and Beamish, 1999). One shortcoming of the existing research, however, is that it has not considered alternative target locations. (Pak and Park, 2005)

Because of that it has been unable to identify factors that determine JFDI location choices between two regions or between two countries. (Pak and Park, 2005)

Previous research on JFDI location selection has been limited to one target country or region, and only a few studies (Nicholas and Purcell, 1999; Makino et al., 2004; Tadesse and Ryan, 2004; Pak and Park, 2005) have considered how Japanese firms make location choices among different regions or countries.

This study extends the analysis of JFDI to see if their actual experiences of conducting business in the United Kingdom and Australia are similar.

Do differences in Japanese investments exist between Australian and the United Kingdom? And if so, what are these differences?

## **5.2 THEORETICAL BACKGROUND**

Location has been a key consideration for foreign investment activities (Buckley and Casson, 1976; Dunning, 1998). Market potential or size (Agarwal and Ramaswami, 1992; Brouthers and Brouthers, 2000) and political and legal environment (Delios and Beamish, 1999; Gomes-Casseres, 1989) have been emphasized as major factors that MNEs should consider before selecting target countries. (Pak and Park, 2005)

Lately, international locations have gained more strategic importance as sources of new learning, of knowledge creation, and of new or enhanced competitiveness (Dunning, 1998; Makino, et al. 2002)

According to the eclectic paradigm introduced in chapter 2, because JMNEs have more ownership advantages and possess more competitive capabilities<sup>32</sup> than most

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<sup>32</sup> Among “The Fortune Global 500” there were 100 Japanese firms. It is the second highest after the US, which had 185. (Pak and Park, 2005)



global competitors, they are more likely to engage in, or to increase, their international involvement.

The more favorable the external environment (L; location advantages), the more likely JMNEs are to operate in that location by engaging in FDI. And the more a Japanese firm realizes net benefits by internalizing cross-border intermediate product markets (I; internalization advantages); the more likely it is that the firm will be involved in FDI. (Pak and Park, 2005)

Geographic locations are now recognized as important sources of learning and innovative capabilities as well as targets of exploitation for the supply of raw materials and for demand potential. (Pak and Park, 2005)

#### 5.2.1 Characteristics of the United Kingdom and Australia

Despite geographic dissimilarities, the international management literature supports the preconception of similarities between Australia and the United Kingdom. Both have democratic forms of government, advanced economies based on market mechanisms, have similar standards of living, and education is comparable. Australia's close ties with the UK are manifest in a common language, and political, legal and educational systems based on British models. (Fenwick et al., 2003)

A relatively small cultural distance between the two countries has been registered in terms of the four work-related values of power distance, uncertainty avoidance, masculinity/femininity and individualism/collectivism.

Both countries have been pursuing similar economic reform strategies including privatization and deregulation. At the corporate level there has been a common emphasis on quality management, divisionalisation and management

development to achieve success (Fenwick et al., 2003). For both countries, services constitute the majority of gross national product (GNP), but manufacturing, agriculture, and extractive industries are also important.

Also in terms of country economic conditions, such as lower inflation and stronger gross domestic product growth, both countries showed similarities in 2001. The influence of country conditions on firm performance has long been recognized in international business research (Christmann et al., 1999). The literature on country attractiveness identifies a large number of individual country conditions, such as demographic, economic, and political factors, as affecting the potential performance of MNCs. Table 5.1 shows that in 2001, the economic situation in both countries was very similar.

**Table 5.1 Economic Indicators of the U.K. and Australia in the year 2001.**

	<b>United Kingdom</b>	<b>Australia 2001</b>
<b>GDP (US\$bn)</b>	1,434.9	508.8
<b>GDP per head (US\$)</b>	25,870	26,683
<b>Real GDP growth (% change)</b>	2.3	2.3
<b>Current Account Balance (%GDP)</b>	-2.2	-2.1
<b>Inflation (% change)</b>	2.1	3.1
<b>Unemployment rate (%)</b>	5.03	6.4
<b>Government consumption (% of GDP)</b>	19.23	17.76
<b>Budget balance (% of GDP)</b>	0.7	-0.05
<b>Labor costs per hour (US\$)</b>	16.15	13.34

Source: the Economist Intelligence Unit/Department of Foreign Affairs and Trade (Australian Government).

In the United Kingdom, economic activity remained relatively resilient in 2001, owing in part to strong domestic demand. After an extended period of economic boom and declining unemployment, growth moderated slightly to 2.3% in 2001. In Australia

economic activity increased moderately, recording 2.3% and export performance was well sustained. (The OPEC Fund for International Development, 2006)

But there are important environmental and historical differences. The major distinguishing environmental characteristic is the area size of Australia (32 times the size of the UK), and the population size in the United Kingdom where a population of 60 million outnumbers the Australian population by about 3 times. Furthermore, the Australian population is concentrated along the coastline, since the interior is virtually uninhabitable, whereas the United Kingdom population is spread more evenly. Historically, the United Kingdom fought and suffered many wars. By contrast, Australia has maintained a long-term, amicable relationship with other countries and as a consequence, was for much of the twentieth century a source of raw materials for many countries.

Australia is the world's largest exporter of wool, beef, veal, iron ore, aluminum and mineral sands, and is among the leading exporters of many other agricultural products and minerals. The manufacturing sector was developed primarily to serve the domestic market, and a policy of import substitution was the primary aim for many years. (Capon et al., 1987)

### 5.2.2 Overview of past movements in Japanese Foreign Direct Investment (JFDI)

#### **JFDI in the United Kingdom:**

Japanese foreign direct investment (FDI) in the European Union (EU) in the fiscal 1999 (based on reports and notifications to the Japanese Ministry of Finance) increased 82% from the previous year to a record US\$25.2 billion. The United Kingdom,

where Japanese investment rose by 20% to US\$11.7 billion, remained the largest recipient of Japanese investment in 1999 and in the year 2000, Japanese investment in the UK grew by 63.4% to US\$19.14 billion, propelling the UK past the US as the largest recipient of Japanese FDI in the world. (JETRO 2002)

According to statistics on investments reported to the Japanese Ministry of Finance in the fiscal 1998 (dollar terms), FDI outflows to the UK were pushing up FDI outflows to the EU as a whole by 25%. The growth in Japanese investment in the UK resulted from investment in the establishment of new automobile and auto parts plants and the centralization of European operations in the UK by financial institutions and trading companies. Investment also went into other fields, such as agrichemicals, pharmaceuticals, chemicals and machinery. (JETRO 2002)

### **JFDI in Australia:**

For international investors in general and Japanese in particular, it is also hard to ignore Australia's competitiveness as an investment destination and unique position as the gateway to Asia Pacific. While Australia is a rich, natural resource base and strong agricultural and resource industries, its biotech, information technology, renewable energy and services sectors have begun to dominate economic activity, contributing to nearly 80% of GDP.

As a cost competitive location, the country provides access to a highly skilled and multicultural workforce, excellent "research and development" skills and infrastructure, sophisticated information and technology systems, and a contributive business environment and regulatory system (Department of Industry, Tourism and Resources, Australia).

In 1993, Japan was Australia's third largest foreign investor, accounting for 13.8 per cent of foreign capital. By 2003, the stock of Japanese investment in Australia was almost unchanged at \$US32 billion, (as at June 2003). Japanese investments in Australia are concentrated in real estate, mining, commerce and the services sector. (Australian Ministry of Foreign Affairs, 2005)

In 2000, Japanese affiliated companies in Australia employed approximately 50,000 people. Through their supply chain and subcontractors, employment numbers exceeded 200,000, providing a substantial contribution to Australian employment. (Australian Ministry of Foreign Affairs, 2005)

After understanding the characteristics of The United Kingdom and Australia as target locations of JFDI, this study is now in a position to use the two countries as actual cases.

### **5.3 HYPOTHESIS DEVELOPMENT**

Beamish and Kachra, (2004) defined two important sources of resource heterogeneity of an investment: (1) number of partners and (2) psychic distance between partners. By opting for an alliance structure, partners benefit from heterogeneous partner experiences and also from diverse business practices backgrounds. Therefore, the number of partners increases the ability to achieve a high profit. Also, in many respects, intrafirm JVs are equivalent to wholly owned subsidiaries in that they have no psychic distance between partners who have access to the same resource base, thus

minimizing the potential for resource heterogeneity. (Beamish and Kachra, 2004)

**Hypothesis 1a:** *Wholly owned investments and Intrafirm JVs achieve lower financial performance than other entry mode types.*

**Hypothesis 1b:** *The number of partners is positively related to performance.*

Even managers who go to foreign locations expecting cross-cultural differences can experience frustration in situations where cross-cultural cooperation is required (Meyer, 1993). Usually, managers expect differences in the “more visible aspects of culture” such as etiquette, standards of hospitality, and organizational practices. However, they often do not expect or prepare for the level of detail and the frequency of interaction which is required to operate the venture. (Fenwick et al., 2003)

**Hypothesis 2:** *Subsidiaries with non-Japanese managers will exhibit better performance.*

Transaction costs are determined by several factors. One of them is the capital cost of establishing a physical presence overseas (Chen and Hu, 2002). According Hennart and Park (1993), Firms attempting to create a large investment may experience a shortage of financial and/or managerial resources. The higher level of capital intensity of a foreign expansion demands greater resource commitment. Such a commitment not only strains a company’s capital and human resources, but also increases business and political risks (Hennart, 1988).

**Hypothesis 3:** *The smaller the investment scale of a Japanese subsidiary, the more profitable it is.*

Previous research found that the firm performance is determined by the type of industry (Hu and Chen, 1996; Shaver, 1998; Siripaisalpipat and Hoshino, 2000; Beamish and Kachra, 2004). The Japanese MNEs in Australia invested in a narrow product range, which raises the issue, what types of firms are attracted to Australia<sup>33</sup>. (Hutchinson and Nicholas, 1994)

Japanese FDI in Australia is not only concentrated in different sectors than non-Japanese FDI, but it also differs from Japanese FDI in Europe. In the 1980s, Japanese FDI in Britain was concentrated in chemicals and electrical machinery and in Europe it was concentrated in electrical machinery, chemicals and precision machinery. (Dunning, 1986)

Christmann et al. (1999) found that industry characteristics to be a significant determinant of subsidiary performance. They also found that the degree of significance is different across countries.

***Hypothesis 4:*** *The manufacturing industry affects negatively the performance of the Japanese foreign direct investments.*

One of the key research issues in the international business literature on JFDI is the effect of equity ownership on performance (Grossman and Hart, 1986; Anderson and Gatignon, 1986, Makino et al. 2004). The choice of control level within a subsidiary is a key issue in FDI. The level of control is often reflected in the size of equity ownership and in the relative number of expatriates. (Makino, et al., 2004)

Equity ownership represents a formal control mechanism within a subsidiary,

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<sup>33</sup> Japanese FDI in Australia is concentrated in the non-manufacturing sectors (90%), especially real estates, services, commerce and mining. The industrial distribution of the UK and the US in Australia, which is evenly distributed across different sectors of the economy, is significantly different from that of Japanese FDI. (Hutchinson and Nicholas, 1994)

which is referred to as “residual rights of control” or the rights to make decisions that are not explicitly assigned by contracts (Anderson and Gatignon, 1986). A high equity ownership would facilitate the transfer of domestic organizational routines abroad and give the subsidiary certain advantages such as opportunities to gain greater returns for proprietary knowledge or greater ability to guard against dissemination risk. (Brouthers and Brouthers, 1997)

***Hypothesis 5:*** *The higher the equity ownership, the more profitable is the Japanese foreign subsidiary.*

## **5.4 RESEARCH DESIGN**

### 5.4.1 Scope of the study

In relation to the theme of this thesis, the study is designed to answer a broad range of questions relating to the nature and performance of Japanese investments in the United Kingdom and Australia. The study aimed to ascertain whether Japanese investments differ in type and performance in these two countries.

### 5.4.2 Source of the data

The hypotheses were tested using a sample of 701 subsidiaries in the United Kingdom and Australia. The sample was obtained from Toyo Keizai Inc., Japanese overseas investment, listed by the country basis, (Toyo Keizai Inc., 1990-2001).

The classification of the entry mode is based on the percentage of share ownership of major shareholders, reported in the Toyo Keizai database. The data for the independent variables are derived from Nikkei Kaisha Nenkan, Toyo Keizai Inc.,



Japanese overseas investment, listed by firms and the Toyo Keizai Inc., the Japan Company Handbook, published by the same company.

In this study, only operations in the UK and Australia were examined. The basic selection criteria were that a subsidiary was established between 1990 and 2000. Because of the tendency for new subsidiaries to take a few years before their performance can be assessed, this study follows previous research (Woodcock et al., 1994; Nitsch et al., 1996; Siripaisalpipat and Hoshino, 2000; Pangarkar and Lim, 2003) in analyzing only those subsidiaries which were at least two years old at the time of data collection. Woodcock et al. (1994) used piece-wise linear regression with a break-point on the entire dataset to determine that two years after subsidiary foundation the performance stabilized and remained constant. The final sample size was 701 subsidiaries. There were 491 and 210 cases of Japanese foreign direct investment in the United Kingdom and Australia, respectively. The subsidiaries studied varied greatly in size but had an average of 78 employees and 2 expatriates in Australia and an average of 89 employees and 3 expatriates in UK.

#### 5.4.3 The dependent variable

“The dependent variable, subsidiary financial performance, is a three-point item assessing the subsidiary’s financial performance in 2001. The scale points were (1) Gain, (2) break-even, and (3) loss. It is a subjective measure of performance, reported by the manager as his or her assessment of the subsidiary’s financial performance. Although this measure is very limited in its ability to capture variance, it is the only private performance information the Japanese managers were willing to give (Woodcock et al., 1994).”

Even though categorical performance measures have limitations, there are arguments that support this type of measure<sup>34</sup>.

#### 5.4.4 The Independent variables

The main independent variables used in this study are:

No\_PARTNERS, which is a variable representing the total number of partners of affiliated, non-affiliated and local partners who had equity share in the subsidiary. Although there is a great deal of literature on partner selection (Parkhe, 1993; Luo, 1995; Hu and Chen, 1996; Makino and Delios, 1996; Park and Russo, 1996), it focuses on the importance of the quality of partners on JV success and/or failure, saying very

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1. It is the only private performance information the Japanese managers were willing to give (Woodcock et al., 1994). Performance data on subsidiaries is not often available, as most large organizations do not publish financial results by subsidiary.
2. In some previous research (Geringer and Herbert, 1991; Makino and Delios, 1996; Makino and Beamish, 1998; Konopaske et al 2002; Vega-Cespedes and Hoshino, 2002; Makino et al., 2004), managers' perceptions of performance have been demonstrated to be correlated with objective financial measures, suggesting the feasibility of using a subjective performance measure.
3. Firms, sometimes, are expecting their subsidiaries to perform roles such as supplying low-cost components or finished products. If a subsidiary is fulfilling such a role, its performance needs to be assessed on a broader set of criteria than a continuous (objective) measure of profitability.
4. The foreign ventures may also be exhibiting growth, an important objective for many MNC parents. Hence a subsidiary may be judged as successful even if it is not profitable. (Pangarkar and Lim, 2003)
5. Since the survey respondents were the IJV general managers, it is reasonable to expect a certain level of consistency in how they perceive IJV performance (Makino and Delios, 1996). Sometimes, despite low scores for the profitability measure, firms are moderately satisfied with the overall success of their FDI initiatives. (O'Connor and Chalos, 1999)
6. Objective financial measures of performance would not have allowed comparing performance across industries and countries, as different accounting systems and customs can limit the validity of this comparison (Brown et al., 1994).

little about the impact of the quantity of partners. (Beamish and Kachra, 2004)

A psychic distance (differences in culture, customs and language) variable is also used. It is a dummy variable indicating whether the subsidiary's manager is Japanese or not (MANAGER). Because nationality and business practices are good determinants of many common managerial problems related to human resource management, the variables MANAGER was added (Luo, 1999; Konopaske et al., 2002). The variable MANAGER is equal to one when the manager is Japanese and zero otherwise.

