

Department of Social Systems and Management

Discussion Paper Series

No.1148

**The Influence of Firm Specific Advantages and Entry Mode Choice on
Performance: the Case of Japanese Foreign Direct Investment in Australia.**

by

BEN YOUSSEF Kais and HOSHINO Yasuo

May 2005

UNIVERSITY OF TSUKUBA

Tsukuba, Ibaraki 305-8573

JAPAN

The Influence of Firm Specific Advantages and Entry Mode Choice on Performance: the Case of Japanese Foreign Direct Investment in Australia.

Kais Ben Youssef

Doctoral Program of Social Systems and Management

University of Tsukuba, Japan.

: ben@sk.tsukuba.ac.jp

Yasuo Hoshino

Professor of Finance and Management, Graduate School of Systems and Information

Engineering, University of Tsukuba, Japan.

: hoshino@sk.tsukuba.ac.jp

ABSTRACT

The main objective of this study is examining how firm-specific factors and entry mode choice (including the non-conventional forms) of Japanese multinational enterprises determine the financial performance of their Australian subsidiaries. We expect that the firm will 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 financial performance.

The financial performance of Japanese subsidiaries located in Australia is compared on the basis of the ownership-based entry mode of 209 subsidiaries between 1992 and 2002.

Performance data at the subsidiary level provide strong evidence that the non-conventional ownership structures differed in their incidence and performance.

Our results show that the Trinational IJV and Traditional JV modes were the least successful choices, while Intrafirm JV entries were the most likely to show a financial gain followed by Cross-national DJV and Wholly own entry mode.

Keywords: Entry mode, Subsidiary's performance, Japanese FDI in Australia.

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 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, we eliminate the between country variation that clouds the relationships to be examined. (Chen and Hu, 2002). Japanese investment in Australia was \$US32 billion, as at 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. (Australia-Japan Trade and Economic Framework, 2005)

This paper examines the links between firm-specific factors, entry mode and performance¹ of Japanese direct investment in Australia, adding to the body of international business research in two areas. The first of these is Japanese-Australian foreign direct investment 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 as frequent a subject of research.

¹ Financial performance.

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.

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 concentrate in a few industries. (Australia-Japan Trade and Economic Framework, 2005). Entry mode preferences have also shifted, away from wholly owned investments to a stronger use of joint ventures.

Hypothesis 1: The industry of the Japanese foreign subsidiary affects its performance.

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).

Hypothesis 2: Financial performance will be higher 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 rival if it owns

some of those vital assets. Firms with large sizes usually possess vital assets and oligopolistic advantages. (Siripaisalpipat and Hoshino, 1999)

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

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 perform².

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

As a firm expands its operation overseas, it has learned more about how to cope with different environments in terms of economic, political and legal systems, as well as the cultural distances. These learning skills can be applied to new foreign investment opportunities. When firms make international investments, specific knowledge of the host country is gained as is more general knowledge of conducting international operations (Barkema et al., 1998). As argued by the internationalization theorists, firms with more experience in a host country have developed organizational capabilities suited to that country, and are able to make greater commitments to foreign investments (Johanson and Vahlne, 1977).

² The size of the subsidiary may change in the future. In this research we were interested in the size of the subsidiary at the time of the operation (time of the entry).

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 comes 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 culture. Integrating such employees is difficult, particularly so if there are cultural 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 & 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 core competencies of a firm. (Hennart and Park, 1993). Another advantage of wholly owned investments is that they give a firm tight control over operations in different countries, which is necessary in a global strategy.

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

Establishing a wholly owned subsidiary is a very costly way of entering a foreign country. 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. Overall wholly owned 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. In 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 Newburry, 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 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 occurring. 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

However, subsidiary performance is also threatened by cultural differences. That's why it is important to take into account the moderating effects of cultural distance and to improve our understanding of how culture 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, cultural differences moderate these relationships and may even eliminate the ability of MNEs to create or make use of valuable resources (*Uhlenbruck, 2004*).

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.

METHODOLOGY

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 performance of their Australian subsidiaries.

This paper suggests that different entry modes have different performance outcomes based upon their resource and organizational control demands. Likewise, we assume that firm-specific factors are able to exert influence over the performance of the Japanese subsidiaries in Australia.

