JAPANESE FOREIGN DIRECT INVESTMENT ARTICLE ABSTRACTS

A Bibliography of Japanese Foreign Direct Investment Publications using data from Toyo Keizai's "Kaigai Shinshutsu Kigyou Souran" (Japanese Overseas Investment) by Faculty, Ph.D. Program Graduates and Candidates of the Ivey Business School at Western University

As of March 5, 2015

The Ivey Business School has had a major stream of research about Japanese Foreign Direct Investment since 1994. Its faculty and Ph.D. Program Graduates (and Candidates) have authored over 100 publications: 117 articles, 6 books, 18 contributed chapters, and 1 series contribution using the TK (Toyo Keizai) data, with many more in process or review. Details follow regarding the published works.

ARTICLES (117)


Keywords: FDI; Market entry; Joint venture; Japan.

Abstract: We investigate the effect of firm-specific advantages being 'local' in scope, and the influence of subsequent location-specific disadvantages, on the choice of foreign entry mode and subsidiary performance. To look into this issue, we examine Japanese FDI data from the wholesale and retail industries - two sectors that have productive activity concentrated in downstream processes and location-bound resources. Our theoretical and empirical analyses demonstrate that, in situations where required capabilities must be developed through local experience and where location-specific resources were subject to market failure, acquisition and joint venture strategies were preferred. Greenfield entries were successful in industries that permitted the off-setting of location-specific disadvantages with firm-specific advantages. From our results, we draw implications for the entry mode literature and offer a perspective on the performance of the entry mode choice.


Keywords: Emerging markets; FDI; Strategy; Performance; International.

Abstract: Japanese MNCs have established strong investment positions in the US, Europe and Asia. China has been a major recipient of Japanese foreign direct investment (FDI), while investment in India has grown much more slowly. We argue that the differences extend much beyond the levels of investment—Japanese involvement in India and China is qualitatively different. Japanese FDI in China was motivated by access to location-specific productive resources, and it involved a high degree of technology, management skills and organizational knowledge transfer. The Japanese subsidiaries in China were integrated with the network of international subsidiaries as a part of the MNC's global strategy. Japanese FDI in India, however, was motivated by the desire to access local markets. It involved less transfer of technology and management skills, and Japanese subsidiaries in India operated independently as part of a multi-domestic strategy. We conclude that foreign entrants to the region should be aware and able to respond to the unique advantages of each host country and to the different strategies and capabilities of the subsidiaries of Japanese MNCs.

Apaydin, Marina. 2009. Analyzing FDI trends in emerging markets: Turkey vs. CSEE and the Middle
Keywords : Japanese foreign direct investment; Central and South-Eastern Europe, Turkey, Middle East.

Abstract : Turkey’s location at the crossroads between Europe and the Middle East creates tension between its complex cultural identity and the economic goals of this emerging economy. This paper deconstructs the current economic position of Turkey vis-à-vis its immediate neighbors, Central and South-Eastern Europe (CSEE), and the Middle East, as seen through the eyes of a Japanese investor. The analysis is based on the data on the foreign subsidiaries established by Japanese firms across the world. The results of the analysis confirm the ambiguous position of Turkey. With the largest population in the region, it has one of the lowest Gross National Income (GNI) per capita. It enjoys a high Gross Domestic Product (GDP) growth yet a relatively low openness to trade. From cultural and political risk perspectives it is closer to the Middle East than to CSEE. In spite of its location advantages for FDI, the institutional environment continues to be an impediment for Turkey, preventing it from realizing its full investment potential. Thus Japanese investors vote with their funds for the newly liberalized CSEE economies, which are slightly closer culturally to Japan, and significantly less risky. The main contribution of this study is its comprehensive comparative analysis of a rarely researched combination of regions based on a variety of public and private sources.


Keywords: internationalization; institutional environment; semi-globalization; regional strategy; location of foreign subsidiaries

Abstract: Traditional research suggests a relationship between country-level institutions and the location choices of MNEs. However, more recent theory suggests MNEs also focus on regions (semiglobalization). Therefore, this study examines institutional effects in the context of semiglobalization by considering the influences of three formal institutions (i.e., regulatory control, political democracy, capital investments) of countries and geographic regions on MNEs' location choices of internationalization. We use a sample of Japanese MNEs operating in 45 countries within eight regions. The results show that their degree of internationalization into a country is influenced by both country and regional institutional environments. Additionally, a semiglobalization perspective provides better explanatory power than does the country-level perspective. These results present a new perspective on how MNEs consider institutional environments in their international strategy.


Keywords : Semiglobalization; Regional strategy; Multilevel analysis; Evaluation of current theories; Localization of foreign subsidiaries; Emerging markets.

Abstract : This paper examines the regional effect of MNEs’ foreign subsidiary localization. We hypothesize that the number of subsequent foreign subsidiaries in a country is in part determined by a firm’s prior foreign subsidiary activity at the regional level. We test our hypotheses using data on 1,076 Japanese MNEs that created 3,466 foreign subsidiaries (1,837 wholly owned FDIs and 1,629 joint ventures) over the period 1996-2001. We use a multi-level Negative Binomial approach with three levels of analysis: localization decisions in a country (49 countries), in a region (six regions), and at the headquarters level. In this way, we test the regional effects controlling for country and
corporate dimensions. We also run separate models to differentiate wholly owned and joint venture localization decisions. Our results strongly support the semi-globalization perspective in that the regional level effects are significant and different from the country level effects for all foreign subsidiaries, for wholly owned subsidiaries and for JVs. Japanese MNEs adopt a regional perspective that complements their decisions at the country and firm levels. They seek regional agglomeration benefits and make arbitrage decisions between countries in the same region.


Keywords : FDI; Entry mode; Research methods; Joint venture; Wholly owned subsidiary.

Abstract : International strategy empirical research on the mode of entry has typically overlooked the multilevel nature of this question and relied on non-multilevel quantitative methods. This creates important conceptual and statistical limitations. We examine such drawbacks by explaining the multilevel nature of this research question and the necessity to use multilevel methods. As an illustration, we develop a multilevel model and run a multilevel Bernoulli analysis to analyze the determinants of modes of entry, using a dataset on Japanese Foreign Direct Investment. Its results are compared to those of the dominant statistical method used in International Management for this topic: logistic regression.


Keywords :

Abstract: While recent research has pointed to the importance of regional strategy and the ‘interregional liability of foreignness,’ critics have pointed out that this argument obscures important differences within regions as well as the similarities across them. Bridging these diverging viewpoints, our research is designed to unpack this debate into cultural, institutional, and regional components. Using a large data set, we find that firms are significantly more dispersed across cultural and, in particular, institutional boundaries, than they are across geographically defined regional boundaries. Further, our results indicate that certain firm-specific resources influence firm’ global dispersion; in particular, we find that a nuanced interplay of proprietary capabilities such as technology, marketing, and partnering capabilities has an impact on the location of firm activities.


Keywords :

Abstract : According to Wheeler and Mody (1992) and Blonigen and Wang (2005), the elasticities between foreign direct investment (FDI) and its determinants vary considerably with the level of host country development. A large literature considers the influence of corporate tax rates, but the influence of corporate tax rates on FDI, has not been extensively studied in less developed countries, particularly in comparison to the influence corporate tax rates have in less developed countries as compared to developed countries. Using data on Japanese firm locations over the 1990-2000 period, we compare cross country differences in tax rates to reveal an asymmetry in influence between developed and developing countries. By looking at the interaction effects between Japan’s and a host developing country’s tax systems, we put forward the idea that special tax sparing provisions signed with Japan can alter the effect of host country taxes on Japanese firms’ location choices. Further we find that even though tax competition can be strong in developing countries, this competition should not lead to an effective rate of zero taxation for developing countries in their competition for FDI.
inflows.


**Keywords**: Cultural distance; Geographic distance; Long term orientation; Subsidiary ownership; Subsidiary survival; Transaction cost; Transaction value.

**Abstract**: This paper examines the role which long term orientation (LTO) dimension of host country culture plays in transforming multinational corporations’ (MNCs’) focus from transaction cost to transaction value in the context of MNC subsidiary ownership and survival. We used a sample of 10,236 overseas subsidiaries established by 1,291 Japanese MNCs in 29 host countries with varying levels of LTO to test our hypothesis. Results first showed that LTO has a direct positive effect on ownership levels. Second, we observed that there were positive interactions between LTO and cultural distance, and between LTO and geographic distance, on ownership levels. Third, we found that there were positive interactions between LTO and subsidiary ownership level, and between LTO and cultural distance, on subsidiary survival. The theoretical and practical implications of these findings are discussed in terms of the vital role LTO plays in determining whether transaction value or transaction cost considerations prevail in MNCs’ ownership strategies, and how MNCs can better take advantage of host country LTO and improve the survival likelihood of their subsidiaries.


**Keywords**: IJV; Asymmetry; Performance; Survival.

**Abstract**: Researchers have argued that IJV performance and survival is affected significantly by its parent firms. In this regard, previous studies mostly focused on the relationship between an IJV and its individual parents, while leaving the relationship between parents firms unexplored. This study considered whether size asymmetry between IJV parents is an additional factor influencing IJV performance and survival. From the perspective of transaction cost economics and resource-based view, we proposed two opposing hypotheses. To test the hypotheses, we used 261 firm-year observations of 145 Japanese IJVs in 1996, 1998 and 2000, with generalized estimating equations (GEEs) and Chi-square tests. No significant relationship was found between size asymmetry between parents and IJV performance and survival.


**Keywords**: Joint ventures; Partner; International strategy; Resource-based theory; Transaction costs; Japan.

**Abstract**: Using the largest-ever sample of international equity JVs with three or more partners, this study examines the relationship between the number of partners in a JV and performance. Resource-based theory and the transaction cost perspective are used to explore whether the increases in transaction costs are balanced off by increased benefits as the number of partners grows. Four hypotheses are developed and tested on a sample of 1,335 Japanese JVs in 73 countries, not including Japan. No significant relationship was found between number of partners in an international JV and JV performance, even when moderators like JV type were considered.


**Keywords**: Centre_EM; Emerging markets; FDI; China; Ownership; Subsidiaries; Japan.
Abstract: Using information from the Japanese database Toyo Keizai, this article studies the performance of 2,962 foreign subsidiaries across the period 1985–1999 to show a picture of declining profitability from foreign direct investment by MNE’s in China. Despite the influence of macro-level factors, such as the historically fluctuating performance of the Chinese economy, we observed that of the many factors that may affect profitability, subsidiary-specific factors had the greater influence. The findings suggest that there are significant benefits for early entrants into the market, but caution against the use of high majority ownership control. Other evidence showed that larger subsidiaries tended to perform better. Managerial implications for MNEs and the future prospects of foreign direct investment in China are discussed.


Keywords: Expatriates; Subsidiaries; Japan.

Abstract: Conventional wisdom holds that Japanese firms use large numbers of expatriates and are reluctant to allow local nationals a significant role in subsidiary management. Japanese firms have been criticized for their unwillingness to capitalize on the internal diversity in their international managerial ranks. It has been suggested that a rice paper ceiling in Japanese firms restricts local managers from advancement opportunities and involvement in corporate-level decision making. The research reported in this paper directly challenges the notion that Japanese firms are unwilling to reduce their use of expatriates. Using a comprehensive database of Japanese subsidiaries, this paper shows that the number of Japanese expatriates is declining and has been for some time. One explanation for this decline is that Japanese firms have had no choice because of a limited supply of managers for expatriate positions. A second explanation is that Japanese firms are beginning to recognize the importance of empowering local management and are becoming more truly global in how they compete.