Capital intensity is generally thought to affect the performance of foreign direct investments (Tallman and Li, 1996; Lu and Peng, 1999; Siripaisalpipat and Hoshino, 2000). Thus; this study needs to consider whether the capital cost of establishing a physical presence overseas would affect its performance. According Hennart and Park (1993), Firms attempting to create a large investment may experience a shortage of financial and/or managerial resources. In this study two variables were chosen to measure the effect of the capital intensity on performance. Capital intensity in a foreign invested enterprise is reflected in the total investment committed to a project (INVESTMENT). This variable was logged to meet the assumption of linearity in logistic regression and the equity was translated into US dollars to work with a single currency. Japanese parent firm ownership (OWNERSHIP), measured in percentage, is also used to see the effect of the level of equity ownership on performance (Makino et al., 2004; Beamish and Kachra, 2004; Pak and Park, 2005). The percentage of ownership the parent firm has in the FDI venture is another aspect of organizational control. A majority owner generally has a strong influence over the selection of board members and key executive officers, and may affect the strategy and operations of a

firm. (Konopaske et al., 2002)

To control for industry effects, as Kogut and Sigh (1988) and Brouthers (2002), the variable INDUSTRY was included. It is a dummy variable, equal to one if the subsidiary is in the manufacturing industry and zero otherwise. This variable will control for the industry category effect.

Location is frequently cited as a factor that influences the performance of Japanese foreign subsidiaries (Anand and Delios, 1997; Dunning, 1998; DeCarolis and Deeds, 1999; Ito and Rose, 2002). In this study LOCATION is a dummy variable equal to one if the subsidiary is in the United Kingdom and zero if it is in Australia. This variable is tested as a control variable and used to control for any host country effects. It has been suggested that cultural distances between home and host cultures will affect subsidiary performance (Kogut and Singh, 1988; Konopaske et al, 2002). By controlling for national effects, any possible differences between countries that could affect subsidiary performance will be captured by the model.

As previous research show that the performance of wholly own and intrafirm JVs is significantly different from other types of entry mode (Parkhe, 1993) and because of the difference in the number of partners involved in the investment, a variable, ENTRY\_TYPE, to check whether the type of entry mode also affects the performance, was added to the multinomial logistic regression. This dummy variable is equal to one if the entry mode type is a wholly own or an Intrafirm JV, and zero otherwise.

The impact of mode selection on subsequent performance is an under studied area. Several studies analyze if some investment modes provide better performance than other modes (Simmonds, 1990; Kent, 1991; Li and Guisinger, 1991; Woodcock et al., 1994; Li, 1995; Nitsch et al., 1996; Pan and Chi, 1999). FDI entries with at least 95

percent Japanese ownership are categorized as wholly owned subsidiaries; and as international joint venture (IJV) if otherwise (Anderson and Gatignon, 1986).

In this paper, non conventional types of entry mode were also used. Makino and Beamish (1998) introduced four distinct forms of JVs based on the JVs partners' nationality and equity affiliation. JVs that are formed between affiliated home-country based firms (Intrafirm JV); JVs that are formed between unaffiliated home-country based firms (Cross-national DJV); JVs that are formed between home-country based and local firms (Traditional JV); and JVs that are formed between home-country and third-country based firms (Trinational JV).

## **5.5 RESULTS OF THE ANALYSIS**

The analytical framework is implemented in two stages. First, the study attempts to establish the difference between the characteristics of Japanese foreign direct investments in the United Kingdom and in Australia using a cross tabulation analysis<sup>35</sup>.

The second stage of the analysis verifies the influence of the defined variables on the subsidiaries performance in both the United Kingdom and in Australia.

A t-test, for equality of means between the Australian and the UK samples, to check if any difference in response is due to the treatment (or lack of treatment) and not

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<sup>35</sup> In the log-linear modeling, rejection of an independence null hypothesis leads to acceptance of the saturated model under which the expected frequencies equal the observed frequencies. (Matsuda, 1988)

to other factors, are recorded in Table 5.2. The two samples were compared with the difference between the independent variables means being assumed to be similar.

According to Table 5.2 no significant difference was found between the two samples' variables means<sup>36</sup>, thus it is concluded that the two samples are similar.

**Table 5.2 t-test for Equality of Means.**

	Mean Difference	Std. Error Difference	Sig.
<b>MANAGER</b>	-.076	.037	.041**
<b>INVESTMENT</b>	-.614	.38	.091*
<b>No_PARTNERS</b>	-.184	.059	.002***
<b>INDUSTRY</b>	-.002	.036	.958
<b>ENTRY_TYPE</b>	.102	.034	.002***
<b>OWNERSHIP</b>	6.868	1.92	.000***

\*\*\* Significant at the 1 percent level; \*\* Significant at the 5 percent level; \* Significant at the 10 percent level

### 5.5.1 Analyzing the results of the cross-tabulation analysis (Characteristics of Japanese FDI in the UK and Australia)

#### ✓ **Performance characteristics**

Table 5.3 illustrates the results of the classification. In the full sample, 485 (69.2%) were wholly owned subsidiaries, 87 (12.4%) were Traditional JVs, 66 (9.4%) were Intrafirm JVs, 47 (6.7%) were Cross-national DJVs, and 16 (2.3%) were Trinational IJVs. The first column from the left lists the number of partners. In this

<sup>36</sup> except for the variable INDUSTRY

sample, the number of two-partner venture represented less than 26% of the total cases and 80% of the total JVs. 20% of the JVs had three or more partners.

**Table 5.3 Comparison of the Entry mode Formation by the Ownership Structure.  
(Total Sample)**

Total No of Partners		Entry Type					Total
		WH	Intrafirm JV	DJV	Traditional	Trinational	
1	Count	480	0	0	0	0	480
	% within No of Partners	100%	.0%	.0%	.0%	.0%	100%
2	Count	5	59	32	70	11	177
	% within No of Partners	2.8%	33.3%	18.1%	39.6%	6.2%	100%
3	Count	0	5	7	13	3	28
	% within No of Partners	.0%	17.9%	25.0%	46.4%	10.7%	100%
4	Count	0	2	5	3	0	10
	% within No of Partners	.0%	20.0%	50.0%	30.0%	.0%	100%
5	Count	0	0	3	1	2	6
	% within No of Partners	.0%	.0%	50.0%	16.7%	33.3%	100%
Total	Count	485	66	47	87	16	701
	% within No of Partners	69.2%	9.4%	6.7%	12.4%	2.3%	100%
	% of Total	69.2%	9.4%	6.7%	12.4%	2.3%	100%
		<b>Value</b>				<b>df</b>	
<i>Pearson Chi-Square</i> <sup>37</sup>		741.170***				16	

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

<sup>37</sup> In the log-linear modeling, rejection of an independence null hypothesis leads to acceptance of the saturated model under which the expected frequencies equal the observed frequencies. (Matsuda, 1988)

**Table 5.4 Comparison of the Entry mode Formation by the Ownership Structure.  
(UK Sample)**

Total No of Partners		Entry Type					Total
		WH	Intrafirm JV	DJV	Traditional	Trinational	
1	Count	352	0	0	0	0	352
	% within No of Partners	100%	.0%	.0%	.0%	.0%	100%
2	Count	4	40	19	44	9	116
	% within No of Partners	3.4%	34.5%	16.4%	37.9%	7.8%	100%
3	Count	0	4	2	7	2	15
	% within No of Partners	.0%	26.7%	13.3%	46.7%	13.3%	100%
4	Count	0	1	1	2	0	4
	% within No of Partners	.0%	25.0%	25.0%	50.0%	.0%	100%
5	Count	0	0	1	1	2	4
	% within No of Partners	.0%	.0%	25.0%	25.0%	50.0%	100%
Total	Count	356	45	23	54	13	491
	% within No of Partners	72.5%	9.2%	4.7%	11.0%	2.6%	100%
	% of Total	72.5%	9.2%	4.7%	11.0%	2.6%	100%
		<b>Value</b>		<b>df</b>			
	<b>Pearson Chi-Square</b>	509.375***		16			

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

Table 5.4 illustrates the results of the classification for the UK sample. 356 (72.5%) of the cases were wholly owned, 54 (11%) were Traditional JVs, 45 (9.2%) were Intrafirm JVs, 23 (4.7%) were Cross-national DJVs, and 13 (2.6%) were Trinational IJVs. In this sample, the number of two-partner venture represented less than 24% of the total cases and 83.4% of the total JVs. Almost 18% of the JVs had three or more partners.



**Table 5.5 Comparison of the Entry mode Formation by the Ownership Structure.  
(Australian Sample)**

Total No of Partners		Entry Type					Total
		WH	Intrafirm JV	DJV	Traditional	Trinational	
1	Count	128	0	0	0	0	128
	% within No of Partners	100%	.0%	.0%	.0%	.0%	100%
2	Count	1	19	13	26	2	61
	% within No of Partners	1.6%	31.2%	21.3%	42.6%	3.3%	100%
3	Count	0	1	5	6	1	13
	% within No of Partners	.0%	7.7%	38.5%	46.1%	7.7%	100%
4	Count	0	1	4	1	0	6
	% within No of Partners	.0%	16.7%	66.6%	16.7%	.0%	100%
5	Count	0	0	2	0	0	2
	% within No of Partners	.0%	.0%	100%	.0%	.0%	100%
Total	Count	129	21	24	33	3	210
	% within No of Partners	61.4%	10.0%	11.4%	15.7%	1.5%	100%
	% of Total	61.4%	10.0%	11.4%	15.7%	1.5%	100%
		<b>Value</b>		<b>df</b>			
<b>Pearson Chi-Square</b>		241.096***		16			

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

Table 5.5 illustrates the results of the classification for the Australian sample. 129 (61.4%) of the cases in this sample were wholly owned, 33 (15.7%) were Traditional JVs, 21 (10%) were Intrafirm JVs, 24 (11.4%) were Cross-national DJVs, and 3 (1.5%) were Trinational IJVs. In this sample, the number of two-partner venture represented 29% of the total cases and less than 75% of the total JVs. Almost 26% of the JVs had three or more partners.

Table 5.6 provides the results of the cross-tabulation analysis which examined the relationship between financial performance and ownership structure. Marginal frequencies show that 41.5% of the subsidiaries in the full sample (UK and Australia) were profitable, while 37.8% had a loss in 2001. Intrafirm JVs had the best performance, 59.1% of intrafirm JVs were classified as profitable, or “gain.” Among the other four entry types, Cross-national DJVs had the second best performance (53.2%), followed by Traditional JVs (48.3%) and wholly own (37.1%). Trinational IJVs were the worst performers with 50% of unprofitable cases.

**Table 5.6 Entry mode Structure and Performance: Result of the Cross-tabulation Analysis (Total Sample)**

Entry Type		Performance			Total
		Profit	Break-even	Loss	
<b>WH</b>	<b>Count</b>	180	108	197	<b>485</b>
	<b>% within Entry Type</b>	37.1%	22.3%	40.6%	<b>100%</b>
<b>Intrafirm</b>	<b>Count</b>	39	12	15	<b>66</b>
	<b>% within Entry Type</b>	59.1%	18.2%	22.7%	<b>100%</b>
<b>DJV</b>	<b>Count</b>	25	10	12	<b>47</b>
	<b>% within Entry Type</b>	53.2%	21.3%	25.5%	<b>100%</b>
<b>Traditional</b>	<b>Count</b>	42	12	33	<b>87</b>
	<b>% within Entry Type</b>	48.3%	13.8%	37.9%	<b>100%</b>
<b>Trinational</b>	<b>Count</b>	5	3	8	<b>16</b>
	<b>% within Entry Type</b>	31.25%	18.75%	50.0%	<b>100%</b>
<b>Total</b>	<b>Count</b>	<b>291</b>	<b>145</b>	<b>265</b>	<b>701</b>
	<b>% within Entry Type</b>	<b>41.5%</b>	<b>20.7%</b>	<b>37.8%</b>	<b>100%</b>
<b>Pearson Chi-Square</b>		<b>Value</b>	<b>df</b>		
		20.392***	8		

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

**Table 5.7 Location VS Performance (Total Sample)**

Location of the Investment		Performance			Total
		<i>Profit</i>	<i>Break-even</i>	<i>Loss</i>	
<b>Australia</b>	<b>Count</b>	134	28	48	210
	<b>% within Location</b>	63.8%	13.3%	22.9%	100%
<b>UK</b>	<b>Count</b>	157	117	217	491
	<b>% within Location</b>	32.0%	23.8%	44.2%	100%
<b>Total</b>	<b>Count</b>	291	145	265	701
	<b>%within Location</b>	41.5%	20.7%	37.8%	100%
		<b>Value</b>	<b>df</b>		
<b>Pearson Chi-Square</b>		61.458***	2		

The results in Table 5.7 show that Japanese subsidiaries in Australia, on average, are more profitable than those in the UK. 63.8% of the JFDI in Australia were profitable and only 22.9% had a loss in 2001. In the UK only 32% of the JFDI were classified as “GAIN” while 44.2% had a loss in 2001.

Table 5.8 provides in details the results of the cross-tabulation analysis which examine the relationship between financial performance and ownership structure for the UK sample. Marginal frequencies show that in the UK just 32% of the subsidiaries were profitable, while 44.2% had a loss in 2001. Intrafirm JVs had the best performance, 48.9% of intrafirm JVs were classified as profitable, or “gain.”

Among the other four entry types, Cross-national DJVs had the second best performance (43.5%), followed by Traditional JVs (42.6%) and Trinational IJVs (30.8%). Wholly own were the worst performers with 46.3% of unprofitable cases.

Table 5.9 provides the results of the cross-tabulation analysis of the performance versus ownership structure for the Australian sample. Marginal frequencies show that 63.8% of the subsidiaries were profitable, while 22.9% had a loss in 2001. Intrafirm JVs had the best performance, 81% of intrafirm JVs were classified as profitable, or “gain.” Among the other four entry types, wholly own had the second best performance (63.6%), followed by cross-national DJVs (62.5%) and traditional JVs (57.6%). Trinational IJVs were the worst performers with 66.7% of unprofitable cases.

**Table 5.8 Entry mode Structure and Performance: Result of the Cross-tabulation Analysis (UK Sample)**

Entry Type		Performance			Total
		Profit	Break-even	Loss	
<b>WH</b>	<b>Count</b>	98	93	165	<b>356</b>
	<b>% within Entry Type</b>	27.5%	26.1%	46.4%	<b>100%</b>
<b>Intrafirm</b>	<b>Count</b>	22	9	14	<b>45</b>
	<b>% within Entry Type</b>	48.9%	20.0%	31.1%	<b>100%</b>
<b>DJV</b>	<b>Count</b>	10	4	9	<b>23</b>
	<b>% within Entry Type</b>	43.5%	17.4%	39.1%	<b>100%</b>
<b>Traditional</b>	<b>Count</b>	23	8	23	<b>54</b>
	<b>% within Entry Type</b>	42.6%	14.8%	42.6%	<b>100%</b>
<b>Trinational</b>	<b>Count</b>	4	3	6	<b>13</b>
	<b>% within Entry Type</b>	30.8%	23.1%	46.1%	<b>100%</b>
<b>Total</b>	<b>Count</b>	<b>157</b>	<b>117</b>	<b>217</b>	<b>491</b>
	<b>% within Entry Type</b>	<b>32.0%</b>	<b>23.8%</b>	<b>44.2%</b>	<b>100%</b>
<b>Pearson Chi-Square</b>		<b>Value</b>	<b>df</b>		
		14.690**	8		

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

The data show that the number of partners is higher in the Australian sample with 39% of the subsidiaries having at least two parent companies and 26% of the joint ventures having 3 or more parent companies. In UK the percentage is 29.3% for at least two partners and 18% of the joint ventures formed by 3 or more partners.