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 data for the independent variables are derived from Nikkei Kaisha Nenkan, Toyo Keizai Inc., Japanese overseas investment, listed by firms and the Japan Company Handbook, when unavailable from the former source. In this study, only operations in the Australian market were examined. The basic selection criteria were that a subsidiary had to be established between 1992 and 2002³.

Because the tendency for new subsidiaries to take some time before their performance stabilizes, this study follows Woodcock et al. (1994) in analyzing only those subsidiaries which were at least two years old at the time of the data collection. After adjusting for missing data, the final sample size was 209 subsidiaries.

³ The sample was selected from the period between 1992 and 2002 because of the high number of investments in this period comparing to other decades.

Dependent variable

The dependent variable, subsidiary 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.

Independent variables

Following the recommendations of previous work, we took a step toward developing a more comprehensive theory by investigating the influence of firm-specific factors and entry mode on performance.

We also made a distinction between the types of entry mode by using non-conventional entry mode types. Concerning the explanatory effects, we use 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 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 IJV). (Makino and Beamish, 1998)[See Figure 1]

A variable, TRAENTRY, 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 Traditional JV or a Trinational IJV, and zero otherwise.

Firm-specific variables

The product differentiation 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). 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. 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 is used to provide more comparable scale units as other variables used in the model. A dummy variable, equal to one if the subsidiary is in a resource-based industry and zero otherwise (INDUSTRY) is also used. The international experience variable is a dummy variable, equal to one if the parent company had an experience in the same country (EXPERIEN).

Control variable

A socio-cultural distance variable is also used. It is a dummy variable indicating whether the subsidiary's manager is Japanese or not (MANAGER). Because nationality and cultural groups are

good determinants of many common managerial problems related to human resource management, the variables MANAGER was added.

RESULTS

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

In the second stage of the analysis, we verify the influence of the firm specific factors, the entry mode type variable and the control variable on the choice of entry mode.

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), we use a multinomial logistic regression, which is more appropriate in such cases (Agarwal and Ramaswami, 1992).

Table 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 two highest coefficients being the ones between EXPERIEN and SIZEMOTH (.417) and between MANAGER and INDUSTRY (.316).

Analyzing the results of the cross-tabulation analysis

Table 2 illustrates the results of the classification. In our sample, 131 (62.7%) were wholly owned, 33 (15.8%) were Traditional JVs, 20 (9.6%) were Intrafirm JVs, 22 (10.5%) were Cross-national DJVs, and 3 (1.4%) were Trinational IJVs. The first column from the left lists the number of

partners. In this sample, the number of two-partner venture represented less than 28% of the total cases and 71% of the total JVs. Almost 30% of the JVs had three or more partners.

Table 3 provides the results of the cross-tabulation analysis which examined the relationship between financial performance and ownership structure. Marginal frequencies show that 64.1% of the subsidiaries were profitable, while 22.5% had a loss in 2001. Intrafirm JVs had the best performance, 85% of Intrafirm JVs were classified as profitable, or “gain.” Among the other four entry types, Cross-national DJVs had the second best performance (63.6%), followed by Wholly Own (63.4%) and Traditional JVs (57.6%). Trinational IJVs were the worst performers with 66.7% of unprofitable cases. The goodness-of-fit of the independence model was significant, with a chi-Square significance=0.030. This result suggests that there was a significant difference in performance among the five ownership structures.

Analyzing the results of the multinomial logistic regression

The results of the multinomial logistic regression are presented in Tables 4. Overall, the data supported the model, although some specific hypotheses were not supported. The table shows the values of the coefficients 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 34.735 (0.002)

COMMON, SIZEMOTH, TRAENTRY and MANAGER were all found to be significant predictors of subsidiary's profitable performance (Gain). The variable EXPERIEN is, however, significantly negatively related to break-even. With the exception of MANAGER and EXPERIEN, 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, the international venture will perform better. As predicted by Hypothesis 3, SIZEMOTH is positively related to profitable performance. The coefficient of MANAGER, our measure of endowment in human resources is significant, but entering with a negative sign, suggesting that with a Japanese manager the subsidiary will perform better. 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 but entering with a negative sign, suggesting that the traditional and trinational entry types tend to achieve lower financial performance 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 coefficient of INDUSTRY and RELATIVE are insignificant, suggesting that the type of industry and the size of the investment do not increase the probability that the Japanese subsidiary will exhibit better performance, as we suggested in hypothesis 1, and 4.