Keywords: Geographic distance; Travel time; Entry mode; Transaction costs; FDI; Japan; USA.

Abstract: Measures of geographic distance are often used to proxy the impact of spatial separation on firm decisions and performance. We develop a construct, dyad travel time, to measure the friction of interacting and costs of uncertainty from ex post behavioral monitoring across non-collocated sites. We measure the actual time required to travel between 1,171 parent-subsidiary dyads and show that dyad travel time (but not geographic distance) has significant predictive power in firm governance and location decisions. While prior literature has independently modeled these, we specify a simultaneous model offering stronger support for the interrelation of these decisions.


Keywords: FDI; Services; Entry mode; Staffing; Expatriate; International.

Abstract: We investigate the effect of operating in service industries, in which separability and human capital intensity factors influence the choice of foreign entry mode and expatriate staffing decisions. To look into this issue, we compared 14,863 instances of Japanese foreign direct investment (FDI) into manufacturing and three service industries (wholesale trade, retail trade, and financial services). Our theoretical and empirical analyses support the assertion that in situations where required capabilities must be developed through (1) close contacts with end customers and (2) high levels of professional skills, specialized know-how, and customization, wholly owned subsidiaries and
expatriate staff are preferred. From our results, we draw implications for the FDI literature and offer a novel perspective on the factors influencing the internationalization of service firms.


**Keywords**: Institutional environments in host countries; Legitimacy in foreign market entry strategies; Multi-level analysis; Subsidiary ownership.

**Abstract**: In this study, we examine from an institutional perspective the legitimacy rationale behind the choice of subsidiary ownership structure among multinational corporations (MNCs). We suggest that when under a strong pressure to conform at the host country and local industry levels of their institutional environment, MNCs are likely to take a lower ownership stake in exchange for external legitimacy in the host country or local industry that their foreign subsidiaries are entering. We also suggest that MNCs are likely to take a higher ownership stake in response to strong internal pressure to sustain their internal legitimacy at the corporate level of their institutional environment. We also propose that MNCs are more likely to exchange ownership for legitimacy in local industries than in host countries, and in local markets with a high level of political instability than in those with a low level of political instability. These propositions are generally supported by our analysis of 4,451 subsidiaries that were established by 898 Japanese MNCs which operated in 39 countries across 52 industries (two-digit SIC) between 1988 and 1999.


**Keywords**: Interdependent behavior in foreign market entry; Legitimacy and competition in external and internal environments; Prior entry and prior exit decisions as a signal to potential entrants; Multi-level analysis.

**Abstract**: This paper examines the interdependent foreign market entry decisions of multinational corporations (MNCs). Based on the argument that legitimacy and competition are two important forces in foreign market entry decisions, we hypothesize that an MNC’s market entry decisions are influenced by its own prior entry and prior exit decisions and those of other MNCs. We examine this general proposition at four levels of analysis: the host country, global industry (an industry that spans host countries), local industry (an industry that is separately defined within each host country), and parent firm level. Our analysis of a panel data of over 4000 market entry decisions that were made by Japanese MNCs shows that an MNC’s market entry decision has a stronger inverted U-shaped relationship with the prior entry and exit decisions of other MNCs at the local industry level than the prior entry and exit decisions of other MNCs at the host country and global industry levels. We also find that both the prior entry and prior exit decisions of an MNC have a marginal influence on its own subsequent market entry decisions at the parent firm level.


**Keywords**: Japanese foreign direct investment; Africa; Economic development.

**Abstract**: This article examines the characteristics and performance of Japanese foreign direct investment (JFDI) in Africa. For that purpose a large sample of 1062 Japanese subsidiaries doing business in Africa was selected from the Tokyo Keizai database and analyzed. Our findings reveal several important observations as follow: 1) efficiency and market seeking was the common purposes
for investment by Japanese firms in Africa; 2) furthermore strategic asset seeking was the common purpose for investment by Japanese firms in low income region and lower middle income regions while resource seeking was relatively the common purpose for investment in upper middle income region; 3) the main industry for investment by Japanese firms in the low income region was low technology manufacturing while the main industry for investment in the lower and upper income regions was high technology manufacturing; 4) the Japanese subsidiaries are young and small in lower middle income region, young and large in upper middle income region and old, small and large in low income region; their performance is good with a very high exit rate in low income region while the performance is high with high exit rate in low middle income region and moderate with a low exit rate in upper middle income region.


**Keywords**: Real options; Risk diversification; Economic crisis; International diversification; Joint ventures; Subsidiary divestment

**Abstract**: This study examines how MNE divestment decisions differ according to real options versus risk diversification perspectives. We develop competing hypotheses in relation to international diversification and joint ownership control. Empirical results give consistent support to the real options perspective. We find that large MNEs with greater international diversification are less likely to divest their subsidiaries during times of economic crisis. The negative effect of joint ownership control is however manifested in both crisis-stricken and non-crisis country subsidiaries as well as in their interaction effect.


**Keywords**: International joint ventures; Multi-party complexity; Multiple structural changes; Performance; Survival

**Abstract**: Research on multi-party IJVs has been limited to a static context. Little attention has been paid to analyzing dynamic post-formation change processes. This study investigates the evolving influences of multi-party IJV complexity on performance in a dynamic context where the multi-party IJV goes through multiple waves of structural change. Using a static context, some previous studies found support for a negative impact of multi-party complexity on performance, while others did not. Analyzing 2,652 multi-party IJVs over a period of 17 years, we attempt to reconcile previous work by investigating whether there is a threshold beyond which the negative impact of multi-party complexity on performance becomes salient.


**Keywords**: Change; Equity ownership structure; International joint venture; Performance; Survival

**Abstract**: This article examines how multiple ownership changes unfold in international equity joint venture (IEJV) evolution and how such repeated changes impact short-term performance and long-term survival. By theorizing a new concept—the trap of continual change—in the IEJV context, we challenge the adaptive viewpoint assumed in alliance dynamics research. We propose that partners sometimes respond to an initial dissatisfaction with the venture result with a dysfunctional repetition of rearranging the ownership control structure. This continual change locks the organization into bad choices and sends it into a downward spiral. Acknowledging the mixed motive nature of inter-partner relationships, we incorporate cooperative versus competitive dynamics manifested in shared control
arrangements. We propose that shared ownership control lends stability to the IEJV until the initial IEJV agreement is renegotiated; this stability is a result of the cooperative forces of mutual interdependence and mutual forbearance between the partners. However, when the power balance breaks down, the potential for inter-partner conflict increases. When the ownership control structure of the IEJV is restructured, especially multiple times, shared control arrangements become increasingly unstable as behavioral, cultural, and managerial differences are amplified.


Keywords: subsidiary expansion; economic crisis; real options; across-country operational flexibility; within-country growth; MNE network characteristics

Abstract: This paper compares two real options – within-country growth and across-country operational flexibility – to examine subsidiary expansion/contraction during times of economic crisis. Specifically, we examine how the real options orientations of individual subsidiaries interact with the general characteristics of multinational enterprise networks. Our main findings are that: (a) economic crises can be detrimental for subsidiaries with stronger within-country orientations, and advantageous for those with stronger across-country orientations; and (b) network characteristics are not the sole determinants of subsidiary expansion/contraction – what really matters is how the real options orientations of individual subsidiaries mesh with the overall characteristics of the network they belong to.


Keywords: Multinational Networks; Economic Crisis; Foreign Subsidiaries; Subsidiary Network; Keiretsu Affiliation; Operational Flexibility; Subsidiary Performance

Abstract: From a network view of multinational enterprises, we argue that foreign subsidiaries in multinational networks have access to resources in heterogeneous institutional environments, and that by taking advantage of these linkages they can capitalize on the latent flexibility that resides in being part of a multinational network. We compare the performance of subsidiaries during times of economic crisis versus stable periods to determine the environments in which intra- and inter-firm organizational linkages matter most. Results indicate that the enhanced flexibility associated with intra- and inter-firm organizational linkages is more likely to increase the performance of subsidiaries operating in crisis rather than economically stable environments.


Keywords: Centre_EM; Emerging markets; Investment mode strategy; Expatriate strategy; Multinational flexibility; Dynamic capability; Sunk cost; Real options; Economic crisis; Survival.

Abstract: This study examines the main and interaction effects of investment mode strategy and expatriate strategy on subsidiary survival during times of economic crisis. We propose that the capitalization of multinational flexibility across multi-country networks enhances the survival of subsidiaries when the local markets collapse. Based on a longitudinal analysis that encompasses the characteristics and survival of Japanese subsidiaries in Asian countries, we find that greenfield wholly-owned subsidiaries are more likely to survive than greenfield joint ventures and acquired wholly-owned subsidiaries during times of economic crisis. The interaction effect between expatriate strategy and investment mode strategy suggests that the further distant the operational structures of
subsidiaries are configured from the multinational networks, the more benefit the subsidiaries can extract from the greater utilization of expatriates. Consistently, we find that in an environment of economic crisis, the greater utilization of expatriates is more likely to enhance the survival likelihood of greenfield joint ventures and acquired wholly-owned subsidiaries than greenfield wholly-owned subsidiaries. While this positive interaction effect is significant in an economic crisis environment, it is not in an economically stable environment. The competing explanations of the dynamic capability logic of multinational flexibility and the real option logic of sunk cost are considered in this study.


**Keywords**: Centre_EM; Economic crisis; Foreign direct investment; Newly industrialized economies; Emerging markets; Japan.

**Abstract**: Most emerging markets are characterized by greater political, economic and institutional risks and environmental uncertainties than exist in developed market economies. Most researchers have adopted a somewhat static view of emerging markets, a conventional wisdom whereby such risks and uncertainties are assumed to be constant. This paper goes beyond this conventional notion of the uncertain environment of emerging economies and investigates their dynamic context instead, the idea that uncertain environments indeed fluctuate and shift. We argue that risk/uncertainty varies in its intensity, according to whether the environment is economically stable or in crisis. The economic environments of emerging markets may be stable (i.e. uncertain at a constant but generally positive rate) or in crisis (i.e. uncertain at a more volatile and generally negative rate). This study argues and demonstrates that such variability has implications for the characteristics and performance of foreign subsidiaries in emerging markets.


**Keywords**: Geography; Distance; Political conflicts; Political risk; Subsidiary survival; Subsidiary exit; Place; Space; Exposure; Coulomb’s law; Concentration; Dispersion; Static exposure; Dynamic exposure.

**Abstract**: This study focuses on the role of geography in foreign subsidiary survival in host countries afflicted with political conflict. We argue that survival is a function of exposure to conflicts, which depends on the characteristics of place (the conflict zone) and space (geographic concentration and dispersion of other home-country firms). The roles of place and space are explored using street-level analysis of geographic information systems data for 670 Japanese MNE subsidiaries in 25 conflict-affected host countries over 1987–2006. Through dynamic modeling of conflict zones as stretchable and shrinkable places relative to subsidiary locations, we develop a means of characterizing a foreign subsidiary’s exposure to multiple threats in its geographic domain. Our results show that greater exposure to geographic political threats, in both a static and a dynamic sense, reduces the likelihood of survival. Our results also show that both concentration and dispersion with other firms affect survival; however, the effects depend on where (whether the firm is in a conflict zone) and with whom (home-country peers or sister subsidiaries) the firm is spatially located.