**Table 5.9 Entry Mode Structure and Performance: Result of the Cross-tabulation Analysis (Australian Sample)**

Entry Type		Performance			Total
		Profit	Break-even	Loss	
<b>WH</b>	<b>Count</b>	82	15	32	<b>129</b>
	<b>% within Entry Type</b>	63.6%	11.6%	24.8%	<b>100%</b>
<b>Intrafirm</b>	<b>Count</b>	17	3	1	<b>21</b>
	<b>% within Entry Type</b>	81.0%	14.2%	4.8%	<b>100%</b>
<b>DJV</b>	<b>Count</b>	15	6	3	<b>24</b>
	<b>% within Entry Type</b>	62.5%	25.0%	12.5%	<b>100%</b>
<b>Traditional</b>	<b>Count</b>	19	4	10	<b>33</b>
	<b>% within Entry Type</b>	57.6%	12.1%	30.3%	<b>100%</b>
<b>Trinational</b>	<b>Count</b>	1	0	2	<b>3</b>
	<b>% within Entry Type</b>	33.3%	.0%	66.7%	<b>100%</b>
<b>Total</b>	<b>Count</b>	<b>134</b>	<b>28</b>	<b>48</b>	<b>210</b>
	<b>% within Entry Type</b>	<b>63.8%</b>	<b>13.3%</b>	<b>22.9%</b>	<b>100%</b>
<b>Pearson Chi-Square</b>		<b>Value</b>	<b>df</b>		
		13.463*	8		

WH: Wholly own; Intrafirm: Intrafirm JV; DJV: Cross-national domestic JV; Traditional: Traditional IJV; Trinational: Trinational JV

✓ **Industry characteristics**

In the full sample, 64.5% (452 cases) of the subsidiaries were in the tertiary industrial sectors, 27.4% (192 cases) were in secondary industrial sector and only 8.1% (57 cases) were in the primary industrial sector. (Table 5.10)

**Table 5.10 Location VS Industry Type**

Location		Industry Sector			
		Primary	Secondary	Tertiary	Total
<b>Australia</b>	Count	18	58	134	<b>210</b>
	% within Location	8.6%	27.6%	63.8%	<b>100%</b>
<b>UK</b>	Count	39	134	318	<b>491</b>
	% within Location	7.9%	27.3%	64.8%	<b>100%</b>
<b>Total</b>	Count	<b>57</b>	<b>192</b>	<b>452</b>	<b>701</b>
	% within Location	<b>8.1%</b>	<b>27.4%</b>	<b>64.5%</b>	<b>100%</b>

The frequency is almost the same in the UK and Australia. 63.8% of the subsidiaries in Australia were in the tertiary sector, 27.6% in the secondary sector and 8.6% in the primary sector. In the UK, 64.8% of the Japanese subsidiaries were operating in the tertiary sector, 27.3% in the secondary sector and 7.9% in the primary sector.

When looking at the total sample (UK and Australia), there is almost no big difference in performance between the three industrial sectors. (Table 5.11)

41.6% of the subsidiaries in the secondary sector were classified as profitable while 37.4% had a loss in 2001 and 21% reported a breakeven. For the tertiary sector, 40.4% of the JFDI in the UK and Australia were profitable, 22.8% were at the breakeven level, and 36.8% were unprofitable.

In the primary sector, the sample reported 40.4% of cases with gain, 22.8% had a breakeven and 36.8% had a loss.

Table 5.12 shows that JFDI in the UK performed better in the secondary sector than in the tertiary and the primary sectors. 33.6% of the JFDI in the secondary sector in the UK declared profits in 2001. The tertiary sector only 31.4% of profitable the cases.

**Table 5.11 Industry VS Performance (Total Sample)**

Industry Sector		Performance			Total
		Profit	Break-even	Loss	
<b>Primary</b>	Count	23	13	21	<b>57</b>
	% within Industry Type	40.4%	22.8%	36.8%	<b>100%</b>
<b>Secondary</b>	Count	188	95	169	<b>452</b>
	% within Industry Type	41.6%	21.0%	37.4%	<b>100%</b>
<b>Tertiary</b>	Count	23	13	21	<b>57</b>
	% within Industry Type	40.4%	22.8%	36.8%	<b>100%</b>
<b>Total</b>	Count	<b>291</b>	<b>145</b>	<b>265</b>	<b>701</b>
	% within Industry Type	<b>41.5%</b>	<b>20.7%</b>	<b>37.8%</b>	<b>100%</b>

**Table 5.12 Performance VS Industry Type (UK Sample)**

Industry Sector		Performance			Total
		Profit	Break-even	Loss	
<b>Primary</b>	Count	12	12	15	<b>39</b>
	% within Industry Type	30.8%	30.8%	38.4%	<b>100%</b>
<b>Secondary</b>	Count	45	26	63	<b>134</b>
	% within Industry Type	33.6%	19.4%	47.0%	<b>100%</b>
<b>Tertiary</b>	Count	100	79	139	<b>318</b>
	% within Industry Type	31.4%	24.9%	43.7%	<b>100%</b>
<b>Total</b>	Count	<b>157</b>	<b>117</b>	<b>217</b>	<b>491</b>
	% within Industry Type	<b>32.0%</b>	<b>23.8%</b>	<b>44.2%</b>	<b>100%</b>

**Table 5.13 Performance VS Industry Type (Australian Sample)**

Industry Sector		Performance			Total
		Profit	Break-even	Loss	
<b>Primary</b>	Count	11	1	6	<b>18</b>
	% within Industry Type	61.1%	5.6%	33.3%	<b>100%</b>
<b>Secondary</b>	Count	35	11	12	<b>58</b>
	% within Industry Type	60.3%	19.0%	20.7%	<b>100%</b>
<b>Tertiary</b>	Count	88	16	30	<b>134</b>
	% within Industry Type	65.7%	11.9%	22.4%	<b>100%</b>
<b>Total</b>	Count	<b>134</b>	<b>28</b>	<b>48</b>	<b>210</b>
	% within Industry Type	<b>63.8%</b>	<b>13.3%</b>	<b>22.9%</b>	<b>100%</b>

Results in the table 5.13 show that the tertiary sector performed best in Australia, with 65.7% of JFDI profitable. 60.3% of the cases in the secondary sector and 61.1% of the cases in the primary sector had also a profit in 2001.

✓ **Purposes of investment**

Table 5.14 represents the cross tabulation analysis which compares the reason for investing with the location of the investment.

The Toyo Keizai database used in this study, categorized 16 types of reason for investment<sup>38</sup>. (See ANNEX to chapter 5, p.153)

The top three reasons for investing chosen by the Japanese parent companies when investing in the UK and Australia were, “*Access to local market*” with 32% of the cases in the full sample, “*Establishment of production network*” with 16.1%, and “*Establishment of distribution network*” with 15.4% of the total sample.

Table 5.14 shows that the Japanese Investors’ first reason for investment is “*Access to local market*” in both Australia and the UK.

In particular, it is worth noticing that the second reason for the Japanese MNEs to invest in Australia is “*Access to natural resources*” with a percentage of 25.8, while “*Establishment of production network*” is the second reason for Japanese MNEs to invest in the UK. The third reason for investment in both countries is “*Establishment of distribution network*” with 18% of the cases in Australia and 14.1% in the UK.

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<sup>38</sup> Among the sixteen identified investment purposes, “access to local markets” was the most frequently cited reason for both Australia and the United Kingdom.



**Table 5.14 Purpose VS Location**

		Location		
		Australia	UK	Total
<b>Reason for Investing</b>	Count			
	% within Location			
Access to natural resources	Count	23	10	33
	% within Location	25.9%	5.2%	11.7%
Access to labor forces	Count	2	8	10
	% within Location	2.3%	4.2%	3.6%
Invitation from the local government	Count	0	2	2
	% within Location	.0%	1.1%	.7%
Establishment of production network	Count	4	41	45
	% within Location	4.5%	21.5%	16.1%
Establishment of distribution network	Count	16	27	43
	% within Location	18.0%	14.1%	15.4%
Access to local market	Count	31	59	90
	% within Location	34.8%	30.9%	32.1%
Import to a third-country	Count	1	1	2
	% within Location	1.1%	.5%	.7%
Follow the customers/the affiliated companies	Count	0	3	3
	% within Location	.0%	1.6%	1.1%
Hedge against exchange rate risks	Count	1	9	10
	% within Location	1.1%	4.7%	3.6%
Royalty acquisition and Information collection	Count	4	14	18
	% within Location	4.5%	7.3%	6.4%
Product development and planning for the international market	Count	1	8	9
	% within Location	1.1%	4.2%	3.2%
Entry into a new business	Count	1	0	1
	% within Location	1.1%	.0%	.4%
Regional HQ	Count	0	5	5
	% within Location	.0%	2.6%	1.8%
Others	Count	5	4	9
	% within Location	5.6%	2.1%	3.2%
<b>Total</b>	Count	89	191	280

✓ **Purposes and the chosen entry modes**

The results in Tables 5.15 show that when the reason of investing is “*Access to local market*” or “*Establishment of distribution network*” then the Japanese parent company will likely choose a wholly own type of entry mode with respectively 58.1% and 62.5% of chances. While if the investment reason is “*Access to natural resources*” then Cross-national DJV is the entry mode chosen by the Japanese investors, with a chance of 56.5%.

In the United Kingdom, and in the three main reasons of investment, wholly own entry mode is the most likely to be chosen by the Japanese parent company. (See Table 5.16)

It is also worth noticing that JFDI don't take into consideration “*Invitation from the local government*”, “*Follow the customers/the affiliated companies*”, and “*Regional HQ*” as reasons when investing in Australia and that investing in the UK, it is never related to the reason of “*Entry into a new business*”. Likewise “*Measures against trade frictions*” and “*Import back to Japan*” are not important reasons pushing Japanese MNEs to invest in both the UK and Australia.

**Table 5.15 Reason VS Entry Mode (Australian Sample)**

Reason		Entry Type				Total
		WH	Intrafirm	DJV	Traditional	
Access to natural resources	Count	8	1	13	1	<b>23</b>
	% within Reason	34.8%	4.3%	56.6%	4.3%	<b>100%</b>
Access to labor forces	Count	1	0	1	0	<b>2</b>
	% within Reason	50.0%	.0%	50.0%	.0%	<b>100%</b>
Establishment of production network	Count	3	0	1	0	<b>4</b>
	% within Reason	75.0%	.0%	25.0%	.0%	<b>100%</b>
Establishment of distribution network	Count	10	2	2	2	<b>16</b>
	% within Reason	62.5%	12.5%	12.5%	12.5%	<b>100%</b>
Access to local market	Count	18	2	2	9	<b>31</b>
	% within Reason	58.0%	6.5%	6.5%	29.0%	<b>100%</b>
Import to a third-country	Count	0	0	0	1	<b>1</b>
	% within Reason	.0%	.0%	.0%	100%	<b>100%</b>
Hedge against exchange rate risks	Count	1	0	0	0	<b>1</b>
	% within Reason	100%	.0%	.0%	.0%	<b>100%</b>
Royalty acquisition and Information collection	Count	2	0	0	2	<b>4</b>
	% within Reason	50.0%	.0%	.0%	50.0%	<b>100%</b>
Product development and planning for the international market	Count	1	0	0	0	<b>1</b>
	% within Reason	100%	.0%	.0%	.0%	<b>100%</b>
Entry into a new business	Count	1	0	0	0	<b>1</b>
	% within Reason	100%	.0%	.0%	.0%	<b>100%</b>
Others	Count	3	0	1	1	<b>5</b>
	% within Reason	60.0%	.0%	20.0%	20.0%	<b>100%</b>
<b>Total</b>	<b>Count</b>	<b>48</b>	<b>5</b>	<b>20</b>	<b>16</b>	<b>89</b>
	<b>% within Reason</b>	<b>53.9%</b>	<b>5.6%</b>	<b>22.5%</b>	<b>18.0%</b>	<b>100%</b>

**Table 5.16 Reason VS Entry Mode (UK Sample)**

Reason		Entry Type					Total
		WH	Intrafirm	DJV	Traditional	Trinational	
<i>Access to natural resources</i>	Count	7	1	1	1	0	<b>10</b>
	% within Reason	70.0%	10.0%	10.0%	10.0%	.0%	<b>100%</b>
<i>Access to labor forces</i>	Count	4	1	2	1	0	<b>8</b>
	% within Reason	50.0%	12.5%	25.0%	12.5%	.0%	<b>100%</b>
<i>Invitation from the local government</i>	Count	2	0	0	0	0	<b>2</b>
	% within Reason	100.0%	.0%	.0%	.0%	.0%	<b>100%</b>
<i>Establishment of production network</i>	Count	21	5	5	7	3	<b>41</b>
	% within Reason	51.2%	12.2%	12.2%	17.1%	7.3%	<b>100%</b>
<i>Establishment of distribution network</i>	Count	19	3	0	4	1	<b>27</b>
	% within Reason	70.4%	11.1%	.0%	14.8%	3.7%	<b>100%</b>
<i>Access to local market</i>	Count	43	5	3	6	2	<b>59</b>
	% within Reason	72.9%	8.5%	5.1%	10.1%	3.4%	<b>100.0%</b>
<i>Import to a third-country</i>	Count	1	0	0	0	0	<b>1</b>
	% within Reason	100%	.0%	.0%	.0%	.0%	<b>100%</b>
<i>Follow the customers/the affiliated companies</i>	Count	3	0	0	0	0	<b>3</b>
	% within Reason	100%	.0%	.0%	.0%	.0%	<b>100%</b>
<i>Hedge against exchange rate risks</i>	Count	7	0	0	1	1	<b>9</b>
	% within Reason	77.8%	.0%	.0%	11.1%	11.1%	<b>100%</b>
<i>Royalty acquisition and Information collection</i>	Count	11	1	0	2	0	<b>14</b>
	% within Reason	78.6%	7.1%	.0%	14.3%	.0%	<b>100%</b>
<i>Product development and planning for the international market</i>	Count	7	0	1	0	0	<b>8</b>
	% within Reason	87.5%	.0%	12.5%	.0%	.0%	<b>100%</b>
<i>Regional HQ</i>	Count	4	1	0	0	0	<b>5</b>
	% within Reason	80.0%	20.0%	.0%	.0%	.0%	<b>100%</b>
<i>Others</i>	Count	2	1	0	1	0	<b>4</b>
	% within Reason	50.0%	25.0%	.0%	25.0%	.0%	<b>100%</b>
<b>Total</b>	<b>Count</b>	<b>131</b>	<b>18</b>	<b>12</b>	<b>23</b>	<b>7</b>	<b>191</b>

### 5.5.2 Analyzing the results of the multinomial logistic regression

Table 5.17 gives the correlation matrix for the variables used in the study. In addition Tolerance and Variance inflation factor (VIF) are examined to determine the existence of multicollinearity. The results reveal that the VIF scores for each independent variable do not achieve the critical point of 10 (Chatterjee et al., 1995). Since all were low, there is no significant multicollinearity present in the model.

Because of the nature of the dependent variable, a three-point item, which violates the fundamental assumption of Ordinary Least Squares regression (that the dependent variable is normally distributed), a multinomial logistic regression was used, which is more appropriate in such cases (Agarwal and Ramaswami, 1992 ).

Nevertheless, and because the dependent variable is an ordered trichotomous variable, an ordinal regression was also run to confirm the results of the multinomial logistic regression. Results from both regressions are similar. However, the use of multinomial logistic regression was preferred to ordinal regression as the former is more robust, places fewer constraints on the data, and provides the reader with a clearer interpretation of the data<sup>39</sup>. (Beamish and Kachra, 2004)

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<sup>39</sup> Ordinal Regression could be used to study the performance of the Japanese foreign direct investments. But the difference between Gain and Breakeven is difficult or impossible to quantify and is based on perception. Moreover, the difference between Loss and Breakeven response may be greater or less than the difference between Gain and Breakeven response.