DISCUSSION

Using a sample of 209 Japanese firms entering Australia over the period 1992–2002, our results show the model correctly predicts over 66% of the mode choices. Thus, we provide strong initial evidence to support using firm specific factors and ownership structures to predict subsidiaries performance. Our 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 cultural distance may have a significant impact on the performance of the subsidiary.

Our result suggests that sharing the costs of the FDI with partners from the same culture, or even better, from the same group, was the critical factor that improved performance. Cultural distance at both country and corporate levels was strongly related to the performance of the FDI. Thus we provide an empirical support for previous studies (Makino and Beamish, 1998) that Intrafirm JVs and Cross-national DJVs with a small cultural 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 cultural group 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.

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). 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 (although this variable is significant only in the case of Break-even).

The type of industry INDUSTRY and the relative size RELATIVE have no impact on the subsidiary's performance.

CONCLUSION

This study examined the influence of firm specific advantages and entry mode choice on performance. This paper examines these issues by answering the following questions. First, when investing in Australia, how do Japanese's 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 paper can be summarized as follows: When the parent company has the same product as the established subsidiary, its subsidiary will exhibit a high profit. Likewise, very large firms' subsidiaries show a propensity toward high profits. We 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 Cross-national DJV and Wholly own entry mode.

Nevertheless, this study also 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.

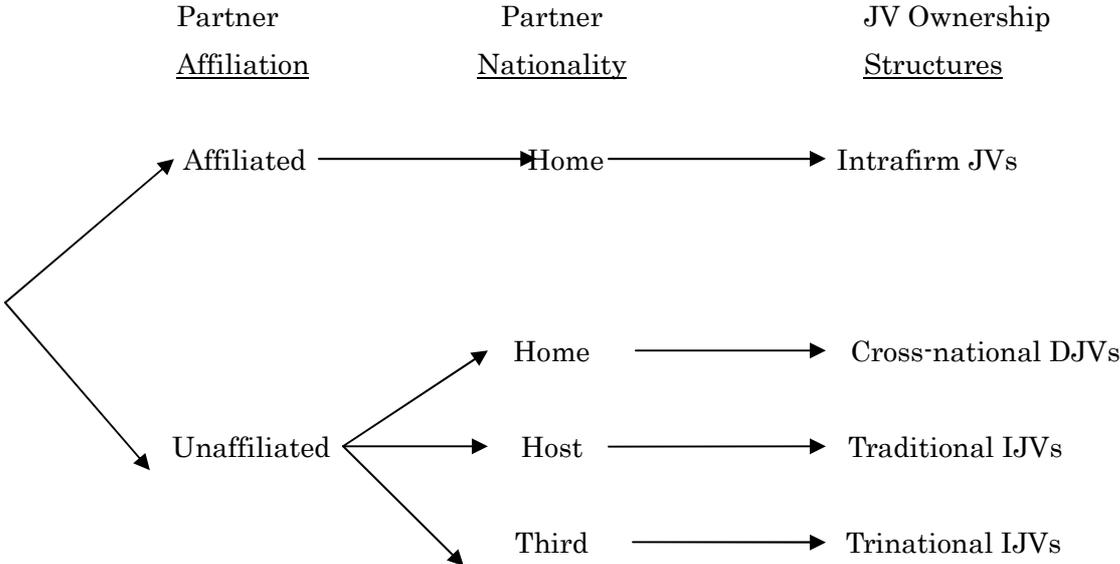
Although this study has its limitations, it has clearly provided a theoretical and practical insight into the factors affecting the performance of foreign subsidiaries. Other studies could use our research as a basis to extend work in this area toward a better understanding of the link between foreign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