**Keywords**: Governance; Ownership; Diversification; Stakeholder; Rent Appropriation.

**Abstract**: Prior work on the performance consequences of corporate diversification treats all powerful
owners as seeking the same benefits from diversification, i.e., higher profit rather than growth, and therefore limiting value appropriation by other stakeholders such as employees and managers. In contrast, we distinguish between domestic ‘relational’ owners and foreign ‘transactional’ owners in Japanese corporations to explain that although transactional owners seek profit rather than growth from diversification, relational owners seek growth rather than profit from diversification. Furthermore, relational owners also allow managers and employees to appropriate more of the rents arising from diversification than do transactional owners.


**Keywords**: Japan; FDI; China; Emerging markets; Regional strategy.

**Abstract**: The nature of Japanese firms’ international activity in China has undergone a substantive change in the 1995-2006 period. Japanese companies compete actively in many more regions in China, and they have shifted their investment strategies in the various provinces and municipalities in China to reflect the new competitive realities created by rapid economic development in the East, mid-South and North regions of China. The changing nature and evolution of Japanese international activity has created substantial opportunities and challenges to scholars and practitioners alike. The challenge comes from trying to develop a nuanced understanding of sub-national variations in Japanese firms’ strategies in China. The opportunities come from the chance to deepen research in three particular areas of scholarly endeavour: (1) subsidiary development and multinational firm strategy; (2) institutions and international business; and (3) offshoring, outsourcing and international business theory.


**Keywords**:

**Abstract**: Sociological-based information theory and economics-based competitive rivalry theory operate as the dominant theories of interorganizational mimetic behavior. Recent work has sought to integrate the ideas in these theories, or determine which has greater explanatory power. In this study, we juxtapose the concepts in these two theories, to illustrate the complementary nature of information-based and rivalry-based theories of mimetic behavior. Specifically, we consider how the predictions of information-based theories are moderated by the home competitive context of the industry of a firm making an international expansion. Using a 1980 to 2002 sample of 4,949 manufacturing plant entries made into 71 foreign countries by 783 publicly-listed Japanese manufacturing firms, we find that the competitive context in the home industry influences the propensity of a focal firm to imitate the actions of rival firms. Our results support our contention that the two theoretical approaches are complementary, with the complementarities extending from the limitations of each approach.


**Keywords**: Within-country diversification; Host country institutions; Corporate-level diversification; Subsidiary performance; Multinational firms; Moderating effect; Emerging markets.

**Abstract**: We examine the product diversification of a multinational firm within each of its host country markets. Based on a sample of 12,992 foreign subsidiaries of Japanese multinational firms, we find that higher levels of within-country product diversity led to higher subsidiary performance
where the institutional strength of the local market was weak, and where a firm’s corporate product diversity level was high. Our study highlights the importance of examining a multinational firm’s strategy in its individual host country markets, as influenced by the institutional characteristics of a host country market and the corporate level strategy of the multinational firm.


**Keywords**: Internationalization; Globalization; Multinationality; Internalization theory; Regional strategy; Japan.

**Abstract**: Our evidence from the analysis of 1,229 Japanese multinational firms shows notable differences in the components of an internationalization strategy by the type of global and regional strategy employed. This evidence suggests that a host-oriented, but not a home-oriented, strategy is a step in the direction of a global strategy in a manner consistent with existing internationalization, internalization and global strategic management views of multinational firms.


**Keywords**: Joint ventures; Survival; International strategy; Exit rates; Performance; Wholly-owned subsidiaries; Japan.

**Abstract**: Our evidence from the analysis of performance data on 27,974 foreign subsidiaries challenges conventional notions about joint venture survival rates and financial performance. This evidence suggests the need for future research to explore why joint ventures survive as well as they do, why wholly-owned subsidiaries have exit rates comparable to joint ventures, and why joint ventures had a level of financial performance at least equal to wholly-owned subsidiaries.


**Keywords**: Joint ventures; Performance; Escalation theory.

**Abstract**: Casual observation provides numerous examples of alliances that continue for years despite failing to accomplish partner objectives. In this study we examine the question of why firms often persist with alliance investments despite a steady stream of evidence that the alliance is producing little or no benefit. We investigate the factors that contribute to a firm's persistence with failing alliances, using an escalation framework for strategic alliances. We describe a case study of an unsuccessful strategic alliance. With an emphasis on alliance and partner specific, as opposed to interfirm, variables, we use a case study to demonstrate how escalation theory can enhance alliance understanding. Three key escalation factors emerge from the alliance case study. We then provide an exploratory quantitative analysis of escalation. The analysis is based on the three factors that emerged from the case study plus three additional factors derived from escalation theory. Finally, we examine the implications for escalation theory and theories of alliance management and performance.


**Keywords**: Learning; Political institutions; Market entry; FDI.

**Abstract**: We find support for the role of experiential learning in the international expansion process by extending the stages model of internationalization to incorporate a sophisticated consideration of temporal and cross-national variation in the credibility of the policy environment. Using a sample of
3857 international expansions of 665 Japanese manufacturing firms, we build on the concepts of uncertainty and experiential learning, to show that firms that had gathered relevant types of international experience were less sensitive to the deterring effect of uncertain policy environments on investment. One implication of our results is that research on international strategy should emphasize understanding the political institutions that constrain or enable political actors, just as entry mode research has done. A second implication is that research in the stages model of internationalization should give the same weight to the policy environment as a source of uncertainty to a firm, as it has given to cultural, social and market institutions.


**Keywords**: Market entry; FDI.

**Abstract**: We extend the stages model of internationalization to incorporate a sophisticated consideration of temporal and cross-national variation in the uncertainty of the policy environment. Using a sample of 6465 international expansions of 665 Japanese manufacturing firms in 49 countries, we develop arguments from internationalization and bargaining power perspectives to show how Japanese firms manage policy uncertainty in host country environments through the within-country sequencing of investments. Although a distribution to manufacturing entry sequence tends to prevail in countries with low levels of policy uncertainty, as uncertainty in the policy environment increases, initial entry by distribution is increasingly likely to be eschewed in favor of an initial entry by a joint venture manufacturing plant. We suggest that this change in investment sequence occurs as firms shift from an emphasis on developing knowledge about local markets and consumers in low-hazards markets to an international expansion strategy in uncertain policy environments that places knowledge development of the policy environment at the forefront of a firm's strategy.


**Keywords**: FDI; Market entry; Subsidiary.

**Abstract**: A contingency approach is used to analyze the relationship between timing of entry and a subsidiary's relative size and its survival. Using a sample of 6955 foreign entries of 703 Japanese firms, the authors develop and test hypotheses about asset-based competitive advantage moderators of timing of entry's influence on a subsidiary's relative size and survival. The results show that early entrants not only have a larger relative size but also have greater exit likelihood than do late entrants. The magnitude of these effects depends on the type of asset advantages a foreign investing firm possesses.


**Keywords**: Centre_EM; Emerging markets; Ownership; Japan; Joint ventures; Public policy; International.

**Abstract**: The countries in Asia accounted for more than half of all Japanese foreign subsidiaries operating in 1999. Notable among these subsidiaries was the frequent use of joint ventures compared to entries made elsewhere in the world, and a relatively high level of equity ownership by local firms within those joint ventures. As a means to explain the high use of joint ventures, and as a way to better understand the formulation of ownership strategies, we introduce, discuss, and provide examples of three ownership strategy influences, which we term transactional, experience, and institutional influence. We contend that these influences affected the ownership strategies of
Japanese firms when forming foreign subsidiaries in Asia and elsewhere in the world. Based on this description and analysis of ownership strategies, we advance several implications for public policy makers and managers in multinational firms.


**Keywords**: Subsidiary; Survival; Profitability; MNEs; Japan; International.

**Abstract**: This study integrates research on the financial performance of multinational firms with research on foreign subsidiary survival. We examined the influences a firm's intangible assets and its experience have on foreign subsidiary survival and profitability using a sample of 3,080 subsidiaries of 641 Japanese firms. The results show survival and profitability have different antecedents. Host country experience has a direct effect on survival but a contingent relationship with profitability. The entry mode moderated the nature of these relationships.


**Keywords**: China; Emerging markets; Expatriate.

**Abstract**: This study examines expatriate staffing in foreign wholly-owned subsidiaries and joint ventures of Japanese firms located in the People's Republic of China and the United States. Expatriates are conceptualized as performing two primary functions. The first is a control function in which the expatriate works to align the operations of the subsidiary with that of the Japanese parent. The second function is a knowledge role. In this role, either the expatriate acts to transfer the Japanese parent's knowledge to the subsidiary or the expatriate is an agent for the acquisition of host-country knowledge. We tested for these two functions using subsidiary-level data on Japanese firms' operations in China and the US. Our results indicate that the control function was more prominent in joint ventures in China than in the US. The results also indicate that expatriates played a more significant knowledge-transfer function role in technology and marketing-intensive industries in China than in the US. A lack of MNC experience in China was found to be associated with limited use of expatriates. Finally, expatriate employment was negatively related to the number of subsidiaries of the parent company worldwide.


**Keywords**: FDI; Performance; Survival.

**Abstract**: This study examines longitudinal aspects of Japanese foreign direct investment in Canada. In these analyses, exit rates are related to subsidiary-level variables such as business size, expatriate employment levels, equity-ownership levels, and entry mode. The results of the study suggest that region and industry interact, both to draw investment to a region and to influence the likelihood of survival of foreign-owned businesses. Furthermore, the focus on regional issues for Canada shows that even with a small open economy, subnational (inter-provincial) variance can have important effects on the characteristics and performance of foreign direct investment.


**Keywords**: Emerging markets; Expropriation; FDI.
Abstract: This study jointly examines the effects of organizational capabilities and public and private expropriation hazards on the level of equity ownership chosen for foreign subsidiaries in emerging markets. Specifically, the mechanisms by which 660 Japanese multinational corporations drew upon capabilities developed via industry-specific, country-specific, and total international experience to mitigate these hazards for their 2,827 subsidiaries in 18 emerging markets are explored. Results strongly support a novel specification that forges a link between the capabilities and the public and private expropriation hazards literatures.


**Keywords**: FDI; Japan; Emerging markets.

Abstract: This paper examines Japanese direct investment in Thailand following the economic crisis of 1997. Based on a 1999 survey of 72 Japanese subsidiaries in Thailand, the authors found that most respondents were optimistic about the business climate. Thai subsidiaries were found to be an integral part of Japanese multinationals’ manufacturing networks.


**Keywords**: Hypotheses; Multinational corporations; Financial performance; Regression analysis; Manufacturing; Models; Diversification; Globalization; Japan.

Abstract: The study extends research on the geographic scope, product diversification, and performance relationship by exploring both the antecedents and consequences of geographic scope. In so doing, it addresses a fundamental criticism of the geographic scope-performance relationship. The research model is tested with data on the corporate performance of 399 Japanese manufacturing firms. In the partial least squares analyses used to examined the study's 6 main hypotheses, it is demonstrated that geographic scope was positively associated with firm profitability, even when the competing effect of proprietary assets on firm performance was considered. It is also found that performance was not related to the extent of product diversification, although investment levels in rent-generating proprietary assets were related to the extent of product diversification.


**Keywords**: Centre_EM; Emerging markets; Studies; Ownership; Foreign investment; Hypotheses; Manycountries; Models; Statistical analysis; Japan.