**Table 5.17 Pearson correlation (Full Sample, N=701)**

Variables	Dependent Variable	Coefficients					
		MANAGER	INVESTMENT	NO_PARTNERS	LOCATION	INDUSTRY	ENTRY_TYPE
MANAGER	-0.112***						
INVESTMENT	-0.050	0.002					
No_PARTNER	-0.091**	-0.087**	0.069				
LOCATION	0.274***	-0.077**	-0.060	-0.118***			
INDUSTRY	0.011	-0.69**	0.004	-0.005	-0.002		
ENTRY_TYPE	0.053	0.159***	0.010	-0.709**	0.114***	0.014	
OWNERSHIP	0.078**	0.185***	-0.029	-0.773***	0.134***	0.012	0.769***

*Descriptive Statistics*

	MANAGER	INVESTMENT	No_PARTNER	LOCATION	INDUSTRY	ENTRY_TYPE	OWNERSHIP
N	701	701	701	701	701	701	701
Mean	.72	12.9840905742	1.41	.70	.27	.79	87.0393
Std. Deviation	.448	4.66310536595	.715	.458	.442	.410	23.48317
Range	1	30.53550606	4	1	1	1	93.18

**Collinearity Statistics (Table 5.17 continued)**

Variables	Tolerance	VIF
MANAGER	.940	1.063
INVESTMENT	.985	1.015
No_PARTNERS	.479	2.086
LOCATION	.968	1.033
INDUSTRY	.994	1.006
ENTRY_TYPE	.412	2.427
OWNERSHIP	.273	3.662

\*\*\* Correlation is Significant at the 1 percent level; \*\* Correlation is Significant at the 5 percent level. MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese= 0); INVESTMENT: Equity capital of the investment; No\_PARTNERS: Total Number of the parent companies; LOCATION: dummy variable equal to 1 if the subsidiary is in the United Kingdom and 0 if it is in Australia; INDUSTRY: Entry into manufacturing industry (manufacturing industry = 1; otherwise = 0); ENTRY\_TYPE: Entry mode type (Wholly own and intrafirm JV=1, otherwise=0); OWNERSHIP: Percentage of equity owned by the parent company

In the multinomial logistic regression analysis, three separate models were evaluated: Model (1) illustrates the regression for the full sample, taking into account the Japanese foreign investments in the United Kingdom and Australia. Model (2) illustrates the sample of Japanese subsidiaries in the United Kingdom. Model (3) illustrates the regression only for Japanese FDI in Australia.

On the whole, the data supported the model, although some specific hypotheses were not supported. The table 5.18 shows the values of the coefficient, the standard error, the exponential expression and the level of significance of each independent variable for predicting a subsidiary's performance as Gain or Break-even. Loss is not reported because only two equations are determined for a three-level dependent variable in multinomial logistic regression. However, the loss coefficients would be the same magnitude as the Gain coefficients but in the opposite direction (Konopaske and al., 2002).

In addition, the number of cases correctly predicted by the model, the chi-square of the model, the value of the likelihood function and the expected signs of the variables are reported as well.

The 5.18 reports the results. Chi-square, 81.148 (df=14), is significant at 1% which indicates that the model distinguishes well between the three degrees of performance.

**Table 5.18 The results of the multinomial logistic regression**

		Model1		Model 2		Model 3	
		Profit	Break-even	Profit	Break-even	Profit	Break-even
<i>Variables</i>	<i>Hypothesized sign</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>
MANAGER	-	0.527*** <b>1.693</b> (.203)	0.571** <b>1.770</b> (.243)	0.454** <b>1.574</b> (.232)	0.629** <b>1.876</b> (.264)	1.137*** <b>3.117</b> (.395)	1.412** <b>4.103</b> (.632)
INVESTMENT	-	0.015 <b>1.015</b> (.445)	-0.036* <b>1.770</b> (.019)	0.011 <b>1.011</b> (.025)	-0.050* <b>.951</b> (.027)	0.034 <b>1.034</b> (.033)	-0.027 <b>.973</b> (.046)
No_PARTNERS	+	0.208* <b>1.231</b> (.109)	0.062 <b>1.064</b> (.261)	0.281 <b>1.324</b> (.243)	-0.115 <b>.891</b> (.338)	0.281 <b>1.324</b> (.431)	0.437 <b>1.548</b> (.509)
LOCATION	Control Variable	-1272*** <b>.280</b> (.201)	-0.036 <b>.965</b> (.268)				
INDUSTRY	+	-0.18 <b>.982</b> (.201)	-0.102 <b>.903</b> (.239)	-0.045 <b>.956</b> (.237)	-0.354* <b>.702</b> (.174)	0.229 <b>1.257</b> (.413)	0.981* <b>2.668</b> (.550)
ENTRY_TYPE	-	0.272 <b>1.313</b> (.376)	0.676 <b>1.965</b> (.456)	0.053 <b>1.055</b> (.428)	0.286 <b>1.331</b> (.547)	1.216 <b>3.373</b> (.791)	2.149** <b>8.574</b> (1.028)
OWNERSHIP	+	-0.005 <b>.995</b> (.007)	-0.011 <b>.989</b> (.009)	-0.003 <b>.997</b> (.008)	0.001 <b>1.000</b> (.011)	-0.016 <b>.984</b> (.015)	-0.044** <b>.957</b> (.019)
Intercept		0.365(.801)	-0.152(.986)	-0.931(.951)	-0.404(1.232)	-0.265(1.547)	-0.207(1.928)
<b>-2Log likelihood</b>		1319.821***		961.295**		323.939***	
<b>% of correct classifications</b>		49.6%		44.0%		63.3%	
<b>Model Chi-squared</b>		81.148*** (df=14)		23.788** (df=12)		24.305** (df=12)	

Number of cases: Model 1 is the total sample with 701 cases; Model 2 is the UK sample with 491 cases; Model 3 is the Australian sample with 210 cases.

Note: Standard Error in parentheses.\*\*\* Correlation is Significant at the 1 percent level; \*\* Correlation is Significant at the 5 percent level; \* Correlation is Significant at the 10 percent level. **Exp(B) in bold**

MANAGER: Nationality of the subsidiary's manager (Japanese= 1; not Japanese= 0); INVESTMENT: Equity capital of the investment; No\_PARTNERS: Total Number of the parent companies; LOCATION: dummy variable equal to 1 if the subsidiary is in the United Kingdom and 0 if it is in Australia; INDUSTRY: Entry into manufacturing industry (manufacturing industry = 1; otherwise = 0); ENTRY\_TYPE: Entry mode type (Wholly own and intrafirm JV=1, otherwise=0); OWNERSHIP: Percentage of equity owned by the parent company



In model 1, No\_PARTNERS, LOCATION, and MANAGER were all found to be significant predictors of subsidiary's profitable performance (Gain). The variable INVESTMENT is, however, significantly negatively related to break-even.

With the exception of MANAGER and INVESTMENT, significant variables have the predicted signs. The coefficient of No\_PARTNERS is positive and significant; this means that when the number of parent companies increases, the international venture will perform better. The Exp(B) of No\_PARTNERS is equal to 1.231, this means that when the number of partners increases by one, it will raise the probability of success by 23.1%. LOCATION is negatively related to profitable performance. Investing in the U.K. will raise the probability of loss by almost 70%. This confirms the result of the cross tabulation analysis; in which JFDI in Australia, on average, perform better than those in UK. The coefficient of MANAGER, the measure of endowment in human resources is significant, showing a positive sign, suggesting that with a Japanese manager the subsidiary will perform better. This variable has an Exp(B) equal to 1.693 suggesting that subsidiaries with a Japanese manager perform will raise the probability of success by 69.3%. This contradicts hypothesis 2 which conjectured that subsidiaries with non Japanese managers will exhibit better performance. In contradiction to what was hypothesized, INVESTMENT is positively related to profitable performance, but not at a statistically significant level. The variable is, however, significantly negatively related to break-even.

The coefficients of ENTRY\_TYPE, INDUSTRY and OWNERSHIP are insignificant, suggesting that the entry mode, the type of industry and the percentage of ownership do not increase the probability that the Japanese subsidiary will exhibit better performance, as suggested in hypothesis 1a, 3 and 5.

In the models 2 and 3, the main effect variables show similar results to those in the model 1. In general, the coefficients of the explanatory variables maintain their sign. Nevertheless, some interesting aspects do emerge.

In model 2 the variable No\_PARTNERS is no more significant. This means that the number of parent companies does not influence the performance of the JFDIs in the UK.

The variable INDUSTRY is however significantly related to break-even.

Changes appear also in the third model. The variable INVESTMENT is no longer significant to break-even but the variables ENTRY\_TYPE, INDUSTRY and OWNERSHIP are significantly related to break-even. This probably means that when the Japanese decide to enter the Australian market, the size of the investment would not affect the performance of their subsidiaries.

It is also worth noticing the sign of the variable INDUSTRY in this model. INDUSTRY is positively related to performance, as predicted in Hypothesis 4.

## **5.6 Discussion**

Two central research questions are being investigated in this study. Do differences in Japanese investments exist between Australian and the United Kingdom? And if so, what are these differences?

The results suggest that the more the partners in an IJV the more likely it was to perform. This contradicts Park and Russo (1996) who found that the number of partners is negatively related to performance and Medcof (1997) in his study of multi-firm alliances; found that over 50% outperformed more traditional forms of business activity. JV performance might not be only

related to structure and resources provided by the various partners, it could be also related to how well partners meet the challenge of ensuring a good relationship. Many researchers have recognized the importance of JV partner cooperation as a determinant of performance. (Beamish and Kachra, 2004)

The intrafirm JV entry type was by far the most successful entry mode, suggesting that sharing the costs of the FDI with partners from the same country, or even better, from the same group, was the critical factor that improved performance. Differences at both country and corporate levels were strongly related to the performance of the FDI. This provides an empirical support for previous studies (Makino and Beamish, 1998) that Intrafirm JVs and Cross-national DJVs with a small psychic distance between the partners perform better than other types of entry modes. Previous studies have found that an Intrafirm JV and a Cross-national DJV represent longer-term solutions for attaining JV success. A Trinational IJV is usually the least desirable of the ownership-structure types, as it incurs the highest termination rate and achieves the lowest performance (Makino and Beamish, 1998).

The data revealed that Japanese parents had a smaller equity stake in their affiliates in Australia than in the United Kingdom, and that the percentage of ownership is negatively related to performance, which highlights the learning opportunities available in the UK. Since knowledge is more easily transferred or acquired through social interactions within hierarchies, a more aggressive level of equity ownership in the target location is expected when the firm's strategic motives include "*Access to local market*" and "*Establishment of production and distribution network*" which need an acquisition of new ideas or knowledge.

Also Japanese MNEs in the tertiary sector performed better in Australia than in UK where JFDI are more profitable in the secondary sectors. The JFDI investing in the Australian primary industrial sector are less profitable. Perhaps because the local firms are more likely than

MNEs to have privileged access to domestic supply of agriculture or mineral resources and that the domestic market for these resources is not competitive. As a result, MNEs should be more likely to form JV in these industries than others.

The analysis showed that the performance of the five ownership structures used in this study was different from UK and Australia. One surprising result is that wholly own subsidiaries in UK performed the worst, while they had a high performance in Australia. The question raised by these studies is: if certain entry modes are predictably more or less profitable than the rest, why do companies make choices that appear to be in conflict with the predicted outcome? There are cases of course, where parent firms are compelled to choose a Traditional IJV because of host-country ownership restrictions, or where there is overcapacity in a given industry.

Related to the issue of control and management style, is the question of performance. Japanese MNEs in Australia, on average, performed better than those in the UK. Maybe because companies investing in a small market (Australia), face less competition which characterizes large markets (the UK). The conventional perception that the small size of the market would be a major obstacle to successful operations of foreign subsidiaries, and thereby to achievement of satisfactory performance, is therefore doubtful. Managers should recognize that many subsidiaries in a small market like Australia are doing much better than subsidiaries in the UK.

Performance of a subsidiary might be measured by different kind of indicators. In this study, the evidence on one performance indicator suggests that the number of investors, the location of the investment and the nationality of the manager were the main variables in influencing the performance of the Japanese firms in this sample. Japanese managers of the foreign subsidiaries give the parent company better control over the implementation processes and daily operations of technologies transferred into the investment country, which might be the reason for the positive relationship between the subsidiaries' performance and its manager's

nationality.

In contrary to the JFDI in the UK, the Japanese MNEs invested in a narrow product range in Australia. This highlights the disadvantage that Australia has had historically with its small market size.

*Access to local market* and *Establishment of distribution network* were important elements in the investment decision. Besides, *Access to natural resources* was a major factor for Japanese to invest in Australia. This raises the issue of what types of firms are attracted to Australia, and the interplay with firm-specific Japanese advantages and location-specific factors. (Hutchinson and Nicholas, 1994)

The result confirms previous researches of Japanese firms, including questions on location-specific factors influencing their initial FDI decision. Hutchinson and Nicholas (1994) have found that *Access to local market* was the single most important reason for investing in UK and Australia, accounting for 32.1% of all replies, followed by access to input supplies (24%), part of the global strategy of the parent (18%).

A surprising result is that *Invitation from the local government* is not a factor in influencing the JFDI in both countries. This contradicts Hutchinson and Nicholas (1994) that found that the *government local content and manufacturing rules* were important reasons for Japanese to invest in Australia. This might be related to the fact that both countries have advanced economies based on market mechanisms and have been pursuing similar economic reform strategies including privatization and deregulation.

## **5.7 CONCLUSIONS**

By examining several key variables that play a significant role in determining the characteristics and performance of Japanese foreign direct investments (JFDI) in Australia and the United Kingdom, this study offers an insight into Japanese investment behaviors.

JFDI characteristics between the UK and Australia, to some extent, exist. These differences are likely to appear in the ownership structure, the reason for investment and performance.

Results of this study can be taken to indicate that Japanese MNEs are investing in the UK to access the local market and to establish a production network with high subsidiary equity ownership, while investing in Australia is mainly to access the local market and natural resources.

Besides, this research studies the relationship between the choice of entry type by Japanese MNEs and selected key factors, including location, industry structure, and the investment's initial scale.

The main effect of these proxies on performance can be summarized as follows: As the number of investors' increases, the ability to achieve a positive performance becomes higher. This result confirms the idea that multiple partners bring heterogeneous resources that can lead to the development of more sustainable competitive advantages in the subsidiary.

Likewise the probability of subsidiaries' profit increases when the subsidiary's manager is Japanese.

When examining the performance of entry modes, the results show that in the UK, intrafirm JVs performed the best followed by cross-national DJVs. Wholly own is the least successful entry type. In Australia, intrafirm JVs perform the best followed by wholly own and the least successful entry type is trinational JV.

The results have also found that JFDI in Australia are more profitable, on average, than those in the United Kingdom and that they performed better in the secondary industrial sector in the UK while they are more profitable in the tertiary sector in Australia.

One limitation in this study is that the empirical study was conducted using variables related to the subsidiary level only. Future studies might include also variables related to the parent companies.

Another shortcoming of this study was to see if the same Japanese company had experience in both countries, and to check where this company chooses to invest first, why, and how it affects entry choice and performance of the investment in the second country.

Despite the fact that this study has its limitations, it has clearly provided a theoretical and practical perception of the characteristics, entry choice and performance of Japanese foreign direct investment in the United Kingdom and Australia.

Other study could use this research as a basis to extend work in this area toward a better understanding of the characteristics and performance of Japanese foreign direct investments.

## ***Chapter 6***

### ***Conclusions***

#### **6.1 Implications for theory**

This study attempts to test several theories using a database of Japanese foreign investment in Europe and Australia. The results largely support the theories.

On the first issue of determinants of entry mode choice, the study finds evidence supporting previous research (Kim and Hwang, 1991; Hennart and Reddy, 1997; Mutelli and Piscitello, 1998; Chen and Hu, 2002), that factors identified by the theory (e.g. experience, product diversification) have a significant influence on the choice of entry mode. This study adds to the literature in that it shows the theoretical framework of transaction cost analysis is useful in explaining entry mode choice by Japanese multinationals investing in Europe and Australia.

Many authors who also used transaction cost theory to understand multi-partner investments (Park and Russo, 1996; Parkhe, 1993, Beamish and Kachra, 2004) reasoned that multi-partner JVs will not perform as well as two-partner ventures due to transaction costs arising from the complexity of multi-partner JVs.



By using transaction cost theory in conjunction with resource-based theory, this study found the benefits of resource heterogeneity in multi-partner JVs would outweigh the costs of operating these ventures. By using the number of partners and non-conventional entry types as proxies for resource heterogeneity in conjunction with high performance as a proxy for successful and efficient integration, the data supports the resource-based theory. From a resource-based perspective the study found a positive relationship. In addition, from a transaction cost perspective, the study did not perceive a negative relationship between performance and number of partners.