REFERENCES

- Agarwal, S., and Ramaswami, S. N. 1992. "Choice of foreign market entry mode: impact of ownership location and internalization factors", *Journal of International Business Studies*, 23(1):1-27.
- Anderson, E., and Gatignon, H., 1986" Modes of foreign entry: a transaction cost analysis and propositions". *Journal of International Business Studies*, 17(3): 1-26.
- Australia-Japan Trade and Economic Framework (Joint Study) (2005), Ministry of Foreign Affairs Official Web Site, [wwwdocument] <http://www.mofa.go.jp/region/asia-paci/australia/study0504/> (accessed July 2005)
- Barkema, H. G. and F. Vermeulen 1998, "International expansion through start-up or acquisition: A learning perspective", *Academy of Management Journal*, 41(1): 7-26.
- Bird Allan and Beechler Schon, 1995 "Links Between Business Strategy and Human Resource Management Strategy in U.S.-Based Japanese Subsidiaries: An Empirical Investigation". *Journal of International Business Studies* 27(1): 23-46
- Birkinshaw, J. and Hood 1998. "Multinational subsidiary evolution: capability and charter change in foreign-owned subsidiary companies". *Academic of Management Review* 23(4): 773-795.
- Chen, H., Hu, M.Y., 2002." An analysis of determinants of entry mode and its impact on performance", *International Business Review* 11 (1): 193-210.
- Dunning. John H 1998"Location and the Multinational Enterprise: A Neglected Factor?", *Journal of International Business Studies*, 29(1): 45-66
- Hennart, J.F. 1988, "A transaction costs theory of equity joint ventures", *Strategic Management Journal*, 9(4): 361-374.
- Hennart, J.F. and S. Reddy 1997, "The choice between mergers/acquisitions and joint ventures: The case of Japanese investors in the United States", *Strategic Management Journal*, 18(1):1-12.
- Hennart, J.F. and Y. R. Park 1993, "Greenfield vs. acquisition: The strategy of Japanese investors in the United States", *Management Science*, 39: 1054-1070.
- Japan Company Handbook, Toyo Keizei Shinposha, Tokyo, 1998
- JETRO 1996, "The 12th Survey of European Operations of Japanese Companies in the Manufacturing Sector", Tokyo, Japan.
- Johanson, J. and Vahlne, J-E, 1977, "the Internationalization of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitment", *Journal of International Business Studies*, 8(1): 23-32.
- Konopaske, R., Werner S. and Neupert K.E., 2002 "Entry mode strategy and performance: the role of FDI staffing". *Journal of Business Research*, 55(9): 759-771.
- Li, J. 1995, "Foreign entry and survival: Effects of strategic choice on performance in international markets", *Strategic Management Journal*, 16(5): 333-351.
- Makino, S., Delios, S., 1996. "Local knowledge transfer and performance: Implications for alliance formation in Asia". *Journal of International Business Studies* 27(5): 905-927.

- Makino S., Beamish P.W., 1998 “Performance and survival of joint ventures with non-conventional ownership structures”. *Journal of International Business Studies* 29(4): 797-818.
- Mansour, M.and Hoshino, Y. 2001, “Firm-specific factors, shareholding structure and corporate performance of the Japanese manufacturing investments in Europe”. *Japanese Journal of Administrative Science*, 14 (3): 117-127.
- Mutelli, M. and Piscitello, L, 1998, “The entry mode choice of MNEs: an evolutionary approach”. *Research Policy*, 27: 491-506.
- Nihon Keizai Shimbun,Inc., 2001. Nikkei Kaisha Nenkan: Jyoujyou Kaishaban (Annual Corporation Report). Nihon Keizai Shimbun, Inc., Tokyo.
- Nihon Keizai Shimbun,Inc., 2001. Nikkei Kaisha Soukan: Mijyoujyou Kaishaban (Annual Corporation Report–unlisted companies). Nihon Keizai Shimbun, Inc., Tokyo.
- Nitsch, D., Beamish, P. W., and Makino, S., 1996 “Entry mode and performance of Japanese FDI in western Europe”. *Management International Review*, 36(1): 27–44.
- Pan Y. and D.K. Tse. 2000, “The Hierarchical Model of Entry Modes”, *Journal of International Business Studies*, 31(4): 535-554.
- Segalla Michael, 2001, “Overview: Understanding Values and Expectations of Foreign Employees Creates a Better Company”, *European Management Journal*, 19 (1): 27-31.
- Siripaisalpipat Pimonwan and Hoshino Yasuo, 1999, “Firm-specific advantages, entry modes, and performance of Japanese FDI in Thailand”, *Japan and the World Economy*, 12: 33-48
- Toyo Keizai Inc., 1992-2001, “Kaigai Shinshutsu Kigyo Souran (Japanese Overseas Investments)”, Listed by Countries, Toyo Keizai Inc., Tokyo.(In Japanese).
- Toyo Keizai Inc., 1992-2001, “Kaigai Shinshutsu Kigyo Souran (Japanese Overseas Investments)”, Listed by Firms, Toyo Keizai Inc., Tokyo.(In Japanese).
- Uhlenbruck Klaus, 2004 “Developing acquired foreign subsidiaries: the experience of MNES in transition economies”. *Journal of International Business Studies*, 35(1):109–123
- Zeira Y. and Newburry W. 1999, “Equity International Joint Ventures and International Acquisitions: Generic Differences in the Pre- and Post- Incorporation Stages”, *Management International Review*, 39 (3):323-352.