Abstract: The effects of transactional, institutional, and experience influences on the ownership strategies of Japanese investors are compared. The theoretical development suggests that the equity position of a foreign investor should increase as the specificity of the assets transferred to the foreign affiliate increases, but a lower equity position should be assumed when the foreign investor requires complementary assets to establish a foreign entry. International experience and a strong institutional environment also should lead to increases in the equity position of the foreign investor. These relationships were tested with data on more than 1000 Japanese investments in 9 countries of East and South-East Asia. The results demonstrate that experience and institutional factors were the most important influences on the ownership position taken in the foreign investment, while transactional factors had a much less important and a more ambiguous role.

Keywords : Economic distance; Economic freedom; Japanese FDI; Subsidiary survival; Middle East and North Africa.

Abstract : This paper considers factors affecting survival of foreign subsidiaries in the context of Japanese foreign equity ventures in the Middle East and North Africa (MENA). Three new institutional variables, economic distance, economic freedom distance and subsidiary density, are examined as determinants of survival while controlling for other determinants previously established in the extant literature. The findings support our hypotheses. We found that economic distance and economic freedom distance exhibit significant positive and negative relationships respectively with the survival of Japanese FDI in the MENA region, and moderate positive relationship between subsidiary density and subsidiary survival.


Keywords : Institutional environment; Political openness; Social openness; International joint venture; subsidiary survival; Mortality risk.

Abstract : We examine the effect of the institutional environment (IE) on the mortality of overseas subsidiaries. We develop hypotheses to study the impact of political openness and social openness, two dimensions of the institutional environment and how joint venture status moderates these relationships. We tested our hypotheses using a sample of 12,000+ Japanese overseas investments from 1986-1997 in 25 countries, using Cox hazard models. Our results suggest that the sociopolitical context has a strong influence on the mortality of overseas subsidiaries. We theorized and found a negative main effect for political and social openness and positive interaction effects with openness when the FDI is through a JV. However, political and social openness show significantly different influences on subsidiary mortality.


Keywords : International joint ventures; Equity ownership; Mortality; Survival; Stability; Transaction cost; Japan.

Abstract : This note extends transaction cost analysis of International Joint Ventures (IJVs) to include explicitly the effect of equity. It challenges the common practice of treating all foreign investments with between 5 and 95% equity as IJVs. A fine-grained analysis of the role of foreign equity ownership on the survival of 12,984 overseas subsidiaries confirms a declining, non-linear and asymmetrical relationship between equity and mortality in overseas subsidiaries. While investments involving small ownership levels (<20%) have a very high mortality rates, those with high ownership levels (>80%) have mortality rates comparable to that of wholly owned subsidiaries. Implications for research, practice and policy are discussed.


Keywords : Religion; Freedom; Diversity; Foreign direct investment (FDI); Japan.

Abstract : Research into the links between religion and foreign direct investment is scarce, partly because research on religion has not been the traditional domain of business and economics. Nevertheless, religion affects the economies, political structures, legal environments, and social behaviors of people around the world and is, therefore, an important element of the international business environments. Foreign direct investment (FDI) decisions are often made after an assessment of the international business environments. This article makes a singular contribution by focusing on the impact of religion - religious freedom and religious diversity - on the foreign direct investment of
Japanese companies. We find that national income and religious diversity significantly influence Japanese decisions to invest.


**Keywords**: Managerial resources; Expatriates; Japanese international joint ventures.

**Abstract**: Drawing from the resource and knowledge-based perspectives, we examine the role expatriates play as a critical managerial resource within the multinational's international joint-venture (IJV). Using a large sample (3772 IJV annual performance years) of Japanese IJVs in the USA from 1991-2001, we find that expatriate deployment shows a curvilinear (inverted-U) relationship with IJV performance. Further, this relationship is positively moderated by product relatedness between the parent and the IJV.


**Keywords**: Environmental determinants of managerial discretion; Entry mode choice; Host country experience; Process view of internationalisation.

**Abstract**: We examine the impact of the environmental determinants of managerial discretion on the internationalisation of Multinational Enterprises (MNEs) reflected in its choice of mode of entry. Using insights from the behavioural theory of the firm and the process view of internationalisation, we show that a composite measure of the environmental determinants of managerial discretion affects the MNE’s choice of entry mode, with comparatively higher levels of environmental influence leading managers to choose the IJV (over WOS). At the same time, this relationship between the environmental determinants of managerial discretion and entry mode choice is intensified when the MNE has had prior host country experience.


**Keywords**: Knowledge transfer; International diversification; Synergy; Subsidiary performance; Foreign direct investment; Japanese firms

**Abstract**: Successful international expansion requires that parent firms simultaneously transfer multiple MNE knowledge resources and their foreign subsidiaries effectively absorb and utilize the knowledge. In this study, we examine the relationships between multiple knowledge resources (technological and marketing knowledge), the relatedness between parents and foreign subsidiaries, and subsidiary performance. Relatedness is specifically linked to the type of knowledge being transferred from the parent (i.e., technological relatedness versus market relatedness). We hypothesize that subsidiary performance improves with (1) the integration of a parent firm’s technological and marketing knowledge resources, (2) high technological (market) relatedness between a parent firm and subsidiaries for transfer of parent technological (market) knowledge and (3) the co-presence of high technological and market relatedness. We find general support in our analysis of pooled cross-sectional data on more than 4,000 observations of foreign subsidiaries from 572 Japanese MNEs across 47 countries. Theoretical implications and future research are discussed.

Keywords: Expatriate; Location specificity; Marketing knowledge; Technological knowledge; Multinational enterprise; subsidiary performance.

Abstract: The impact of knowledge transfer on foreign subsidiary performance has been a major focus of research on knowledge management in multinational enterprises (MNE). By integrating the knowledge-based view and the expatriation literature, this study examines the relationship between a multinational firm’s knowledge (i.e., marketing and technological knowledge), its use of expatriates, and the performance of its foreign subsidiaries. We conceptualize that expatriates play a contingent role in facilitating the transfer and redeployment of a parent firm’s knowledge to its subsidiary, depending on the location specificity of the organizational knowledge being transferred and the time of transfer. Our analysis of 1,660 foreign subsidiaries of Japanese firms over a fifteen-year period indicates that the number of expatriates relative to the total number of subsidiary employees (1) strengthened the effect of a parent firm’s technological knowledge (with low location specificity) on subsidiary performance in the short term, but (2) weakened the impact of the parent firm’s marketing knowledge (with high location specificity) on subsidiary performance in the long term. We also found that the expatriates’ influence on knowledge transfer eventually disappeared. The implications for knowledge transfer research and the expatriate management literature are discussed.


Keywords: Resource-based view, Knowledge transfer; International diversification; Subsidiary performance; Japanese foreign direct investment; Intangible assets.

Abstract: We examine the link between international diversification, organizational knowledge resources and subsidiary performance. The success of international corporate diversification depends on a firm’s capability to transfer knowledge to its subsidiaries, and how its local subsidiaries effectively utilize that knowledge. As knowledge resources are imperfectly mobile, a firm may find it difficult to transfer knowledge to its subsidiaries. In our analysis of 4,964 Japanese subsidiaries over a fourteen year period, we find that knowledge that is valuable, but not rare, positively affects subsidiary performance in the short-term, but not the long-term. In contrast, knowledge that is both valuable and rare affects subsidiary performance in the long-term, but not the short-term.


Keywords: 

Abstract: We adopt and develop an institutional perspective to advance our understanding of how host country environments influence subsidiary staffing strategies. We propose and find that firms rely more on parent company nationals (expatriates) in institutionally distant environments for reasons related to the efficient transfer of management practices and firm-specific capabilities. Further, we find that the positive influence of expatriate staffing levels on subsidiary performance (subsidiary labor productivity) is dependent on the institutional distance between the host and home country, and subsidiary experience. We base our findings on our analysis of expatriate employment levels and performance in 12,997 foreign subsidiaries of 2,952 Japanese firms in 48 countries.


Keywords: Subsidiary performance; Regulative distance; Normative distance; Equity ownership;
Wholly-owned subsidiaries; Joint ventures.

**Abstract** : We integrate institutional theory and organizational learning perspective and propose a contingency framework on the relationship between ownership strategies and subsidiary performance. Using a sample of Japanese subsidiaries worldwide, we found important main effects of ownership, institutional distance and host country experience on subsidiary survival. Further the effect of ownership was contingent on institutional distance and host country experience. In institutionally distant countries, subsidiaries had higher survival chances if the foreign parent had higher ownership. Host country experience had a negative impact on subsidiary survival, but the effect was weaker if foreign parents had higher ownership positions in the subsidiaries.


**Keywords** : Multinational corporation; Foreign direct investment; Environmental risk; Firm experience; Joint ventures.

**Abstract** : The theory of internalization suggests that proprietary assets—usually in the form of advertising and/or marketing capabilities—are the key to understanding a firm’s ability to create value in foreign markets. We show that the capacity of a multinational corporation to create value in a foreign direct investment (FDI) can also result from the use of an alternative proprietary asset; that is, the skills and management expertise that are acquired through the accumulation of various forms of foreign experience. The value creation comes from the extension of a firm’s experience-based capabilities to the host country to mitigate country-level risks. This experience can moderate the negative influence of environmental risk to create value for a firm and its investors.


**Keywords** : Multinational enterprises; Penrose; Expatriates; Organizational slack; Human resources.

**Abstract** : The issue of expatriate staffing has received a great deal of attention by researchers in recent years, as it is an important element of a multinational enterprise’s human resource management strategy. Yet, as suggested by Black, Mendenhall, & Oddou (1991) and Boyacigiller (1990), much of what has been published on this topic has been anecdotal and without empirical support. Therefore, following the advice of Sako (1999: 125) that managers should be “more concerned with the detailed mechanisms for communicating tacit knowledge across the firm’s boundary,” this study was designed to improve our understanding of the strategic management of expatriates. By adopting a contingency theory approach to MNEs to analyze a very large sample of Japanese subsidiaries in the US, it was found that even after controlling for subsidiary size, age, and industry, those firms with more expatriates have a greater probability of inferior performance on average as compared to those that have leaner expatriate staffing. However, when the MNE has a high level of experience in dealing in the host country, those operations with “excess” expatriates (i.e., greater relative numbers as compared to their closest competitors) are more likely to achieve superior performance.


**Keywords** : multinational corporation; internationalization; service sector; Japanese trading company; Sogo Shosha

**Abstract** : This paper extends Chang’s (1995) sequential investment theory to include multinational corporations (MNCs) in service industries, given this sector’s large and growing impact on the global...
economy. To facilitate an examination of service MNC internationalization patterns, we develop a new typology of service investment (i.e., Core-global, Related-local, Unrelated-global, and Unrelated-local) based on business relatedness and location-specificity. We test this typology on a sample of large Japanese trading companies; our results suggest that the initial investments of service MNCs are closely related to their core businesses and are less location-specific, but that subsequent investments are less related to firms’ core services and are more location-specific—a pattern similar to the traditional view on manufacturing MNCs. We extend our analysis to examine several case studies to provide richer context for these findings. In addition, we examine the performance implications of internationalization. Our findings suggest that firms that internationalize through early investments that are closely related to their core activities outperform those in unrelated businesses over time but that this performance gap between related and unrelated foreign investments diminishes in more advanced stages of internationalization.


**Keywords**: Centre_EM; Emerging markets; Market entry; Entry mode; Joint ventures; Ownership; Market expansion; Foreign investment; Government; Japan.