Applied to the current research, the Eclectic Paradigm (OLI) provides a well-balanced view of JMNEs and global markets. For example, geographic location is now recognized as an important source of learning and innovative capabilities (i.e., asset-augmenting environments) as well as targets for exploitation of the supply of raw materials and demand potential. Considering Japanese firms' ownership advantages, which give them the capacity to support and augment their firm-specific assets, the results found, overall, Australia is targeted by JMNEs for asset-exploitation activities, whereas the UK provides them with asset-augmenting environments.

Australia has been targeted for standardized technologies exploitation. Such a strategic motive usually leads to a lower level of commitment. This is in accordance with Dunning's envelope OLI paradigm, predicting that JMNEs will avoid full commitment in Australia where asset-augmenting activities are less common than in the UK.

JMNEs have higher equity ownership in the UK than in Australia. The Merger and Acquisition theory and the OLI paradigm correctly predict this ownership strategy,

highlighting the learning opportunities available in the UK and Europe. This confirms the results expounded by Makino et al. (2002) that, since knowledge is more easily transferred or acquired through social interactions within hierarchies, a more aggressive level of equity ownership in the target location is expected when a firm's strategic motives include acquisition of new ideas or knowledge.

The study found also evidence consistent with previous research (Luo, 1999; Konopaske et al, 2002) that psychic context factors have significant influence on entry mode and performance. Results found that the nationality of a subsidiary's manager, the location of the investment and the similarity of industries of the parent company and the subsidiary were significant variables affecting the entry mode and performance of JFDIs.

The findings are significant since they help further assess the theories' value and their empirical validities. Previous research has repeatedly shown that companies do not make a conscious, deliberate cost and benefit analysis of entry modes (Anderson and Gatignon, 1986) and, as a result, inappropriate entry modes are often selected.

The implication of this study's findings for managers is: if managers want their foreign operations to be successful they should be very careful about the choice of entry mode and the location of the investment. Their choices will have long lasting effects on an investment's performance.

## **6.2 Limitations of the study**

Nevertheless, this study has limitations. The empirical studies were conducted using a sample of Japanese subsidiaries in only two regions, Australia and the European Union. Research, to test if the result is also representative of JFDI in other countries and regions remain to be undertaken.

A further limitation stems from the industrial factor in this study. The investigation of industry specific effects could be controlled for by carrying out the analysis separately for manufacturing and non-manufacturing industries. Future studies might be able to conduct more extensive tests with two different samples.

Also, the empirical study was conducted using the samples of Japanese subsidiaries only. This restricted the study to the behavior of just one-nationality parents. Future studies may be able to conduct more extensive tests with the samples including multiple-nationality parents.

Another limitation of the study is that it is cross-sectional in nature. The dependent variable was measured at one point in time. Future research should take a longitudinal approach in which a 10-year time horizon is used to measure the venture's performance. This would strengthen the argument for inferring the causality as the study hypothesized.

Also, this study's statistical power may have been reduced by the trichotomous dependent variable. Future studies might be able to conduct more extensive tests using objective financial measures of performance, using firms' direct responses rather than secondary data as input in conducting a relatively large-scale empirical investigation of this topic.

And finally, the study did not control for potential host country environmental variables (country economic conditions) like economic growth, inflation, etc., that might have influenced the financial performance result of the Japanese FDIs in Australia and the United Kingdom. Therefore the findings should be interpreted with caution.

### **6.3 Contributions**

Although this study has its limitations, it has clearly provided a theoretical and practical insight into the factors affecting the entry mode, location and the performance of FDIs.

This research has also provided empirical evidence regarding the reliability and correlation between a number of FDI predictor variables, entry choice and performance, as well as providing insights into the existence of non-conventional entry types.

This study provides a contribution to management by illustrating the superiority of some strategies compared to alternatives, thus helping managers with their business decisions.

Managers are provided with a better understanding of the importance of each variable in influencing entry mode, location and performance of foreign subsidiaries. Hence, they can better prioritize the relevant variables in evaluating their entry mode alternatives. This is valuable because it will allow managers, who often have time and resource constraints, to focus on the variables most relevant to their entry mode decision without going through an exhaustive entry mode analysis.

In conclusion, the results provide initial support for a model including institutional and cultural variables, as well as transaction cost variables to predict firms' entry choices and their performance in international expansion. The findings also suggest that the influences of some host countries may influence the entry mode choice.

Furthermore, an advantage of this study is that it integrates research that examines strategy choice and strategy performance by comparing results from two countries.

Other studies could use this research as a basis to extend work in this area toward a better understanding of the characteristics and performance of FDIs and how managers make entry mode and location decisions.

***ANNEX***

## ANNEX to Chapter 3

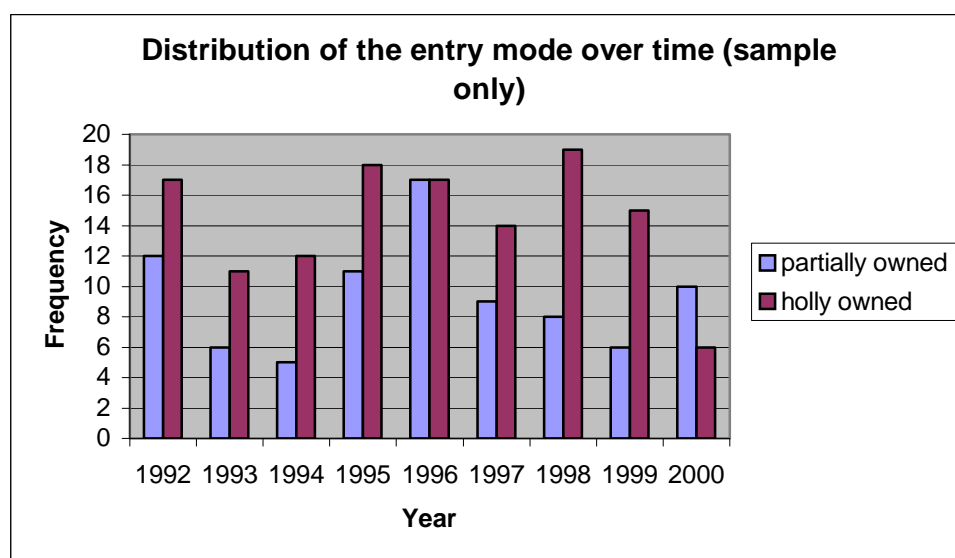


Figure 3.2 Distribution of the entry mode over time (European Sample only)

Table 3.7 FDI outflow from Japan by destination (ANNEX)

(Unit: US\$ million)

% Change on year earlier

	1997	1998	1999	2000	% 1997	% 1998	% 1999
<b>World</b>	<b>53,972</b>	<b>40,747</b>	<b>66,694</b>	<b>26,033</b>	<b>12.4</b>	<b>24.5</b>	63.7
North America	21,389	10,943	24,770	8,695	7.1	48.8	126.3
U.S.	20,769	10,316	22,296	8,634	5.6	50.3	116.1
Europe	11,204	14,010	25,804	11,184	52.0	25.0	84.2
<b>EU</b>	<b>10,963</b>	<b>13,850</b>	<b>25,191</b>	<b>11,079</b>	<b>53.4</b>	<b>26.3</b>	<b>81.9</b>
<b>U.K.</b>	<b>4,118</b>	<b>9,780</b>	<b>11,718</b>	<b>7,705</b>	<b>19.8</b>	<b>137.5</b>	<b>19.8</b>
Netherlands	3,295	2,118	10,361	1,896	199.9	35.7	389.3
Germany	732	553	649	233	28.2	24.5	17.4
France	1,736	521	1,127	231	245.3	70.0	116.5
Asia	12,181	6,528	7,162	2,821	4.9	46.4	9.7
Latin America	6,336	6,463	7,437	3,088	42.5	2.0	15.1
Middle East	471	146	113	16	98.0	69.0	22.7
Africa	332	444	515	8	22.9	33.8	15.8
<b>Oceania</b>	<b>2,058</b>	<b>2,213</b>	<b>894</b>	<b>221</b>	<b>129.4</b>	<b>7.5</b>	<b>59.6</b>

Source: Prepared by JETRO from *Statistics on Japanese Foreign Direct Investment* (Ministry of Finance).

**Table 3.8 The Sample characteristics (ANNEX)**

<b>Foreign entries by Japanese firms in the EU</b>	<b>Full sample</b>		<b>Reduced sample</b>	
	<b>No</b>	<b>%</b>	<b>No</b>	<b>%</b>
<i>By entry mode</i>				
Cut off = 95%				
Wholly own	129	<b>60.56</b>	83	<b>61.48</b>
Joint Venture	84	<b>39.44</b>	52	<b>38.52</b>
Cut off = 80%				
Wholly own	148	<b>69.5</b>	96	<b>71.11</b>
Joint Venture	65	<b>30.5</b>	39	<b>28.89</b>
Cut off = 51%				
Wholly own	159	<b>74.6</b>	102	<b>75.56</b>
Joint Venture	54	<b>25.4</b>	33	<b>24.44</b>
 <i>By size of the parent company</i>				
1-499 employees	19	<b>8.92</b>	8	<b>5.92</b>
500-1,999 employees	52	<b>24.41</b>	35	<b>25.93</b>
2,000-9,999 employees	102	<b>47.89</b>	64	<b>47.41</b>
10,000 employees or more	35	<b>16.43</b>	24	<b>17.78</b>
Missing	5	<b>2.35</b>	4	<b>2.96</b>
Total	213	<b>100%</b>	135	<b>100%</b>
 <i>By country</i>				
United Kingdom	79	<b>37.09</b>	79	<b>58.52</b>
Germany	31	<b>14.55</b>	31	<b>22.96</b>
Holland	27	<b>12.68</b>	-	
France	25	<b>11.74</b>	25	<b>18.52</b>
Italy	16	<b>7.51</b>	-	
Spain	12	<b>5.63</b>	-	
Belgium	10	<b>4.69</b>	-	
Ireland	4	<b>1.88</b>	-	
Portugal	3	<b>1.41</b>	-	
Sweden	3	<b>1.41</b>	-	
Luxembourg	1	<b>0.47</b>	-	
Austria	1	<b>0.47</b>	-	
Greece	1	<b>0.47</b>	-	
Total	213	<b>100%</b>	135	<b>100%</b>



**Table 3.8 The Sample characteristics (continued)**

<b>Foreign entries by Japanese firms in the EU</b>	Full sample		Reduced sample	
	No	%	No	%
<i>By industry</i>	No	%	No	%
Food, beverages and tobacco	8	<b>3.75</b>	2	<b>1.48</b>
Textile mill products	9	<b>4.22</b>	3	<b>2.23</b>
Apparel	2	<b>0.94</b>	1	<b>0.74</b>
Wood, wood products and furniture	2	<b>0.94</b>	1	<b>0.74</b>
Chemical and allied products	42	<b>19.71</b>	28	<b>20.73</b>
Petroleum refining	10	<b>4.7</b>	6	<b>4.45</b>
Stone, clay, glass and concrete products	6	<b>2.82</b>	3	<b>2.23</b>
Primary metal industries	5	<b>2.35</b>	2	<b>1.48</b>
Fabricated metal products	3	<b>1.41</b>	2	<b>1.48</b>
Machinery	24	<b>11.27</b>	14	<b>10.37</b>
Electrical machinery and equipment	31	<b>14.56</b>	24	<b>17.77</b>
Electronic equipment and instruments	11	<b>5.16</b>	8	<b>5.92</b>
Transport equipment	40	<b>18.78</b>	28	<b>20.74</b>
Transportation	3	<b>1.41</b>	2	<b>1.48</b>
Miscellaneous Manufacturing Industry	3	<b>1.41</b>	2	<b>1.48</b>
Information technologies	3	<b>1.41</b>	3	<b>2.23</b>
Other manufacturing industries	11	<b>5.16</b>	6	<b>4.45</b>
<b>Total</b>	<b>213</b>	<b>100%</b>	<b>135</b>	<b>100%</b>

**The List of the Sample (213 Japanese subsidiaries in The European Union)**

Activa Technology Ltd.  
Aida Bliss(Europe)Ltd.  
Aisan.Vitron.Europe Corp.  
Aisin Europe Mfg.(UK)Ltd.  
AIWA Wales Manufacturing Ltd.  
Akebono Arras S.A.  
Akzo Nobel Nippon Paint Espana S.A.  
Akzo Nobel Nippon Paint GmbH  
Akzo Nobel Nippon Paint S.A.  
Akzo Nobel Nippon Paint SRL  
Alps Electric Technology Center(UK)Ltd.  
Anritsu Devices A.B.  
Asahi Denka Europe GmbH  
Asahi Glass Fluoropolymers U.K.,Ltd.  
Asahi-Merckle Pharma GmbH  
Atunes de Levante,S.A.  
BJKC-Europe S.A.  
Calsonic Sung Jin B.V.  
Canon Software Europa B.V.  
Chiyoda Deutschland GmbH  
Chugai Pharma Europe Ltd.  
Climatizadores Calsonic S.A.  
Contec Microelectronics Europe B.V.  
D.I.C.Graphics Ltd.  
Dainippon Screen Engineering of Europe Co.,Ltd.  
Dalphi Plast Ltd.  
Delphi Calsonic Compressors S.A.S.  
DENSO MANUFACTURING UK LTD.  
DIC Berlin GmbH R & D Laboratory  
DoCoMo Europe S.A.  
DuPont Teijin Films Luxembourg S.A.  
DuPont Teijin Films Netherlands B.V.  
DuPont Teijin Films U.K.Ltd.  
DuPont-Kansai Automotive Coatings(UK)Ltd.  
Eagle-Witzenmann S.A.S.  
Eisai B.V.  
EOX PaAX I.S.L.  
Europtics Ltd.  
Eval Europe N.V.  
exgil  
F2 Chemicals Ltd.  
FCC(Europe)Ltd.  
Federal-Mogul Daido HWB Co.,Ltd.  
Federal-Mogul TP Sunderland Ltd.  
FM Technologies S.A.  
Fromagerie Lorraine de Vezelise S.A.  
Fuji Electric France S.A.  
Fuji Electric(Scotland)Ltd.  
Fuji GE Drives  
Fujisawa SRL  
Fujitsu Computers(Europe)Ltd.  
Fujitsu Siemens Computers(Holding)B.V.  
Furukawa Baumaschinen Vertriebs GmbH  
GC Europe S.A.  
Glaverbel Italy SRL  
GR Advanced Materials Ltd.  
Grangemouth Chp Ltd.  
Graphite Technologies Ireland Ltd.  
Heat Tech Induction A.B.  
Heian Europe SRL  
HIRATA Corp.of Europe Ltd.  
HIRATA Robotics GmbH  
Hitachi Automotive Products Europe,Ltd.  
Hitachi Home Electronics(Europe)Ltd.  
Hitachi Koki Europe Ltd.  
Hitachi Seiki Deutschland GmbH  
Hochiki Europe(U.K.)Ltd.  
Horiba Europe Automation Division GmbH  
Hoshizaki Europe Ltd.  
Hoya Lens France S.A.