Figure 1: Joint Venture Ownership Options from the Home-county Based Firm Perspective



Source: Makino and Beamish (1998)

Table 1: Pearson correlation (coefficient/(case))

	Industry	Common	Sizemoth	Relative	Experience	manager	Traentry
Industry	1 (209)						
Common	0.095 (209)	1 (209)					
sizemoth	0.017 (209)	-0.229 (209)	1 (209)				
Relative	0.156 (209)	0.075 (209)	-0.128 (209)	1 (209)			
Experien	0.108 (209)	-0.194 (209)	0.417 (209)	-0.139 (209)	1 (209)		
Manager	-0.316 (209)	0.003 (209)	-0.011 (209)	-0.192 (209)	-0.023 (209)	1 (209)	
Traentry	0.162 (209)	0.165 (209)	-0.162 (209)	0.238 (209)	-0.107 (209)	-0.259 (209)	1 (209)

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 (Taditional JV& Tinalational IJV=1, otherwise=0)

Table 2: Comparison of the Entry mode Formation by the Ownership Structure.

No of Partners	Type of Entry				
	Wholly own	Traditional JVs	Intrafirm JVs	Cross-national DJV	Trinational IJV
1	(n=129) 100%				
2	(n=2)* 3.5%	(n=26) 45.6%	(n=17) 29.8%	(n=10) 17.5%	(n=2) 3.5%
3		(n=6) 40.0%	(n=2) 13.3%	(n=6) 40.0%	(n=1) 6.7%
4		(n=1) 16.7%	(n=1) 16.7%	(n=4) 66.7%	
5				(n=2) 100%	
Total	(n=131) 62.7%	(n=33) 15.8%	(n=20) 9.6%	(n=22) 10.5%	(n=3) 1.4%

* in two cases, 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 partner.

Table 3: Entry mode Structure and Performance: Result of the Cross-tabulation Analysis.

<i>Entry mode</i>	<i>performance</i>			<i>No. of Cases</i>
	1 Gain	2 Breakeven	3 Loss	
Wholly own	(n=83) 63.4%	(n=16) 12.3%	(n=32) 24.4%	131
Traditional JVs	(n=19) 57.6%	(n=3) 9.1%	(n=11) 33.3%	33
Trinational IJV	(n=1) 33.3%		(n=2) 66.7%	3
Intrafirm JVs	(n=17) 85.0%	(n=3) 15.0%		20
Cross-national DJV	(n=14) 63.6%	(n=6) 27.3%	(n=2) 9.1%	22
Total	(n=134) 64.1%	(n=28) 13.4%	(n=47) 22.5%	209

Pearson chi-Squared 17.035 (0.030)

Table 4: The results of the multinomial logistic regression

<i>Variables</i>	<i>Hypothesized sign</i>	Overall Model	Profit	Break-even
		<i>Chi-square</i>	<i>Regression coefficient</i>	<i>Regression coefficient</i>
INDUSTRY	+	0.393 (0.821)	-0.184 (0.688)	-0.429 (0.542)
COMMON	+	13.020 (0.001)	1.401 (0.002)*	0.509 (0.399)
SIZEMOTH	+	7.736 (0.021)	0.564 (0.010)*	0.420 (0.154)
RELATIVE	-	3.454 (0.178)	0.02 (0.296)	0.001 (0.296)
EXPERIEN	+	3.696 (0.158)	-0.538 (0.219)	-1.090 (0.059)*
MANAGER	-	6.168 (0.046)	0.959 (0.025)*	1.304 (0.055)*
TRAENTRY	-	2.986 (0.225)	-0.810 (0.086)*	-0.765 (0.276)
Intercept		6.450 (0.040)	-3.699 (0.024)*	-3.865 (0.080)*
-2 Log likelihood		337.222 (0.002)		
Proportion of correct classifications		67.0%		
Model Chi-squared		34.735 (0.002)		

Note: Significance in parentheses.

Number of cases: 209

*Correlation is Significant

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 & Tinternational IJV=1, otherwise=0)