**Abstract**: Japanese firms that invest in Canada tend to be highly successful companies with diversified holdings in a large number of countries. Their investments add to the diversity of Canada’s production and employment base while placing Canada in a knowledge sharing network of operations. This article analyzes the major trends in Japanese foreign direct investment (FDI) into Canada, discusses the factors that attract FDI from Japan, and traces the temporal change in their relative importance. The data presented is based on surveys of Japanese firms with operations in Canada. Conducted between 1992 and 2003, the surveys account for nearly all cases of Japanese FDI.

While parent firms range across a variety of industries, the manufacturing sector is increasingly the target of Japanese investment in Canada. Furthermore, although Japanese investment motives are many and nuanced, a greater effort needs to be made to understand and meet important demand characteristics. This article underlines both the Japanese sensitivity to Canadian policy and the importance of developing a better understanding of the types of expertise that Japanese firms seek. For instance, Japanese investors want to hire Canadians who are both technically proficient in the types of processes and products that the Japanese are interested in locating abroad, and possess an enhanced appreciation of the Japanese approach to business.


**Keywords**: Multinational enterprise; Network; Alliance; Joint venture; Diversification.

**Abstract**: This paper examines the impact of alliance network diversity on multinational enterprise (MNE) economic performance. We consider competing hypotheses derived, alternatively, from transaction cost theory and network theory. Using a latent variable structural equation modeling approach on a sample of 580 large MNEs, we find that MNEs with more diverse alliance networks experience lower economic performance on average with those than less diverse alliance networks.


**Keywords**: Multinational enterprise; Geographic scope; Internalization theory; Japan.

**Abstract**: Through an internalization theory lens, an argument is developed to suggest that the
traditional concept of geographic scope should be split into two related, but more precise, elements of international asset dispersion and country environment diversity. Subsequently, these new concepts are tested using a structural equation modeling approach on a sample of 580 large multinational enterprises (MNEs). We find that the relationship between economic performance and international asset dispersion is positive, but that country environment diversity is negatively associated with performance, with a positive interaction between them. This study adds to our theoretical understanding of MNEs, and also provides a bridge between the mixed findings of prior research on multinationality by disentangling the unique effects of the latent subcomponents of geographic scope on firm performance.


Keywords: Centre_LC-E; OLKM; International; Acquisitions; Expatriate.

Abstract: Do expatriate managers fulfil the role of «value-seeking connectors» in cross-borders acquisitions? Building from the organizational knowledge and the MNC literature, this paper focuses on the use of expatriate managers for transferring experience-based knowledge within the MNC and its impact on acquired subsidiary survival. The paper examines a portfolio of experience, including industry, host country and acquisition experience. Using a sample of cross-border acquisitions by Japanese MNCs, we empirically analyzed the impact of expatriates on the relationship between the acquirer’s portfolio of experience and the survival of the acquired subsidiary. Results show that the contribution of expatriates to the acquired firm survival varies considerably depending on the type of experience considered. In fact, connectivity through expatriation is costly and only when appropriately sent abroad, expatriates can build an effective bridge over the troubled water characterizing the challenging post-acquisition integration.


Keywords:

Abstract: We examine the extent to which two sources of uncertainty over the future policy environment – political hazards and regime change – influence foreign-owned subsidiary exit rates. We find that prior exits by peer firms enhance exit rates particularly when political hazards are high. We also find that a multinational firm's own experience under the current political regime has a moderating influence on subsidiary exit rates in the presence of political hazards but it enhances exit rates after a change in the political regime. These findings support the argument that in contrast to the informational benefit conferred by prior peer firm exits, own firm experience proxies for actual or perceived influence in a nation’s policy making process.


Keywords:

Abstract: In a study of a sample of 2,705 international plant location decisions by listed Japanese multinational corporations across a possible set of 155 countries in the 1990-1996 period, a neoinstitutional theory and research on political institutions is used to explain organizational entry into new geographic markets. Neoinstitutional theory's proposition that prior decisions and actions by other organizations provide legitimization and information to a decision marked by uncertainty is extended, showing that this effect holds when the uncertainty comes from a firm's lack of experience in a market but not when the uncertainty derives from the structure of a market's policymaking
apparatus.


**Keywords**: FDI, location choice, vicarious experience

**Abstract**: MNEs can learn from the foreign investment experiences of other firms when evaluating their own foreign entry strategies. We argue that other firms’ experiences reduce investment barriers arising from formal and informal institutional environments in host countries that are dissimilar from an MNE’s home country, thereby encouraging new entry. Our empirical analysis of foreign entries by Japanese public manufacturing forms over more than a thirty-year period indicates that the prior experiences of other firms in a host country mitigate the negative effect of formal and informal institutional distance on entry decisions: as other firms’ experiences in a host country increase, a firm is less deterred by greater institutional distance from entering the country. We also find that the distance-mitigating effect of other firms’ experiences in different industries is less significant when a larger body of same-industry firm experience exists in a country, implying a substitution effect between different types of vicarious experience.


**Keywords**: Time compression diseconomies; Speed of foreign expansion; Uppsala Model; Resource-based view; Subsidiary performance.

**Abstract**: Time compression diseconomies (TCD) in resource development impact the durability of competitive advantage according to the resource-based view. The Uppsala model emphasizes experiential learning, which is subject to TCD. TCD joins the two perspectives and can help explain the foreign expansion process. We found the existence of TCD in post-entry expansion by examining the speed of establishing subsequent subsidiaries and the performance outcomes. Speed was negatively associated with subsidiary survival. TCD was exacerbated with environmental uncertainty and lack of vicarious learning, so that early mover subsidiary are less likely to make a profit when they are established with faster speed.


**Keywords**: Centre_EM; Emerging markets; Market expansion; Strategic planning; Foreign investment; Performance; Joint ventures; Japan; China.

**Abstract**: China is one of the worlds largest host countries for foreign direct investment (FDI). Conventional business wisdom encourages swift expansion in potentially lucrative emerging markets such as China. However, a comparative analysis of the performance of Japanese subsidiaries in China suggests that when Japanese companies set up subsequent subsidiaries too quickly after they have entered China, the subsequent subsidiaries tend to have a lower likelihood of survival, growth, and profitability.

This article uses data derived from the 2001 Toyo Keizai (The Oriental Economist) surveys of 3,416 Japanese subsidiaries that belong to 1,578 parent firms that were established in China between 1980 and 2001. The impact on the pace of expansion of factors such as the firms’ prior resource base, the type of venture (joint ventures versus wholly owned subsidiaries), and strategic choices, such as timing of first entry into China is considered. The majority of Japanese firms seem to have rushed to expand in China, and have done so to negative consequences to performance measured by survival; sales growth measured over five years, and profitability.
This article details why companies should pace subsequent expansions in markets like China in a more cautious manner. It suggests that parent companies only increase their commitment to market expansion as they develop a better understanding of the local competition and as the market uncertainty declines over time.


**Keywords**: Internationalization; Relative performance; Risk-taking; Prospect theory; Behavioral perspectives; Multinational enterprise; FDI.

**Abstract**: Only a few studies have investigated whether a firm’s performance has an effect on its internationalization. These studies, focusing on actual firm performance, have suggested a resource-based argument and generally found non-significant results. In this paper, we argue that relative firm performance is critical in determining a firm’s internationalization because it influences a firm’s attitude toward risk-taking. We apply prospect theory to predict this relationship. Using time-series, cross-sectional analysis of 701 Japanese firms from 1993 to 1998, we uncovered an inverted-U shaped relationship between a firm’s relative performance and its degree of internationalization using its historical performance target. As compared to the industry target, relative performance showed a positive impact on a firm’s internationalization.


**Keywords**: Multinational enterprises (MNE); Ownership strategy; Change; Resource-based view (RBV); Transaction cost economics (TCE); Foreign direct investment (FDI).

**Abstract**: This study investigates the conditions under which environmental and firm-level factors affect MNE ownership strategy. We theorize that these effects are related to changes over time, which we subdivide into the aspects of absolute and relative magnitude. We develop and test four hypotheses using longitudinal data on Japanese foreign direct investment (FDI). At the environmental level, the proliferation of FDI opportunities significantly increases the use of international joint ventures (IJVs). At the firm level, increase in FDI experience has a significant positive effect on the use of IJVs.


**Keywords**: Foreign direct investment; Multinational enterprise; Ownership strategy; Joint venture; Wholly-owned subsidiary; Performance; Japan; US.

**Abstract**: Much of the extant literature characterizes international joint venture (IJV) as a less stable and less successful form of organization. In this view, the IJV is considered a suboptimal ownership strategy, one where the firm lacks control over its operations, compared to wholly-owned subsidiary (WOS). We tested this widespread view on IJV and WOS by analyzing a large, longitudinal sample of Japanese MNEs, comparing our results to those from US MNEs reported in Desai et al. (2004) and Gomes-Casseres/Jenkins (2003). Japanese MNEs showed a stronger preference for IJVs over the last two decades as compared to US MNEs. IJV performance exceeded WOS among Japanese firms in most sample years, while WOSs outperformed IJVs among US subsidiaries in all sample years. Clear boundaries exist along the line of country-of-origin, with respect to the generalizability of the extant view toward IJVs.

**Keywords**: Foreign subsidiaries; Organizational geography; Vicarious learning; Experiential learning.

**Abstract**: We examine how experiential learning and vicarious learning, as tied to a subsidiary’s organizational geography, influence the exit rates of Japanese subsidiaries located in China. We find that exit rates were lower for subsidiaries that were established geographically proximate to the prior expansions of industry peers from Japan. Exit rates were also lower for subsidiaries established by firms with experience in similar product markets in China. Exit rates were greater, however, when a parent firm had substantial experience outside the product market of the current expansion. Importantly, the influence of a subsidiary’s geographic proximity to its peers on its exit rate is contingent on whether its parent firm had prior experience inside or outside the product market of the new expansion.


**Keywords**:

**Abstract**: This paper extends research on experiential learning by foreign subsidiaries and explores temporal conditions under which a foreign subsidiary can benefit from the experience of its sister subsidiaries. Building upon organizational evolution and learning literature, we propose that differences in entry timing among sister subsidiaries provide structural conditions that bound the opportunities for inter-subsidiary learning. Different entry cohorts of sister subsidiaries are beneficial to a focal subsidiary because they provide non-redundant, complementary experience from their different operational stages and ignite the motivation to learn. Our empirical analysis of Japanese foreign subsidiaries provides strong evidence that survival is enhanced due to the experience of different entry cohorts of sister subsidiaries, but not by that of similar cohorts. Qualitative findings also demonstrate that inter-subsidiary learning occurs through multiple channels of experience exchange across different cohorts of sister subsidiaries. We find that the survival benefit derived from different cohorts is contingent on the level of environmental change as well as the level of experience of the focal subsidiary and its parent firm. Our research highlights the importance of temporal heterogeneity in the internationalization process and offers implications for the temporal strategy of multinational companies.


**Keywords**:

**Abstract**: This study investigates the role of staffing approaches as a moderator of the relationship between entry mode strategy and performance of Japanese foreign direct investments (FDIs). Based on theories of a firm's resource profile, organizational structure, technology transfer, and ethnocentric and polycentric staffing, we hypothesize performance outcomes of Japanese overseas investments. For joint ventures, we find that ethnocentric staffing is negatively and significantly related to subsidiary performance. Conversely, for wholly owned ventures we find that ethnocentric staffing is positively and statistically significantly related to subsidiary performance. We discuss the implications for these findings from strategic and human resources perspectives.