Hunting Oilfield Services(UK)Ltd.	MC Infonics Ireland Ltd.
IAI Industrieroboter GmbH	Mec Europe N.V.
IHI Europe Ltd.	Meiden Europe Ltd.
IHI Turbo Italy S.p.A.	Messer Nippon Sanso GmbH & Co.K.G.
Image Polymers Europe(UK)	Mitsubishi Caterpillar Forklift Europe B.V.
Iris Ohyama Europe B.V.	Mitsubishi Electric Air Conditioning SystemsEu.
Isuzu Motors Europe Ltd.	Mitsubishi Electric Automotive Europe B.V.
Italpet Preforme S.p.A.	Mitsubishi Electric Information Technology Eu.
ITOCHU Stahl Service GmbH	Mitsubishi Motors R&D of Europe GmbH
JEM Europe Ltd.	Mitsui Advanced Media S.A.
JEM France SARL	Mitsui Gas Development Qatar B.V.
JIDECO-4e	Mitsui Kur Dashi Exploration B.V.
JSP International SARL	MQL International B.V.
JVC Mfg.France S.A.	Musashi Auto Parts Europe Ltd.
Kajima Design Europe Ltd.	Nichirin U.K.Ltd.
Kansei UK Ltd.	Nikon Optical U.K.Ltd.
Kao Chemicals Europe,S.L.	Nippon Electric Glass(UK)Ltd.
Kawashima Italia SRL	Nippon Oil Exploration & Production U.K.Ltd.
Kayaba Arvin S.A.	Nippon Oil Exploration & Production(MF)Ltd.
KDDI Deutschland GmbH	Nippon Shokubai Europe N.V.
KDDI France S.A.S.	Nippon Silica Glass Europe Ltd.
Kikkoman Foods Europe B.V.	Nissan Forklift Espana,S.A.
Kissei Pharma Europe Ltd.	Nissin Showa UK Ltd.
Kisuma Chemicals B.V.	No Cliche S.A.
Kobelco Welding of Europe B.V.	NP Automotive Coatings(Europe)Ltd.
Kokuyo Europe GmbH	NTN Transmissions Europe
Komatsu Mining Germany GmbH	Obara Europe Ltd.
Komatsu Utility Europe S.p.A.	Ogihara Europe Ltd.
Koyo Steering Dijon Saint Etienne S.A.S.	Olympus Software(Europe)GmbH
Kuritec Europe GmbH	OMRON Fabrikautomation GmbH
Kuwayama Europe N.V.	Ono Pharma UK Ltd.
KVC UK Ltd.	Onward Italia S.p.A.
Makita Hellas S.A.	Organo Toveko A.B.
Matsushita Electronics(Europe)GmbH	Organo(UK)Ltd.
Matsushita Industrial Equipment Co.,(U.K.)Ltd.	Oshino Manufacturing(U.K.)Ltd.
Matsuura Machinery PLC	Oyo Center of Applied Geosciences B.V.

Panasonic European Laboratories GmbH	Tech Works(Ireland)Ltd.
Panasonic Trade Support Center(Europe)GmbH	Tenax Fibers GmbH & Co.K.G.
Parker Industries of Europe N.V.	The Inx Group(U.K.)Ltd.
Phoenix Overseas Ltd.	Thermofil Polimeri(Italia)SRL
Piolax Ltd.	THK Manufacturing of Europe S.A.S.
Pioneer Technology Portugal S.A.	Three Bond U.K.Ltd.
Pochet Inoac	TMI Europe S.p.A.
Press & Plat N.V.	TNS Spinnerei GmbH
Productos Quimicos del Mediterraneo,S.A.	Toho Sakata Europe GmbH
ROHM LSI Systems(France)S.A.S.	TOK ITALIA S.p.A.
R-Tek Ltd.	Tokai Carbon Italia SRL
Ryobi Aluminium Casting(UK),Ltd.	Tokai Vesta Hispania S.A.
Sanko Gosei Nederland B.V.	Tomen Foods UK Ltd.
Sanyo Shokai Milano S.p.A.	Tomen Power Corp.(UK)Ltd.
Sekisui S-Lec B.V.	Tomoe Tritec Ltd.
Shin-Etsu PVC B.V.	Toyoda Gosei UK Ltd.
Shionogi Qualicaps,S.A.	Toyoda TRW Steering Pumps Ltd.
SHOTIC EUROPA-Industria de Aluminio Lda.	Toyota Motor Manufacturing France S.A.S.
Silicon Sensing Systems Ltd.	Toyota Motorsport GmbH
Societe Nouvelle de Transmissions	Toyota Tsusho Ingredients(U.K.)Ltd.
Sony Chemicals Europe B.V.	TRB Ltd.
STADCO Takao Europe Ltd.	TS Tech UK Ltd.
Star Micronics Manufacturing Deutschland GmbH	Uchiyama Portugal Vedantes,Ltda.
Stirchley Technical Services Ltd.	Uni.Charm Molnycke Baby B.V.
Sud ISK-Snpe S.A.	Uni.Charm Molnycke Inco B.V.
Sumiden Automotive Technologies,GmbH	Uni-Charm Molnycke B.V.
Sumika Color Europe GmbH	Unipart Yachiyo Technology Ltd.
Sumitomo Chemical Belgium S.A.N.V.	Unipart Yanagawa Engineering
Sumitomo Pharmaceuticals UK Ltd.	Uniparts Yutaka System's Ltd.
Sumitomo(SHI)Cyclo Drive(Europe)Ltd.	Vamo-Fuji N.V.
Taikisha Espana S.A.	Yakult Deutschland GmbH
Takasago Europe GmbH	Yakult Nederland B.V.
Takeda Europe Research & Development Cent.	Yamada Europe Co.,Ltd.
Takihyo Italia S.p.A.	Yamazaki Baking(U.K.)Ltd.
TD Deutsche Klimakompressor GmbH	Yanmar Cagiva S.p.A.
	Zenrin Europe B.V.

## ANNEX to Chapter 4

### List of the 210 Japanese Subsidiaries used in the empirical study.

A Basic Concepts Designs Pty.Ltd.	Canterwood Pty.Ltd.
A.P.N.Pty.,Ltd.	Charmant Australia Pty.Ltd.
Advertising Investment Services Pty.Ltd.	Chiyoda Australia Pty.Ltd.
Affores Station Pty.Ltd.	Clarion Australia Pty.Ltd.
Albany Plantation Forest Co.of Australia Pty.Ltd.	Cosmos Australia Pty.Ltd.
Allied Telesyn International(Australia)Pty.Ltd.	Daidoh Australia Pty.Ltd.
Amada Oceania Pty.Ltd.	Daikin Clutch Australia Pty.Ltd.
Anritsu Pty.Ltd.	Daimaru Australia Leasing No.1 Pty.Ltd.
ANT Minerals Pty.Ltd.	Daimaru Australia Retail Pty.Ltd.
ARCADIA Corp.Pty.Ltd.	Daiwa Securities Stockbroking Ltd.
Arrowfield Wines Pty.Ltd.	DENSO INTERNATIONAL AUSTRALIA PTY.LTD.
Auram Hotels & Resorts Pty.Ltd.	Dentsu Oceania Pty.Ltd.
Ausplaza Pty.Ltd.	Dentsu Pacific Pty.Ltd.
Australian Arrow Pty.Ltd.	Dia Coal Mining(Australia)Pty.Ltd.
AUSTRALIAN AUTOMOTIVE AIR PTY.LTD.	Diamond Gas Resources Pty.Ltd.
Australian Fused Materials Pty.Ltd.	Diamond R & D Australia Pty.Ltd.
Balatern Pty.Ltd.	DIC Colortron Pty.Ltd.
Beacon IT Australia Pty.Ltd.	Doral Mineral Industries Ltd.
Beacon IT Solutions Pty.Ltd.	Dyechem Industries Pty.Ltd.
Benthic Geotech Pty.Ltd.	East Victoria Plantation Forest Co.of Australia Pty.Ltd.
Bontex Pty.,Ltd.	Ebara Pumps Australia Pty.Ltd.
Bridgestone TG Australia Pty.Ltd.	Eco Tree Farm Pty.Ltd.
Brilliant Images Pty.Ltd.	Eiko Australia Pty.Ltd.
Brisbane Plantation Forest Co.of Australia Pty.Ltd.	Eikoh Seminar Australia Pty.Ltd.
C.I.Australia Pty.Ltd.	F.P.Focusing Pty.Ltd.
C.I.Ceramics(Aust.)Pty.Ltd.	FLEXDRIVE INDUSTRIES LTD.
CA Asset Management Pty.Ltd.	Fobulo Pty.Ltd.
CA Finance Pty.Ltd.	Fuji Xerox Australia Pty.Ltd.
Cairns Peninsula Hotel Pty.Ltd.	G & K O'Connor Pty.Ltd.
Canon Finance Australia Ltd.	Green Triangle Plantation Forest Company of Australia Pty.Ltd.
Canon Information Systems Research Australia Pty.Ltd.	

H.I.S.Australia Holdings Pty.Ltd.	Kyocera Solar Pty.Ltd.
H.I.S.Australia Pty.Ltd.	Lintas:Hakuhodo Australia Pty.Ltd.
H.I.S.Investments Pty.Ltd.	Lion Nathan Ltd.
H.I.S.Properties Pty.Ltd.	Marubeni Aluminium Australia Pty.Ltd.
H.I.S.Westralia Pty.Ltd.	Marubeni Auto Oceania Pty.Ltd.
Hakuhodo Australia Pty.Ltd.	Marubeni Thermal Coal Pty.Ltd.
Hino Motor Sales Australia Pty.Ltd.	Marubeni Tubulars Australia Pty.Ltd.
Hitachi Construction Machinery Australia Pty.Ltd.	Maruzen Food Industry(Australia) Pty.Ltd.
Hitachi Power Tools Australia Pty.Ltd.	Maxi Multimedia Pty.Ltd.
IDEC Australia Pty.Ltd.	Meiji-Dairy Australasia Pty.Ltd.
Intermix Australia Pty.Ltd.	Meiji-MGC Dairy Co.Pty.Ltd.
International Steel Frames Investments Pty.Ltd.	Melbourne Central Holdings Pty.Ltd.
ISK Australia Pty.Ltd.	Metafor Graphics Pty.Ltd.
ISK Minerals Pty.Ltd.	Minolta Business Equipment Australia Pty.Ltd.
ISK Oceania Pty.Ltd.	Mitsubishi Heavy Industries Australia,Pty.Ltd.
ITO EN AUSTRALIA PTY.LTD.	Mitsubishi Pencil(Australia)Pty.Ltd.
ITOCHU Coal Resources Australia Pty.Ltd.	Mitsui Bengalla Investment Pty.Ltd.
ITOCHU Wool Ltd.	Mitsui Drayton Investment Pty.Ltd.
J.S.T.(Australia)Pty.Ltd.	Mitsui Iron Ore Corp.Pty.Ltd.
JAPAN BOOK Plaza Pty.Ltd.	Mitsui Kestral Coal Investment Pty.Ltd.
Japan Energy(Oceania)Pty.Ltd.	Mitsui Matsushima Australia Pty.Ltd.
JCB International(Oceania)Pty.Ltd.	Mitsui Moura Investment Pty.Ltd.
JDC Australia Pty.Ltd.	Mitsui O.S.K Lines(Australia)Pty.Ltd.
KAAL Australia Pty.Ltd.	Mitsui Plantation Development Pty.Ltd.
Kao(Australia)Marketing Pty.Ltd.	Mittwell Energy Resources Pty.Ltd.
Kara Industrial Minerals Pty.Ltd.	Narui Gold Cost Co.,Ltd.
KBRV Resort Operations Pty.Ltd.	NGK Stanger Pty.Ltd.
KDD Australia Pty.Ltd.	Nichiyu Australia Pty.Ltd.
Kemerton Silica Sand Pty.Ltd.	Nintendo Australia Pty.Ltd.
Kinokuniya Book Stores of Australia Pty.Ltd.	Nippon Oil Exploration(Dampier)Pty.Ltd.
Kintetsu World Express(Australia)Pty.Ltd.	Nippon Oil Exploration(Vulcan)Pty.Ltd.
Kitano Australia Pty.Ltd.	Nippon Paper Tree Farm Australia
Konica Holding Australia Pty.Ltd.	Nissan Casting Australia Pty.Ltd.
Kowa Co.,(Aust.)Pty.,Ltd.	NNA Australia Pty.Ltd.
Krosaki CIC(Aust)Pty.Ltd.	Nomura Asset Management Australia Pty.Ltd.
	NS Komatsu Corporate Finance Pty.Ltd.

NS Komatsu Pty.Ltd.	Snow Brand Australia Pty.Ltd.	
NTT Australia Pty.Ltd.	Sokkia Western Australia Pty.Ltd.	
Nutrition Specialities,Pty.Ltd.	Southern	Diamond
O.K.Gift Shop 109(Aust.)Pty.Ltd.	Investment(ZOCA91-09)Pty.Ltd.	
Odis Australia Pty.Ltd.	Southern Diamond Resources(WA-239-P)Pty.Ltd.	
Olympus Australia Pty.Ltd.	Southern	Diamond
Osaka Gas Australia Pty.Ltd.	Resources(ZOCA95-18)Pty.Ltd.	
Pharmaglass Pty.Ltd.	Southern Plantation Forest Pty.Ltd.	
Plantation Platform of Tasmania Pty.Ltd.	Southwind Marine Products Pty.Ltd.	
Polymers International Australia Pty.Ltd.	Staff Service(Australia)Pty.Ltd.	
Port Kembla Copper Pty.Ltd.	Starwood Australia Pty.Ltd.	
Port Phillip Wool Processing Pty.Ltd.	Sumisho Coal Australia Pty.Ltd.	
Queensland Commodity Exports Pty.Ltd.	Sumitomo Chemical Australia Pty.Ltd.	
Queensland Prawn Farm Pty.Ltd.	Sumitomo Metal Mining Oceania Pty.Ltd.	
Red Australia Equipment Pty.Ltd.	Summit Investment Australia Pty.Ltd.	
Reef Management Pty.Ltd.	Summit Rural Australia Pty.Ltd.	
Ryowa Development 2 Pty.Ltd.	Summit Rural(WA)Pty.Ltd.	
Ryowa Development Pty.Ltd.	Sun Ace Australia(Pty.)Ltd.	
Sacos Equipment Pty.Ltd.	Sun Masamune Pty.Ltd.	
Sakai Trading Australia Pty.Ltd.	SWS Australia Pty.Ltd.	
Satake Australia Pty.Ltd.	Taisho(Australia)Pty.Ltd.	
Sc Agri Produce Pty.Ltd.	Takashimaya Retailing Australia Pty.Ltd.	
SC Metal Pty.Ltd.	TAS Forest Holdings Pty.Ltd.	
SC Mineral Resources Pty.Ltd.	Tech Comm Simulation	
SCM Brisbane Pty.Ltd.	Terry Hills Golf & Country Club Holdings Ltd.	
Sea Lion Shipping Pty.Ltd.	The Kamogawa Australia Pty.Ltd.	
SEWS Australia Pty.Ltd.	The Watermark Hotel Group Pty.Ltd.	
Shimadzu Australia Mfg.Pty.Ltd.	Timor Sea Exploration Pty.Ltd.	
Shimadzu Medical Systems(Oceania)Pty.Ltd.	TMDA No.4 Pty.Ltd.	
Shimadzu Scientific Instruments(Oceania)Pty.Ltd.	Toabo(Aust)Pty.Ltd.	
Shimano Australia Pty.Ltd.	Tomen Coal Resources Pty.Ltd.	
Shinagawa Thermal Ceramics Pty.Ltd.	Toyo Real Estate Darling Park One Pty.Ltd.	
Shinsho Australia Pty.Ltd.	Toyocolor Australia Technologies Pty.Ltd.	
Shirayuki Australia Pty.Ltd.	Toyota Tsusho Investment(Australia)Pty.Ltd.	
SIIX Australia Pty.Ltd.	Toyota Tsusho South Pacific Holdings Pty.Ltd.	
Simcoa Operations Pty.Ltd.	Toyota Tsusho(Australasia)Pty.Ltd.	

UD Truck(Oceania)Pty.Ltd.

Wambo Mining Corp.Pty.Ltd.

Wandoo Petroleum Pty.Ltd.

Watabe Austlalia Pty.Ltd.

Westair-Nitto Manufacturing Pty.Ltd.

Westair-Nitto Sales Pty.Ltd.

Yakult Australia Pty.Ltd.

YKK Gps(Queensland)Pty.Ltd.



## ANNEX to Chapter 5

### **Investment Purposes listed in the Toyo Keizai Database.**

1. Access to natural resources
2. Access to labor forces
3. Invitation from the local government
4. Establishment of production network
5. Establishment of distribution network
6. Access to local market
7. Import to a third-country
8. Import back to Japan
9. Follow the customers/the affiliated companies
10. Hedge against exchange rate risks
11. Royalty acquisition and Information collection
12. Product development and planning for the international market
13. Entry into a new business
14. Regional HQ
15. Measures against trade frictions
16. Others

### **List of the 701 Japanese Subsidiaries used in the empirical study.**

A & D Instruments Ltd.	Affores Station Pty.Ltd.
A & S Precision Machine Tools Ltd.	Aida Bliss(Europe)Ltd.
A Basic Concepts Designs Pty.Ltd.	Air Bearings Ltd.
A.P.N.Pty.,Ltd.	Aisin Europe Mfg.(UK)Ltd.
ACE Coin Equipment Ltd.	AIWA Wales Manufacturing Ltd.
ACT Tech(U.K.)Ltd.	AIWA(UK)Ltd.
Activa Technology Ltd.	Ajinomoto Pharmaceuticals Europe Ltd.
Advanced Design Technology Ltd.	Albany Plantation Forest Co.of Australia Pty.Ltd.
Advanced Healthcare Ltd.	Algram Group Ltd.
Advertising Investment Services Pty.Ltd.	Allegro MicroSystems Europe Ltd.

Allied Telesyn International Ltd.  
 Allied Telesyn International(Australia)Pty.Ltd.  
 Alps Electric Technology Center(UK)Ltd.  
 Alps Electric(Scotland)Ltd.  
 Amada Oceania Pty.Ltd.  
 Anest Iwata(U.K.)Ltd.  
 Anritsu Ltd.  
 Anritsu Pty.Ltd.  
 ANT Minerals Pty.Ltd.  
 Aquascutum Group,PLC  
 ARCADIA Corp.Pty.Ltd.  
 Arcontrol Ltd.  
 Arcotronics Ltd.  
 Ark Re Ltd.  
 Arrowfield Wines Pty.Ltd.  
 Asaca Shibasoku Europe Ltd.  
 Asahi Beer Europe.,Ltd.  
 Asahi Glass Fluoropolymers U.K.,Ltd.  
 ASATSU UK Ltd.  
 Asics UK Ltd.  
 ATC Semitec Ltd.  
 Audience Systems Ltd.  
 Auram Hotels & Resorts Pty.Ltd.  
 Ausplaza Pty.Ltd.  
 Australian Arrow Pty.Ltd.  
 AUSTRALIAN AUTOMOTIVE AIR PTY.LTD.  
 Australian Fused Materials Pty.Ltd.  
 Automotive Group Ltd.  
 Autrans Europe Ltd.  
 AVX Ltd.  
 Balatarn Pty.Ltd.  
 BBM Electronics Group Ltd.  
 Beacon IT Australia Pty.Ltd.  
 Beacon IT Solutions Pty.Ltd.  
 Benthic Geotech Pty.Ltd.  
 Benton Finance Ltd.  
 Bilborn Ltd.  
 Bishops KT Ltd.  
 Bluewell Insurance Services(Europe)Ltd.  
 Bontex Pty.,Ltd.  
 Bridgestone TG Australia Pty.Ltd.  
 Brilliant Images Pty.Ltd.  
 Brisbane Plantation Forest Co.of Australia  
 Pty.Ltd.  
 Bristol Bending Sanoh Ltd.  
 British Traders & Shippers Ltd.  
 Brother Finance(U.K.)PLC  
 Brother Holding(Europe)Ltd.  
 C.I.Australia Pty.Ltd.  
 C.I.Ceramics(Aust.)Pty.Ltd.  
 CA Asset Management Pty.Ltd.  
 CA Finance Pty.Ltd.  
 CAC Europe Ltd.  
 Cairns Peninsula Hotel Pty.Ltd.  
 Canon Finance Australia Ltd.  
 Canon Holdings(U.K.)Ltd.  
 Canon Information Systems Research Australia  
 Pty.Ltd.  
 Canon Manufacturing U.K.Ltd.  
 Canon Properties(U.K.)Ltd.  
 Canon Systems Management Europe Ltd.  
 Canterwood Pty.Ltd.  
 Capcom Eurosoft Ltd.  
 Capitol Batteries Ltd.  
 Carroll Security Group Ltd.  
 CDP UK  
 Celpower Ltd.  
 Charmant Australia Pty.Ltd.  
 Charmant UK Co.,Ltd.  
 Chiba International Ltd.  
 Chiyoda Australia Pty.Ltd.  
 Chugai Pharma Europe Ltd.

Chugai Pharma Marketing Ltd.  
 Chugai Pharma U.K.Ltd.  
 Clarion Australia Pty.Ltd.  
 Cookson Fukuda Ltd.  
 Cosmo Oil(U.K.)PLC  
 Cosmos Australia Pty.Ltd.  
 Credit Solutions(Northern)Ltd.  
 Cross Products,Ltd.  
 Crystal Leisure Ltd.  
 CSK(UK)Ltd.  
 D.I.C.Graphics Ltd.  
 Dai Nippon Printing Co.,(UK)Ltd.  
 Daicel Polymers,Ltd.  
 Daidoh Australia Pty.Ltd.  
 Daihyaku Life Investment Jersey Ltd.  
 Daiichi Pharmaceuticals U.K.Ltd.  
 Daikin Clutch Australia Pty.Ltd.  
 Daimaru Australia Leasing No.1 Pty.Ltd.  
 Daimaru Australia Retail Pty.Ltd.  
 Daishinku(U.K.)Ltd.  
 Daiwa Europe Property PLC  
 Daiwa Securities Stockbroking Ltd.  
 DAKS Simpson Group PLC  
 Dalphi Plast Ltd.  
 David Morris Int'l Ltd.  
 DEB Leasing Ltd.  
 DENSO INTERNATIONAL AUSTRALIA  
 PTY.LTD.  
 DENSO INTERNATIONAL(UK)LTD.  
 DENSO MANUFACTURING MIDLANDS LTD.  
 DENSO MANUFACTURING UK LTD.  
 Dentsu Europe Ltd.  
 Dentsu Oceania Pty.Ltd.  
 Dentsu Pacific Pty.Ltd.  
 Dia Coal Mining(Australia)Pty.Ltd.  
 Diamond Gas Resources Pty.Ltd.  
 Diamond Insurance Service(Europe)Ltd.  
 Diamond R & D Australia Pty.Ltd.  
 Diamond Seafoods(UK),Ltd.  
 DIC Colortron Pty.Ltd.  
 DLIBJ Asset Management International,Ltd.  
 Doral Mineral Industries Ltd.  
 DuPont Teijin Films U.K.Ltd.  
 DuPont-Kansai Automotive Coatings(UK)Ltd.  
 Dyechem Industries Pty.Ltd.  
 Dynic(U.K.)Ltd.  
 East Victoria Plantation Forest Co.of Australia  
 Pty.Ltd.  
 Ebara Pumps Australia Pty.Ltd.  
 Eco Tree Farm Pty.Ltd.  
 Ediro Europe Ltd.  
 Eiko Australia Pty.Ltd.  
 Eikoh Seminar Australia Pty.Ltd.  
 Eisai London Research Laboratories Ltd.  
 Eisai Ltd.  
 Elta Plastics Ltd.  
 Eurogenetics UK,Ltd.  
 European Aikoku Alpha,Ltd.  
 European Nichido Insurance Co.,Ltd.  
 Europtics Ltd.  
 eVentures,Ltd.  
 F.P.Focusing Pty.Ltd.  
 F2 Chemicals Ltd.  
 Fast Retailing(U.K.)Ltd.  
 FCC(Europe)Ltd.  
 FDK Electronics UK Ltd.  
 Federal-Mogul Daido HWB Co.,Ltd.  
 Federal-Mogul TP Sunderland Ltd.  
 Fleetlease(UK)Ltd.  
 FLEXDRIVE INDUSTRIES LTD.  
 Flexello Ltd.  
 Fobulo Pty.Ltd.

Forum(Holdings)Ltd.  
 Freudenberg Technical Products LP  
 Fuji Capital Markets(UK)Ltd.  
 Fuji Copian UK Ltd.  
 Fuji Electric(Scotland)Ltd.  
 Fuji International Productions(UK)Ltd.  
 Fuji Xerox Australia Pty.Ltd.  
 FUJIFILM Electronic Imaging Ltd.  
 Fuji-Lord Abbett International,Ltd.  
 Fujisawa Ltd.  
 Fujitsu Computers(Europe)Ltd.  
 Fujitsu Europe Telecom R&D Centre Ltd.  
 Fujitsu European Centre for Information  
 Technology Ltd.  
 Fujitsu Telecommunications Europe Ltd.  
 Fukoku Life International(U.K.)Ltd.  
 Furukawa Electric Europe Ltd.  
 Futaba-Tenneco U.K.Ltd.  
 Future System Consulding UK Ltd.  
 G & K O'Connor Pty.Ltd.  
 G.T.Hawkins(Northampton)Ltd.  
 Gakkyusha(U.K.)Ltd.  
 General Imaging Technology UK  
 Gestetner Holdings PLC  
 Gordian Strapping Ltd.  
 GR Advanced Materials Ltd.  
 Grangemouth Chp Ltd.  
 Green Triangle Plantation Forest Company of  
 Australia Pty.Ltd.  
 Group Nexus/H Ltd.  
 H.I.S.Australia Holdings Pty.Ltd.  
 H.I.S.Australia Pty.Ltd.  
 H.I.S.Europe Ltd.  
 H.I.S.Investments Pty.Ltd.  
 H.I.S.Properties Pty.Ltd.  
 H.I.S.Westralia Pty.Ltd.  
 Hakuhodo Australia Pty.Ltd.  
 Hankyu Int'l Transport(UK)Ltd.  
 Hanshin Freight International(Europe)Ltd.  
 Harada Industries(Europe)Ltd.  
 Harro Foods Ltd.  
 Hayakawa International(UK)Ltd.  
 Hayden Laboratories Ltd.  
 Hino Motor Sales Australia Pty.Ltd.  
 HIRATA Corp.of Europe Ltd.  
 Hirata Parts U.K.Ltd.  
 Hitachi Automotive Products Europe,Ltd.  
 Hitachi Cable UK,Ltd.  
 Hitachi Construction Machinery Australia  
 Pty.Ltd.  
 Hitachi Home Electronics(Europe)Ltd.  
 Hitachi Leasing Europe,Ltd.  
 Hitachi Power Tools Australia Pty.Ltd.  
 Hitachi Transport System(UK)Ltd.  
 Hitachi Zosen Europe Ltd.  
 HKS Europe Ltd.  
 Hochiki Europe(U.K.)Ltd.  
 Honda Engineering Europe Ltd.  
 Honda Finance Europe Public Ltd.Co.  
 Honda R & D Europe(U.K.)Ltd.  
 Honda Trading Europe Ltd.  
 Hoshizaki Europe Ltd.  
 Hosiden Besson Ltd.  
 Hunting Oilfield Services(UK)Ltd.  
 Hybec Ltd.  
 ICL PLC  
 IDEC Australia Pty.Ltd.  
 Idemitsu Chemicals Europe PLC  
 IHI Europe Ltd.  
 Image Polymers Europe(UK)  
 Inabata UK Ltd.  
 Intermix Australia Pty.Ltd.

International Steel Frames Investments Pty.Ltd.	Kajima UK Engineering Ltd.
ISI-Dentsu of Europe,Ltd.	Kanebo Cosmetics U.K.Ltd.
ISK Australia Pty.Ltd.	Kanebo(Europe),Ltd.
ISK Minerals Pty.Ltd.	Kanematsu(Europe)PLC.
ISK Oceania Pty.Ltd.	Kansai Paint Europe Ltd.
Issey Miyake London Ltd.	Kansei UK Ltd.
Isuzu Motors Europe Ltd.	Kao(Australia)Marketing Pty.Ltd.
Isuzu Truck UK	Kara Industrial Minerals Pty.Ltd.
ITO EN AUSTRALIA PTY.LTD.	Kato-Entex Ltd.
ITOCHU Coal Resources Australia Pty.Ltd.	Kawasaki Heavy Industries(UK)Ltd.
ITOCHU Pipe & Project Management(Europe)PLC	Kawasaki Precision Machinery(UK)Ltd.
ITOCHU Wool Ltd.	Kawasaki Robotics (UK) Ltd.
J.S.T.(Australia)Pty.Ltd.	Kawasho Corp.(U.K.)Ltd.
JAE Europe,Ltd.	KBRV Resort Operations Pty.Ltd.
JAFCO Investment(UK)Ltd.	KBS U.K.Ltd.
JAL Avionet(Europe)Ltd.	KDD Australia Pty.Ltd.
JAPAN BOOK Plaza Pty.Ltd.	Keihin Seiki Europe Ltd.
Japan Energy(Oceania)Pty.Ltd.	Kemerton Silica Sand Pty.Ltd.
Japan Energy(U.K.)Ltd.	Keyence(UK)Ltd.
Japan Office Service,(EU)Ltd.	KHK of UK Ltd.
Japan Telecom UK Ltd.	Kinokuniya Book Stores of Australia Pty.Ltd.
Japan Travel Bureau Finance(Europe)Ltd.	Kintetsu Euro Transport Ltd.
Japan Travel Bureau(UK)Ltd.	Kintetsu World Express(Australia)Pty.Ltd.
JCB International(Oceania)Pty.Ltd.	Kissei Pharma Europe Ltd.
JDC Australia Pty.Ltd.	Kitagawa Manufacturing Europe Co.,Ltd.
JEM Europe Ltd.	Kitano Australia Pty.Ltd.
JFC(UK)Ltd.	Kodansha Europe Ltd.
John Laing of Hawick Ltd.	Koito Europe Ltd.
JPM International Ltd.	Konami Amusement of Europe Ltd.
JVC Europe Ltd.	Konica East Direct Ltd.
JVC International(Europe)Ltd.	Konica Holding Australia Pty.Ltd.
KAAL Australia Pty.Ltd.	Korega dot com
Kajima Design Europe Ltd.	Kowa Co.,(Aust.)Pty.,Ltd.
Kajima Europe U.K.Holdings Ltd.	Kowa Pharmaceutical Europe Co.,Ltd.
Kajima Property Holdings Ltd.	Kowa Research Europe Ltd.
	Koyo Bearings(Europe)Ltd.

Krehalon UK Ltd.	Meiden Europe Ltd.
Krosaki CIC(Aust)Pty.Ltd.	Meiji UK Ltd.
KVC UK Ltd.	Meiji-Dairy Australasia Pty.Ltd.
Kyocera Fineceramics Ltd.	Meiji-MGC Dairy Co.Pty.Ltd.
Kyocera Solar Pty.Ltd.	Meijiseimei Property U.K.Ltd.
Kyowa Hakko UK Ltd.	Meiki(U.K.)Ltd.
L.J.Specialities Ltd.	Melbourne Central Holdings Pty.Ltd.
Laura Ashley Holdings PLC	Mentholatum Overseas
Lintas:Hakuhodo Australia Pty.Ltd.	Mentholatum UK
Lion Nathan Ltd.	Metafor Graphics Pty.Ltd.
Lontoyo Services Ltd.	Mikimoto(UK)Co.,Ltd.
M.W.Kellogg Ltd.	Minebea Electronics(UK)Ltd.
Magna Kansei Ltd.	Minolta Business Equipment Australia Pty.Ltd.
Makita International Europe Ltd.	Mints 88 Co.,Ltd.
Marnix Europe Ltd.	Mitsubishi Corp.(UK)Ltd.
Marubeni Aluminium Australia Pty.Ltd.	Mitsubishi Corp.,European Headquarters
Marubeni Auto Oceania Pty.Ltd.	Mitsubishi Electric Air Conditioning Systems Europe Ltd.
Marubeni Europe PLC	Mitsubishi Electric Europe B.V.
Marubeni Europower Ltd.	Mitsubishi Electric Finance Europe PLC
Marubeni Properties U.K.Ltd.	Mitsubishi Heavy Industries Australia,Pty.Ltd.
Marubeni Thermal Coal Pty.Ltd.	Mitsubishi Pencil(Australia)Pty.Ltd.
Marubeni Tubulars Australia Pty.Ltd.	Mitsui & Co.Europe PLC
Maruzen Food Industry(Australia) Pty.Ltd.	Mitsui Babcock Energy Ltd.
Matsushita Electric Europe(Headquarters)Ltd.	Mitsui Bengalla Investment Pty.Ltd.
Matsushita Electronic Magnetron Corp.(U.K.)Ltd.	Mitsui Bussan Commodities Ltd.
Matsushita Graphic Communication Systems(U.K.)Ltd.	Mitsui Drayton Investment Pty.Ltd.
Matsushita Industrial Equipment Co.,(U.K.)Ltd.	Mitsui Fudosan(U.K.)Ltd.
Matsuura Machinery PLC	Mitsui Iron Ore Corp.Pty.Ltd.
Maxi Multimedia Pty.Ltd.	Mitsui Kestral Coal Investment Pty.Ltd.
MC Engineers & Constructors Ltd.	Mitsui Marine Corporate Capital Ltd.
MC ITE(Europe)Ltd.	Mitsui Marine European Service Ltd.
MC Machinery Systems(UK)Ltd.	Mitsui Marine International Ltd.
MC(Operations)Ltd.	Mitsui Matsushima Australia Pty.Ltd.
MCI Great Britain Ltd.	Mitsui Moura Investment Pty.Ltd.
MC-Komori Currency Press Ltd.	Mitsui O.S.K Lines(Australia)Pty.Ltd.