Keywords: Rule of law; Japan; South Korea; FDI

Abstract: Building on institutional theory, this paper examines the relationship between the relative rule of law of home and host countries, the home country’s institutional frame and foreign direct investment (FDI). We suggest that firms based in countries with a higher level of rule of law will invest more FDI per capita in host countries with comparable or higher levels of legal protections. Further, companies based in countries with a lower rule of law are accustomed to lower degrees of institutional safeguards. For these latter countries, the comparable levels of rule of law between home and host country will not as strongly impact FDI per capita. We test our logic through an examination of FDI from two home countries with different levels of rule of law: Japan (high) and South Korea (medium). Using FDI data from Japanese firms in 114 countries and South Korean firms in 118 countries, we find that while rule of law is a predictor of FDI per capita, the relative nature of the rule of law between home and host countries in higher rule of law home countries is also important. In addition, we discover that companies from Japan, a high rule of law country do seek out similar or higher rule of law environments for higher levels of FDI per capita investments while companies from a medium level rule of law country, South Korea, are less beholden to institutional standards. Our study contributes to the literature looking at the impact of country-level factors on foreign investment decisions, suggesting that it is the comparative rather than absolute values that are important to understand as well as the institutional environment in the home country.


Keywords: Retrenchment; Ricardian rent; Schumpeterian rent; Resource-based view; Capabilities.

Abstract: This paper posits that the efficacy of different retrenchment strategies depends upon the firm’s core rent creation mechanism. We focus on two distinct mechanisms of rent creation: Ricardian rent creation based on the exploitation of resources and Schumpeterian rent creation based on explorative capabilities. We argue that cost retrenchment may have detrimental effects on firms with a relatively high Schumpeterian rent focus. On the other hand, asset retrenchment may erode the basis for future rent creation for firms with a higher Ricardian rent focus. Our findings based on a sample of large non-diversified Japanese firms highlight the differing degrees of fragility and recoverability of the two rent creation mechanisms in the context of different retrenchment strategies.


Keywords: Survival rates; growth; International joint ventures; Business groups.

Abstract: We investigate the value of local partners’ business group affiliation in international joint ventures (IJVs) by integrating economic and political perspectives on business groups with insights from the IJV literature. In a sample of 563 Sino-Japanese IJVs in China, we find that a local partner’s affiliation to a regional-level business group enhances IJV performance when an IJV is located in a foreign direct investment (FDI) restricted location. Meanwhile a local partner’s affiliation to a national-level business group enhances IJV performance when an IJV operates in an FDI restricted industry. Our findings point to the contingent value of business group affiliation in emerging economies.

**Keywords**: IJV survival; Technological knowledge; Product relatedness; Equity control; Managerial control.

**Abstract**: We examine the relationships among parent firm technological knowledge, parent-IJV product relatedness, parent control over the IJV, and IJV survival. Combining the knowledge-based perspective and institutional theory, we argue that parent control itself does not necessarily lead to higher IJV survival; it contributes to IJV survival when the parent firm has a high level of technological knowledge, and when the IJV is product-related to this parent. Results obtained from 1,038 Japanese IJVs based in China indicate that both equity control and managerial control of a Japanese parent had a positive interaction effect, with the parent’s technological knowledge, on IJV survival. Equity control also exhibited a positive interaction effect with product relatedness. In a sub-sample of 354 Sino-Japanese IJVs containing local parent information, managerial control by the Chinese parent was found to have a positive interaction effect, with Chinese parent-IJV product relatedness, on IJV survival.


**Keywords**: Legitimacy; Growth; Survival; International joint ventures.

**Abstract**: We examine the growth and survival of international joint ventures (IJVs) from a legitimacy perspective. In a sample of 291 Sino-Japanese joint ventures in China, we found that Chinese parent age, Chinese parent size, and IJV industry relatedness to either parent had a positive effect on IJV growth and/or survival. However, IJV industry relatedness to both parents led to lower rates of IJV growth and survival. The findings highlight the difficulties IJVs face in acquiring internal legitimacy from both parents simultaneously.


**Keywords**: FDI; Exporting; SME; Small business; International.

**Abstract**: Lu and Beamish (2001) examined the effect of two internationalization strategies, exporting and foreign direct investment (FDI), on SME performance (ROA). We extend this research by examining the differential effects of these strategies on two other dimensions of SME performance: growth and ROS. We develop and test four sets of hypotheses using a sample of 164 Japanese SMEs. We find that exporting activity has a positive impact on growth, but negative impact on profitability. FDI activity has a positive relationship with growth, but a U curve relationship with profitability. Exporting activity has a positive moderating effect on the relationship between an SME's FDI activity and firm growth, a negative moderating effect on the relationship between an SME's FDI activity and firm profitability. An SME’s age when it starts to make FDIs has a negative moderating impact on the relationship between FDI and firm growth and profitability.


**Keywords**: Entrepreneurship; Internationalization; Alliances; Performance; Small and medium-sized enterprises; International joint ventures.

**Abstract**: The international joint venture (IJV) is an important mode in the internationalization of small and medium-sized enterprises (SMEs). Internationalization in turn is an entrepreneurial behavior in the pursuit of growth. Partnering strategies in the formation of IJVs can have significant
effects on the outcome of SMEs’ international expansion. In this study, we examine the performance implications of two types of resources contributed by SMEs’ IJV partners, host country knowledge and size-based resources. We develop and test three sets of hypotheses about the longevity and financial performance of a sample of 1,117 international joint ventures established in 43 countries by 614 Japanese SMEs that have fewer than 500 employees. Our findings indicate that SMEs’ IJVs with local partner(s) may be associated with decreases in longevity, especially when SMEs acquire host country knowledge. The host country experience of Japanese partner(s) does not have any direct effects on IJV performance but reduces the longevity of IJVs. Finally, the size of a Japanese partner increases the longevity of IJVs but may have negative effects on IJV profitability when large Japanese partners have low equity ownership in IJVs. Our findings highlight the differential effects that IJV partners’ experience-based and size-based resources have on IJV performance. Our findings also demonstrate that the same strategy could have different effects on different dimensions of performance.


**Keywords :**

**Abstract :** This study attends to equivocal results regarding the relationship between equity control and IJV performance by proposing a transaction cost-based contingency framework. We examined the moderating effects of asset specificity and uncertainty on the relationship between foreign parent equity control and IJV survival in an empirical setting of Japanese IJVs in 12 Asian countries in the 1985-1996 period. Our findings suggest that in the presence of high asset specificity, high levels of foreign equity control can lead to higher IJV survival rates. Further, we find that social knowledge can serve as a substitute for equity control in IJVs and contribute to higher IJV survival rates.


**Keywords :** FDI; Performance; Internalization; Internationalization; Japan.

**Abstract :** We propose a new theoretical framework for the study of multinationality and performance. This framework takes into account both the benefits and the costs of geographic expansion across different phases of internationalization. Using a sample of 1,489 Japanese firms over a 12-year period, we find that the relationship between multinationality and performance has a consistent horizontal “S” curve relationship. Further, we find that firms which invest more heavily in the development of intangible assets, such as technology assets and advertising assets, achieve greater gains in profitability from growth in FDI activities. Our theoretical framework and empirical findings point to the complexity and temporal dynamics in the relationship between multinationality and performance.


**Keywords :** Centre_EM; Emerging markets; Internationalization; Networks, FDIs; Alliances; Performance.

**Abstract :** This paper explores the potential competitive advantages from the development of an internal network of subsidiaries and external network of alliances. Given the broad scope and lack of systematic investigation in prior research, clinical field research was conducted in eleven Japanese subsidiaries in China. Our in-depth interviews revealed that there are benefits and costs associated with the development of both subsidiary networks and alliance networks. While there are exploitation and exploration benefits from subsidiary network development, internationalizing firms
(especially smaller firms) are subject to the liability of foreignness. Alliance network development is an effective way to mitigate this liability if internationalizing firms choose the right alliance strategy.


**Keywords:**

**Abstract:** This paper compares the predictions of transaction cost and institutional theories in an empirical study of the entry mode choice for 1,194 Japanese foreign subsidiaries. The findings indicate the institutional model adds significant explanatory power over and above the predictions of the transaction cost model. Using the concepts of frequency-based, trait-based and outcome-based imitation, support was found for institutional isomorphism, as later entrants tended to follow the entry mode patterns established by earlier entrants. Isomorphic behavior was also present within a firm, as firms exhibited consistency in entry mode choices across time. Further, a firm's investment experience moderated institutional influences on entry mode choice.


**Keywords:** SMEs; Internationalization; Entrepreneurship; FDI; Exporting; Japan.

**Abstract:** We discuss and explore the effects of internationalization, an entrepreneurial strategy employed by small and medium-sized enterprises (SMEs), on firm performance. Using concepts derived from the international business and entrepreneurship literatures, we develop four hypotheses that relate the extent of foreign direct investment (FDI) and exporting activity, and the relative use of alliances, to the corporate performance of internationalizing SMEs. Using a sample of 164 Japanese SMEs to test these hypotheses, we find that the positive impact of internationalization on performance extends primarily from the extent of a firm’s FDI activity. We also find evidence consistent with the perspective that firms face a liability of foreignness. When firms first initiate FDI activity, profitability declines, but greater levels of FDI are associated with higher performance. Exporting moderates the relationship FDI has with performance, as pursuing a strategy of high exporting concurrent with high FDI is less profitable than one that involves lower levels of exports when FDI levels are high. Finally, we find that alliances with partners with local knowledge can be an effective strategy to overcome the deficiencies SMEs face in resources and capabilities, when they expand into international markets.


**Keywords:**

**Abstract:** Despite the slowdown that occurred worldwide in Japanese foreign direct investment (FDI) in the mid-1990s, Japanese FDI into China increased markedly. By the end of 1996, China was the home to 40 percent of Japan's annual outflows of foreign investment. Given the prominence of China as a host site for Japanese FDI, and the increasingly integrated role that China's economy is taking in the world economy overall, this research explores what form foreign investment, specifically Japanese, takes in China. The analysis in this research answers questions concerning how Japanese firms have invested in China in terms of the form or mode of entry, and in terms of the sectors in which investments have been made. The analysis also explores the differences in subsidiary characteristics across major sectors, and it links these differences in characteristics to the performance of foreign subsidiaries. This analysis finds that, contrary to Japanese investment in other regions and countries, the choice of entry mode does not have a discernable relationship to performance, while the capital intensity of the investments and the level of Japanese control are
negatively correlated with subsidiary performance.


**Keywords:**

**Abstract:** Transitional economies can be characterized by considerable sub-national variation in economic and political characteristics. We investigate how this variance influences the timing of entry, entry mode, industrial traits and survival rates for Japanese foreign direct investments (FDIs) made in China’s two major metropolises – Shanghai, the economic center, and Beijing, the political capital. Using a sample of 1,610 subsidiaries of Japanese firms established during the 1979-2003 period, our empirical results show that Japanese MNEs tended to choose an economic-oriented rather than a political-oriented city as their investment location, with the consequence being higher survival likelihoods in Shanghai than in Beijing. This location choice helped Japanese firms avoid policy uncertainty and political hazards in China’s transition economy. Our findings highlight the point that fundamental features of institutional environments at sub-national levels should be analyzed when looking at investment strategy and performance in transitional economies.