Mitsui O.S.K.Bulk Shipping(Europe)Ltd.	Nippon Silica Glass Europe Ltd.
Mitsui O.S.K.Lines(Europe)Ltd.	Nishizawa(Europe)Ltd.
Mitsui Plantation Development Pty.Ltd.	Nissan Casting Australia Pty.Ltd.
Mittwell Energy Resources Pty.Ltd.	Nissan Insurance Co.(Europe)Ltd.
MLP UK Ltd.	Nissan Lloyd's Underwriting Ltd.
MMC Hard Metal U.K.Ltd.	Nissan Motor(GB)Ltd.
Mobisphere Ltd.	Nissan Trading UK Ltd.
Musashi Auto Parts Europe Ltd.	Nissay Deutsche Asset Management Europe Ltd.
Nagase(Europe)Ltd.	Nisshin Insurance Guernsey PCC Ltd.
Naigai Nitto Logistics(Europe)Ltd.	Nissin Electric Europe Ltd.
Nakamichi Europe Ltd.	Nissin Showa UK Ltd.
Nakano Europe Ltd.	Nitsuko UK Ltd.
Namco Europe Ltd.	Nitto Albion PLC
Namco Operations Europe Ltd.	Nitto Oxford Co.,Ltd.
Narui Gold Cost Co.,Ltd.	NMOC(UK)Ltd.
NEC Europe Ltd.	NNA Australia Pty.Ltd.
New JAS(Europe)Ltd.	NNA Europe Ltd.
NGF Europe Ltd.	NNR Aircargo Service(U.K.)Ltd.
NGK Stanger Pty.Ltd.	Noblet Municipal Services Ltd.
Nicera European Works Ltd.	Noblet(Plant Hire)Ltd.
Nichicon(Europe)Ltd.	Nomura Asset Management Australia Pty.Ltd.
Nichimen Europe PLC	Nomura Europe Holdings PLC
Nichirin U.K.Ltd.	Nomura Europe PLC
Nichiyu Australia Pty.Ltd.	Nomura Global Funding PLC
Nikko Global Holdings	Nordiko Ltd.
Nikko Investment Management(Europe)Ltd.	NP Automotive Coatings(Europe)Ltd.
Nikko Principal Investments Ltd.	NS & N(UK)Ltd.
Nikon Optical U.K.Ltd.	NS Komatsu Corporate Finance Pty.Ltd.
Nintendo Australia Pty.Ltd.	NS Komatsu Pty.Ltd.
Nintendo Services Ltd.	NSK-AKS Precision Ball Europe Ltd.
Nippon Electric Glass(UK)Ltd.	NSK-RHP Europe Ltd.
Nippon Oil Exploration & Production U.K.Ltd.	NSK-RHP UK Ltd.
Nippon Oil Exploration & Production(MF)Ltd.	NTT Australia Pty.Ltd.
Nippon Oil Exploration(Dampier)Pty.Ltd.	Nutrition Specialities,Pty.Ltd.
Nippon Oil Exploration(Vulcan)Pty.Ltd.	NYK Holding(Europe)B.V.
Nippon Paper Tree Farm Australia	NYK Holding(UK)Ltd.

O.K.Gift Shop 109(Aust.)Pty.Ltd.  
 Obara Europe Ltd.  
 Odis Australia Pty.Ltd.  
 Ogihara Europe Ltd.  
 Oki Semiconductor(UK)Ltd.  
 Oki Systems Holding Co.,Ltd.  
 Oki Systems(UK)Ltd.  
 Olympus Australia Pty.Ltd.  
 OMRON Electronics Ltd.  
 OMRON Healthcare UK Ltd.  
 Ono Pharma UK Ltd.  
 Onward Kashiyama U.K.Ltd.  
 Optex(Europe)Ltd.  
 Organo(Europe)Ltd.  
 Organo(UK)Ltd.  
 Oriental Motor(UK)Ltd.  
 Osaka Gas Australia Pty.Ltd.  
 OSG U.K.Ltd.  
 Oshino Manufacturing(U.K.)Ltd.  
 Panasonic Broadcast Europe Ltd.  
 Panasonic Business Systems Sales U.K.Ltd.  
 Panasonic Industrial Europe Ltd.  
 Panasonic Logistics Co.U.K.,Ltd.  
 Panasonic Office Workstations Ltd.  
 PGM Ballscrew Ltd.  
 Pharmaglass Pty.Ltd.  
 Phoenix Overseas Ltd.  
 Photostar Ltd.  
 Piolax Ltd.  
 Pioneer Technology(UK)Ltd.  
 Plantation Platform of Tasmania Pty.Ltd.  
 Plastrubution Ltd.  
 Plegin Ltd.  
 Polymers International Australia Pty.Ltd.  
 Port Kembla Copper Pty.Ltd.  
 Port Phillip Wool Processing Pty.Ltd.  
 Prominent(Europe)Ltd.  
 Pulnix Europe Ltd.  
 Queensland Commodity Exports Pty.Ltd.  
 Queensland Prawn Farm Pty.Ltd.  
 Rareware Ltd.  
 Red Australia Equipment Pty.Ltd.  
 Reef Management Pty.Ltd.  
 Rhythm Republic Ltd.  
 Ricoh UK Holdings Ltd.  
 Riso(UK)Ltd.  
 Robertson Geologging Ltd.  
 Royal Sovereign Ltd.  
 RSH Suzuyo Ltd.  
 R-Tek Ltd.  
 Ryobi Aluminium Casting(UK),Ltd.  
 Ryobi Power Equipment(UK)Ltd.  
 Ryohin Keikaku Europe Ltd.  
 Ryowa Development 2 Pty.Ltd.  
 Ryowa Development Pty.Ltd.  
 Sacos Equipment Pty.Ltd.  
 Sakai Trading Australia Pty.Ltd.  
 Samuel Yates Ltd.  
 San East UK PLC  
 Sango U.K.Ltd.  
 Sansetsu UK Ltd.  
 Sanshin Europe Ltd.  
 Sanshin Fleming Insurance Brokers Ltd.  
 Santec Europe Ltd.  
 Sanyei Geo-Trading(U.K.)Ltd.  
 Sanyo Energy(UK)Co.,Ltd.  
 Sanyo Gallenkamp PLC  
 Satake Australia Pty.Ltd.  
 Sato UK Ltd.  
 SBCM Ltd.  
 Sc Agri Produce Pty.Ltd.  
 SC Metal Pty.Ltd.



SC Mineral Resources Pty.Ltd.	Sony Europe Finance PLC
SCM Brisbane Pty.Ltd.	Sony Global Treasury Services PLC
Sea Lion Shipping Pty.Ltd.	Sony Music Entertainment Holdings Ltd.
Secom PLC	Southern Diamond
Sega Amusements Europe Ltd.	Investment(ZOCA91-09)Pty.Ltd.
Sega Europe Ltd.	Southern Diamond Resources(WA-239-P)Pty.Ltd.
Sega Operations UK Ltd.	Southern Diamond
SEIKO Europe Ltd.	Resources(ZOCA95-18)Pty.Ltd.
Sekisui Chemical(Europe)Ltd.	Southern Grasshouse Produce,Ltd.
SEWS Australia Pty.Ltd.	Southern Plantation Forest Pty.Ltd.
SGE Holdings,Ltd.	Southwind Marine Products Pty.Ltd.
Sharp International Finance(U.K.)PLC	Spitalgate Dealer Services Ltd.
Sharp Laboratories of Europe,Ltd.	Square Europe Ltd.
Shimadzu Australia Mfg.Pty.Ltd.	STADCO Takao Europe Ltd.
Shimadzu Europe Ltd.	Staff Service(Australia)Pty.Ltd.
Shimadzu Medical Systems(Oceania)Pty.Ltd.	Stapleton's(Tire Services)Ltd.
Shimadzu Scientific Instruments(Oceania)Pty.Ltd.	Starwood Australia Pty.Ltd.
Shimano Australia Pty.Ltd.	Stirchley Forklifts Ltd.
Shinagawa Thermal Ceramics Pty.Ltd.	Stirchley Technical Services Ltd.
Shinkin International Ltd.	Strapack UK Ltd.
Shinsho Australia Pty.Ltd.	Sumisho Coal Australia Pty.Ltd.
Shinwatec Ltd.	Sumisho Computer Systems(Europe)Ltd.
Shirayuki Australia Pty.Ltd.	Sumisho Leasing(UK)PLC
SHOFU Dental Products Ltd.	Sumitomo Chemical Australia Pty.Ltd.
Showa International Ltd.	Sumitomo Corp.Europe Holding Ltd.
Shu Uemura Cosmetics Ltd.	Sumitomo Electric Europe Ltd.
SIIX Australia Pty.Ltd.	Sumitomo Electric Wiring Systems(Europe)Ltd.
Silicon Sensing Systems Ltd.	Sumitomo Finance International PLC
Simcoa Operations Pty.Ltd.	Sumitomo Heavy Industries(Europe)Ltd.
SNK Europe Ltd.	Sumitomo Marine Financial Services(Europe)Ltd.
Snow Brand Australia Pty.Ltd.	Sumitomo Marine Investment(Jersey)Ltd.
SOFTBANK Holdings(Europe)Ltd.	Sumitomo Metal Mining Oceania Pty.Ltd.
SOFTBANK Ltd.	Sumitomo Pharmaceuticals UK Ltd.
Sokkia Western Australia Pty.Ltd.	Sumitomo(SHI)Cyclo Drive(Europe)Ltd.
Sony Computer Entertainment Europe Ltd.	Summit Agro Europe Ltd.
Sony Entertainment Holdings Europe,Ltd.	Summit Investment Australia Pty.Ltd.

Summit Motors Investment(U.K.)Ltd.  
 Summit Rural Australia Pty.Ltd.  
 Summit Rural(WA)Pty.Ltd.  
 Sun Ace Australia(Pty.)Ltd.  
 Sun Masamune Pty.Ltd.  
 Surface Technology Systems Ltd.  
 Suzuki GB PLC  
 Swiftcall Ltd.  
 SWS Australia Pty.Ltd.  
 Sysmex UK Ltd.  
 T.E.E.U.Ltd.  
 Taisho Pharmaceutical(Europe)Ltd.  
 Taisho(Australia)Pty.Ltd.  
 Takasago(UK)Ltd.  
 Takashimaya Retailing Australia Pty.Ltd.  
 Takeda Europe Holdings Ltd.  
 Takeda Europe Research & Development Center Ltd.  
 Takeda UK Ltd.  
 Tamron(UK)Ltd.  
 Tanita UK Ltd.  
 TAS Forest Holdings Pty.Ltd.  
 TDK Systems Europe Ltd.  
 TEC(UK)Ltd.  
 Tech Comm Simulation  
 Tech Works(UK)Ltd.  
 Telecom MODUS Ltd.  
 Telehouse International Corp.of Europe Ltd.  
 Tennex Europe Ltd.  
 Terry Hills Golf & Country Club Holdings Ltd.  
 The CDP Media Co.,Ltd.  
 The International Metals & Minerals Co.,Ltd.  
 The Inx Group(U.K.)Ltd.  
 The Kamogawa Australia Pty.Ltd.  
 The Tokio Marine Capital Research Ltd.  
 The Watermark Hotel Group Pty.Ltd.  
 The Yasuda Kasai Insurance Co.of Europe Ltd.  
 Thermofil Polymers(UK)Ltd.  
 THK International Finance(UK)Ltd.  
 Three Bond U.K.Ltd.  
 Timor Sea Exploration Pty.Ltd.  
 Tinplate Containers  
 TISI(UK)Ltd.  
 TMDA No.4 Pty.Ltd.  
 Toabo(Aust)Pty.Ltd.  
 Tokai Airfinance Europe,Ltd.  
 Tokai Carbon Europe Ltd.  
 Tokai Deutsche Asset Management Ltd.  
 Tokin UK Ltd.  
 Tokio Marine Property,Ltd.  
 Tokyo Electron Europe Ltd.  
 Tokyo Seimitsu(UK)Ltd.  
 Tomen Coal Resources Pty.Ltd.  
 Tomen Foods UK Ltd.  
 Tomen Power Corp.(UK)Ltd.  
 Tomita UK Ltd.  
 Tomoe Tritec Ltd.  
 Tomoe Valve UK Ltd.  
 Torex Analog IC Europe  
 Toshiba of Europe Ltd.  
 Toshiba Research Europe,Ltd.  
 Toyama Europe Ltd.  
 Toyo Real Estate Darling Park One Pty.Ltd.  
 Toyo Trust Baillie Gifford Asset Management Ltd.  
 Toyocolor Australia Technologies Pty.Ltd.  
 Toyoda Gosei Fluid Systems UK Ltd.  
 Toyoda Gosei UK Ltd.  
 Toyoda TRW Steering Pumps Ltd.  
 Toyota Financial Services(UK)PLC  
 Toyota Industrial Equipment(UK)Ltd.  
 Toyota Tsusho Ingredients(U.K.)Ltd.

Toyota Tsusho Investment(Australia)Pty.Ltd.	Yaesu U.K.Ltd.
Toyota Tsusho South Pacific Holdings Pty.Ltd.	Yakult Australia Pty.Ltd.
Toyota Tsusho U.K.Ltd.	Yakult UK Ltd.
Toyota Tsusho(Australasia)Pty.Ltd.	Yamada Europe Co.,Ltd.
Toyota(GB)Ltd.	Yamaha Musicsoft Europe Ltd.
TPG Wind Ltd.	Yamanouchi U.K.Ltd.
TRB Ltd.	Yamato Scale Dataweigh(U.K.)Ltd.
TS Tech UK Ltd.	Yamazaki Baking(U.K.)Ltd.
TWJ Euro Co.,Ltd.	Yamazen(UK)Ltd.
TY Precision Tools Ltd.	Yaskawa Electric UK Ltd.
UD Truck(Oceania)Pty.Ltd.	Yasuda Kasai Global Asset
Union Tool UK Ltd.	Management(Europe)Ltd.
Unipart Yachiyo Technology Ltd.	Yasuda Lloyd's Corporate Member,Ltd.
Unipart Yanagawa Engineering	YKK Europe Ltd.
Uniparts Yutaka System's Ltd.	YKK Gps(Queensland)Pty.Ltd.
Ushio U.K.,Ltd.	Yokogawa Marex Technology Ltd.
Vfzoom.Com.Ltd.	Yokogawa Martron Ltd.
Wambo Mining Corp.Pty.Ltd.	Yokowo Europe Ltd.
Wandoo Petroleum Pty.Ltd.	Yomiuri-Europe Ltd.
Watabe Austlalia Pty.Ltd.	Yuasa Warwick Machinery Ltd.
Watabe U.K.Ltd.	Zobebe SC Investment Ltd.
Westair-Nitto Manufacturing Pty.Ltd.	Zuken Group Ltd.
Westair-Nitto Sales Pty.Ltd.	Zuken Ltd.
Yachiyo Industry(UK)Ltd.	Zuken UK Ltd.

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