**Keywords:** Centre_EM; Emerging markets; Foreign investment; Performance; Developing countries; Diversification; Japan.

**Abstract:** Data on 26,857 Japanese foreign investments in 150 countries and regions over the 1991-1999 period reveal that there are stark differences in the characteristics and performance of Japanese FDI (JFDI) between less developed countries (LDCs) and developed countries (DCs). JFDI in LDCs has been growing more rapidly over the period, and it is concentrated in the Secondary industrial sector, with a lower level of control within a subsidiary, and has been initiated by parent firms with market-seeking and labor-seeking purposes and with relatively weak ownership advantages. In contrast, JFDI in DCs has maintained relatively stable growth over the period, is concentrated in the Tertiary industrial sector, with a higher level of control within a subsidiary, and has been initiated by parent firms with market-seeking and strategic-seeking purposes and with relatively strong ownership advantages. JFDI in LDCs tended to attain a higher financial performance and a lower exit rate, yet with a greater variance, than those in DCs.


**Keywords:**

**Abstract:** Transaction cost theory posits that culture plays a limited role in the choice between JV and WOS. In contrast, research suggests that firms’ preferred level of ownership in their foreign subsidiaries is influenced primarily by cultural traits. This study provides additional evidence in this ongoing debate by replicating Hennart's transaction cost model of entry mode choice in two different national contexts: Japanese firms investing in the U.S. and the U.S. firms investing in Japan. The results suggest that the transaction cost explanation for the ownership choice holds in the both national contexts. Yet, the propensity to choose JV or WOS significantly varied between Japanese and the U.S. firms.

**Keywords**: Centre_EM; Emerging markets; Joint ventures; International; Ownership; Selection; Strategic planning; Japan.

**Abstract**: Although many international joint ventures (JV) are formed in the traditional way between foreign and local firms, nontraditional forms are increasingly being utilized. Four distinct types of JV ownership structure are identified, based on partner nationality and affiliation. Senior executives of 2 large Japanese firms with joint ventures in Asia suggested 3 distinct strategies corresponding to the choice of JV ownership structure. These involve exploiting the competitive advantage specific to a parent firm, or to a pre-existing relationship, and complementing local partners' competitive advantage. Several key issues regarding JV partner selection and the development of a sustainable relationship between JV partners that are relevant to American executives and those from other countries are considered.


**Keywords**: Centre_EM; Emerging markets; Government; Entry mode; Joint ventures; Ownership; Japan.

**Abstract**: This study examines the moderating effects of a host government's local ownership restrictions on the linkage between the choice of foreign entry mode and its performance, using a sample of 917 Japanese foreign subsidiaries in Asia. The study focuses on two foreign entry modes, joint ventures (JVs) and wholly-owned subsidiaries (WOS), and two performance measures, financial performance and termination rate. The results suggest that the extent of local ownership restrictions is negatively and significantly associated with the financial performance of WOS, whereas it does not directly influence that of JVs. There is no clear association between the extent of local ownership restrictions and the termination rate for the JV and WOS samples.


**Keywords**: Centre_EM; Emerging markets; Joint ventures; Ownership; Survival; Japan.

**Abstract**: The international joint venture (JV) literature has focused on two parent JVs formed between one foreign and one local firm. Yet, other types of JVs exist. This paper identifies four distinct forms of JVs based on the JV partners' nationality and equity affiliation. These are: (i) JVs that are formed between affiliated home-country based firms; (ii) JVs that are formed between unaffiliated home-country based firms; (iii) JVs that are formed between home-country based and local firms; and (iv) JVs that are formed between home-country and third-country based firms. Our analysis of 737 Japanese JVs in Asia demonstrates that the conventionally assumed form of JV represented only 30 percent of the total. Further, each of the four JV forms significantly differed in terms of incidence, performance, and survival likelihood.


**Keywords**: 

**Abstract**: Foreign firms in host country environments frequently face location-based disadvantages. This study proposes three means (channels) of overcoming local knowledge disadvantages. Based on a sample of 558 Japanese joint ventures (JVs) located in Southeast and East Asia, we find that
partnering with local firms (the first channel) can be a primary strategy for accessing local knowledge and improving JV performance. JV experience in the host country (the second channel) also mitigates local knowledge disadvantages and leads to increased JV performance. The third channel, the foreign parent's host country experience, leads to increased performance in the absence of a local partner. However, when a JV is formed with a local partner, increased parent experience in the host country leads to decreased performance suggesting that the need for a local partner declines as parent experience in a host country increases.


Keywords :
Abstract : This paper describes the characteristics of Japanese foreign investment in Latin America. In examining FDI patterns, countries and industries most attractive to Japanese multinational corporations, the preferred modes of entry, and the post-entry performance of these subsidiaries are identified. It is found that most Japanese FDI has occurred in Brazil and Mexico, that joint ventures are the most common mode of entry, and that performance varies by country and mode. The observations have implications for 3 groups of executives: managers of non-Latin American firms, managers of Latin American firms, and public policy makers.


Keywords : Success; Subsidiaries; Studies; Market entry; Joint ventures; Foreign investment; Business ownership; Acquisitions & mergers.
Abstract : The performance of Japanese subsidiaries located in Europe is compared on the basis of the ownership-based entry modes of 173 subsidiaries in 1994. Theory predicts that greenfield, wholly-owned subsidiaries will perform best, followed by joint ventures and acquisitions. Performance data at the subsidiary level provide strong evidence of poorer performance by acquisitions versus the other 2 modes. The transaction cost approach is adopted in analyzing the relative performance of ownership-based foreign entry modes.


Keywords : Subsidiary; Performance; International; FDI; Entry mode; Joint ventures; Greenfield; Europe; Japan.
Abstract : This article provides an illuminating presentation of the characteristics and performance of 118 Japanese subsidiaries in Europe. Performance of the subsidiary is considered in relation to the initial mode of entry, industry and country of entry, subsidiary size, and reasons for entering. Japanese investment in Europe grew significantly in the late 1980s, but was heavily concentrated in a few industries. Entry mode preferences have also shifted, away from greenfield start-ups to more use of joint ventures. Conclusions are of interest to European and non-European corporate managers, and public policy-makers.


Keywords : transaction cost economics; diversification; capital structure; RBV; agency theory
Abstract : Extant theories agree that debt should inhibit diversification but predict opposing
performance consequences. While agency theory predicts that debt should lead to higher performance for diversifying firms, transaction cost economics (TCE) predicts that more debt will lead to lower performance for firms expanding into new markets. Our empirical tests on a large sample of Japanese firms support TCE by showing that firms accrue higher returns from leveraging their resources and capabilities into new markets when managers are shielded from the rigors of the market governance of debt, particularly bond debt. Furthermore, we find that the detrimental effects of debt are exacerbated for R&D intensive firms and that debt is not necessarily harmful to firms that are either contracting or managing a stable portfolio of markets.


Keywords : Foreign investment strategy; Emerging markets; Entry mode; Entry timing; Subsidiary survival.

Abstract : The present study examines the question of whether joint ventures or wholly owned subsidiaries are more likely to survive in the context of Japanese subsidiaries in China. I suggest that the answer to this question depends on the time when the subsidiary was established. Specifically, I argue that joint ventures founded at the early stage of institutional reforms will be more likely to survive that wholly owned subsidiaries set up at that time, and the reversed pattern is expected for subsidiaries established in the late phase of institutional reforms. The rationale for these propositions is that at the beginning of market-oriented reforms contributions provided by local partners make shared ownership an optimal entry mode strategy, whereas relatively stable regulatory framework at the late stage of institutional reforms allows to realize benefits associated with sole ownership more efficiently. Empirical evidence supported both propositions.


Keywords : Cultural distance; Geographic distance; Long term orientation; Subsidiary ownership; Subsidiary survival; Transaction cost; Transaction value

Abstract : This paper examines the role which the long term orientation (LTO) dimension of host country culture plays in transforming multinational corporations’ (MNCs’) focus from transaction cost to transaction value in the context of MNC subsidiary ownership and survival. We used a sample of 10,236 overseas subsidiaries established by 1,291 Japanese MNCs in 29 host countries with varying levels of LTO to test our hypotheses. Results first showed that LTO has a direct positive effect on ownership levels. Second, we observed that there were positive interactions between LTO and cultural distance, and between LTO and geographic distance, on ownership levels. Third, we found that there were positive interactions between LTO and cultural distance, and between LTO and ownership level, and between LTO and cultural distance, on subsidiary survival. The theoretical and practical implications of these findings are discussed in terms of the vital role LTO plays in determining whether transaction value or transaction cost considerations prevail in MNCs’ ownership strategies, and how MNCs can better take advantage of host country LTO and improve the survival likelihood of their subsidiaries.


Keywords : Expatriate staffing; Organizational learning; Organizational slack; Resource-dependence theory; Subsidiary autonomy; Subsidiary size.

Abstract : Based on resource-dependence theory, we hypothesize a U-shaped relationship between
multinational corporations’ subsidiary size and expatriate staffing level. Drawing on both resource-dependence and learning perspectives, the U-shaped relationship is further hypothesized to be moderated by parent-firm size, the amount of equity ownership of the parent firm in the subsidiary, and subsidiary age. A sample of 11,754 Japanese overseas subsidiaries was used to test the hypotheses. Results supported all four hypotheses both cross-sectionally and longitudinally, and explained 24% of the variance in expatriate staffing level. The theoretical and practical implications of these findings are discussed.


**Keywords**: Corporate social responsibility; Corruption; Development stage; Japanese foreign direct investment; National corporate responsibility; Institutions.

**Abstract**: We examine the relationship between Japanese foreign direct investment (FDI) and the national corporate responsibility (NCR) environment in host countries using corporate social responsibility and international business theories. Based on data from the Japanese Government's Ministry of Finance, AccountAbility, and other sources, we find that the level of NCR has a positive relationship with FDI inflow for developing countries. The relationship for developed countries is negative but not statistically significant. The underlying host country development stage moderates the relationship. The results can help deepen understanding of FDI behaviors and have practical implications for host countries in terms of attracting FDI.


**Keywords**: Density dependence theory; Entry mode; Expatriate staffing; FDI legitimacy; Institutional theory; Strategic choice.

**Abstract**: We examine how evolving FDI legitimacy in China influences two strategic choices (entry mode and expatriate staffing) of Japanese subsidiaries there over the period 1993-2000, based on data aggregated from Toyo Keizai and the National Bureau of Statistics of China. As FDI legitimacy improves over time, we find that smaller subsidiaries tend to choose the wholly-owned subsidiary mode and deploy a higher percentage of expatriates, whereas larger subsidiaries tend to choose the joint venture mode and use a lower percentage of expatriates; and that Japanese subsidiaries are more likely to have a local manager, and this tendency may be stronger for larger subsidiaries. The theoretical and practical implications of these findings are discussed from a density dependence theory perspective.


**Keywords**: Headquarters attention, Expatriates, Growth, MNE, Instrumental Variables

**Abstract**: We explore the circumstances under which expatriates can help their host-subsidiary capture headquarters attention. Our central contention is that expatriates will be particularly helpful in situations where a subsidiary or its market is showing signs of growth, allowing headquarters to recognize information signaling opportunities for the firm that could otherwise go unnoticed. We test this contention using a robust instrumental variable approach in a single multinational enterprise. Our results show that subsidiaries hosting expatriates and experiencing growth at the subsidiary or market level have a higher probability of capturing headquarters attention.

Qian, Li Hong and Andrew Delios. 2008. Internalization and experience: Japanese banks' international

**Keywords :**

**Abstract :** We use an interdisciplinary approach to investigate multinational banks’ foreign activities. We bridge core concepts from the stages theory of internationalization to internalization theory, to extend the literature on the defensive expansion hypothesis. Unlike the primarily aggregate levels of analysis employed in previous research on multinational banking, we utilize a firm-level analysis of the internationalization experiences of 21 Japanese banks in the 1980 to 1998 period. We find that banks undertake foreign investment to secure internalization benefits by following their existing clients and to achieve economies of scale in the application of their intangible assets in international markets. The magnitude of these relationships, however, is contingent upon the level of a bank’s experience in its host countries. Consistent with predictions from internationalization theory, we find that the motivations for international expansion can change over time.


**Keywords :** Path dependence; Dynamic adjustment costs; Expatriate; Subsidiary growth; Latent-curve model.

**Abstract :** We investigate the relationship between expatriate-deployment levels and the growth of international subsidiaries over time. Latent-curve analysis reveals that higher subsidiary growth over the long term is achieved through both (a) a higher proportion of expatriates at subsidiary founding and (b) a slower reduction in the proportion of expatriates over time. These results suggest that the decision to reduce the proportion of expatriates due to cost considerations should be tempered with the potential long-term benefits of expatriates for improving subsidiary growth. Theoretically, our results point to two factors that impact subsidiary changes over time: path dependence and dynamic adjustment costs.


**Keywords :** informal institutions and uncertainty; informal institutional differences; foreign market entry; how emerging market informal institutions shape MNEs’ entry strategies; entry strategies of non-emerging market firms for emerging markets; country risk; innovation and R&D; organizational control; equity capital; expatriates.

**Abstract :** The literature on innovation offshoring has focused on the dichotomous choice between two distinct investment strategies – captive offshoring and outsourced offshoring. We use the concept of organizational control to investigate how differences in the informal institutions that prevail in the home and host countries influence MNE strategy (or, the organizational control decision) with respect to subsidiaries established to offshore innovation. While the relationship between formal institutions and MNE strategy has been the subject of considerable academic scrutiny, less is known about the role of informal institutions. We propose that the type of uncertainty precipitated by informal institutions is critical to understanding the strategic behavior of foreign-investing MNEs. We hypothesize that an MNE’s organizational control over a subsidiary will be contingent upon the type of informal institutional uncertainty encountered by the subsidiary. More specifically, we disaggregate the informal institutions construct and develop three new, more explicit, latent constructs – behaviorally-oriented informal institutions (BOII), technology-oriented informal institutions (TOII) and demand-oriented informal institutions (DOII). Our theory posits that
while an increase in BOII distance will precipitate a preference for greater organizational control, heightened TOII and DOII distances will induce the opposite outcome – a preference for lower levels of organizational control. We test our hypotheses with a sample of subsidiaries established in 14 emerging markets between 1995 and 2009 to offshore innovation.


Keywords : Transition economies; Multinational corporation; Foreignness and emerging markets; Cross-cultural issues in HRM; Role of formal and informal networks; FDI legitimacy; China.

Abstract : Drawing from institutional theory, we address the issue of local versus expatriate subsidiary CEO staffing decisions of multinational corporations (MNCs) at the sub-national level. Our analysis of 2315 MNC subsidiaries in China shows that foreign direct investment (FDI) legitimacy is a reliable measure of institutional environment differences at the sub-national level and that the commonly used country level measures including institutional distance and cultural distance mask pertinent within-country differences. MNCs that invest in Chinese provinces with lower FDI legitimacy use more local nationals as subsidiary CEOs compared to provinces with higher FDI legitimacy. In provinces with low FDI legitimacy, subsidiaries with local CEOs perform relatively better than subsidiaries with expatriate CEOs. This effect is particularly strong for wholly foreign owned subsidiaries and applies to all provinces except the most developed coastal regions. In provinces with higher levels of FDI legitimacy these effects are reversed.


Keywords : Liability of closeness; Business relatedness; Foreign subsidiary performance; China, Japan foreign direct investment.

Abstract : It is widely accepted that business relatedness, defined as the extent to which a foreign subsidiary is related to its parent’s core business, has a positive effect on subsidiary performance. With a sample of 165 Japanese subsidiaries located in China, however, we found that modestly related subsidiaries, on average, outperformed both unrelated and closely related subsidiaries, and that closely related subsidiaries performed poorly especially when the parent had a heavy majority ownership in the subsidiary and the subsidiary was at its early stage of operating in the host market. Our results indicate that being too closely related to the parent could be potentially detrimental, suggesting a liability of closeness.


Keywords : FDI; mode of entry; subsidiary performance; multinationals; Japanese MNEs; EU

Abstract : Japanese Foreign Direct Investment (FDI) in the European Union and its performance were analysed in this work. Three different FDI or entry modes used by Japanese companies to enter the European market were compared, and the presence of a relationship between the selected entry mode and the performance of the subsidiary was investigated. We found that more than half of the Japanese investments in Europe took the form of new ventures, approximately 40% were joint ventures and less than 6% were acquisitions. We found that no specific entry mode performed better than another.

Keywords : Centre_BSV; Centre_EM; Emerging markets; Ethics; Corruption; Foreign investment; Japan.

Abstract : In an effort to reduce risk and uncertainty, we hypothesize that investors avoid countries where high corruption exists. We investigate this issue by examining the relationship of levels of perceived corruption on Japanese Foreign Direct Investment (FDI) in both industrialized and emerging economies. The analysis presented utilizes a sample of 29,546 investments in 59 countries. Results suggest that in emerging nations, where comprehensive legal and regulatory frameworks do not exist to effectively curtail fraudulent activity, corruption serves to reduce FDI. Managers need to consider the level of perceived corruption in their assessment of any market prior to potential investment.


Keywords : Abstract : This paper examines the relationship between corporate diversification and performance for Japanese subsidiaries in the information technology (IT) industry. In particular, it reports on our study which drew on the resource-based view of the firm to make the distinction between related and unrelated diversification. Data for more than 5 years were used to test our hypotheses. The results suggest that related subsidiaries out-perform unrelated subsidiaries on a number of dimensions including: performance, survival, and employee productivity growth. The study also found support for resource-based arguments suggesting that related diversification in knowledge-based (tertiary) industries, such as IT, plays a more important factor in firm success than in primary or secondary industries.


Keywords : Cultural distance; Entry mode; Performance; Multinationals; National cultural distance paradox; Logistic regression; Emerging markets.

Abstract : This study revisits the 'national cultural distance paradox' based on a sample of Japanese foreign direct investment (FDI) in 53 countries and regions over 30 years. Earlier studies on cultural distance assumed linear relationships and showed mixed results. Results suggest that there is a nonlinear (inverted U-shape) relationship between CD and the choice of a joint venture as the preferred market entry mode, and between CD and performance. We also found that the relationship between CD and performance is moderated by entry mode choice: the nonlinear relationship between CD and performance is stronger for joint ventures than for wholly owned subsidiaries.


Keywords : Emerging markets; FDI; Entry mode; Staffing; Expatriates; Location.

Abstract : Can Dunning's OLI (Ownership, Location, Internalization) framework be extended from predicting FDI location decisions and entry mode choices to other international strategic decisions? Using data from 891 new (two years or younger) Japanese foreign subsidiaries, we investigate the relationship between Dunning's OLI variables and expatriate staffing ratios (the ratio of expatriates to local employees). We found empirical support for Dunning's framework as a predictor of Japanese new subsidiary expatriate staffing ratios. Implications and directions for future research are discussed.

**Keywords** : Control; Expatriates; Ownership; Cultural distance.

**Abstract** : This paper explores the diminishing influence of national cultural distance on two subsidiary control issues, expatriate staffing and parent company ownership level of the foreign subsidiary. Previous studies have produced conflicting findings: one stream of research argues that when cultural distance is greater firms increase their level of control; while the other stream suggests that greater cultural distance is associated with a loosening of control. To reconcile these discrepant outcomes we hypothesize and find that subsidiary age moderates the effect of cultural distance on expatriate staffing and ownership. Cultural distance has a significantly greater impact on subsidiary control mechanisms for newer subsidiaries than for older subsidiaries. Implications for future research are discussed.


**Keywords** : Joint ventures; Ownership; Entry mode; Acquisitions; Japan.

**Abstract** : This study examines the relationship between ownership entry modes and performance. The ownership entry modes examined are the wholly owned modes of acquisition and new venture entry, and the non-wholly owned mode of joint venture entry. A theoretical relationship is developed for international entry modes that is based on the contingency characteristics of resource requirements and organizational control factors. This model suggests that different entry modes have different performance outcomes based upon their resource and organizational control demands. The theoretical model, although developed using the eclectic theoretical approach, is based largely on concepts and relationships previously delineated in contingency theory. Our hypotheses suggest that new ventures should outperform joint ventures, and joint ventures should outperform acquisitions. An empirical test using a sample of 321 Japanese firms entering the North American market provides supporting evidence.


**Keywords** : Institutional perspective; Ownership; Expatriates; Japan; International.

**Abstract** : Researchers have used cultural distance to explain strategic and operational control mechanisms of the multinational enterprise, yet the construct has failed to yield consistent results. This study proposed two new measures of country differences, regulative and normative distances, from an institutional perspective, and examined their effect on MNE ownership and expatriate strategies.


**Keywords** :

**Abstract** : The study of foreign entry-mode choice has been based almost exclusively on transaction-cost theory. This theory focuses mainly on the impacts of firm- and industry-specific factors on the choice of entry mode, taking the effects of country-specific contextual factors as constant or less important. In contrast, the institutional perspective emphasizes the importance of the influence of both institutional forces embedded in national environments and decision makers' cognitive constraints on the founding conditions of new ventures. Still, this theoretical perspective has yet to provide insights into how institutional factors influence the choice of foreign entry mode. This paper
provides a unifying theoretical framework to examine this relationship. It synthesizes transaction-cost and institutional perspectives to analyze a sample of 364 Japanese overseas subsidiaries. The results support the notion that institutional theory provides incremental explanatory power of foreign entry-mode choice in addition to transaction-cost theory.


Keywords :

Abstract : This study examines 2,933 cases of Japanese investment in 27 provinces and regions in China to identify the role that policy determinants had in influencing the sub-national location decision of Japanese firms in China. The empirical results show that the Special Economic Zones and Opening Coastal Cities were a successful policy instrument initially. Since the mid-1990s SEZs and OCCs have attracted proportionally less foreign investment as competition from other special investment zones has intensified in China. The periodic influence of SEZs and OCCs is discussed.
Contact Information for
Contributing Ivey Faculty, PhD Program Graduates, or Candidates

AINUDDIN, R. Azimah
School of Business and Economics
Universiti Malaysia Sabah
Locked Bag 2073
88999 Kota Kinabalu
Sabah, Malaysia
Tel. (60) (88) 320000, ext.1710
Fax (60) (88) 320360
Email: r_azimah@ums.edu.my

APAYDIN, Marina
Olayan School of Business
American University of Beirut
P.O. Box 11-0236 / OSB
Riad El-Solh
Beirut 1107 2020
Lebanon
Tel. 961 (1) 340460 / 350000 x3721
Fax
Email: marina.apaydin@aub.edu.lb

BEAMISH, Paul W.
Ivey Business School
Western University
1255 Western Road
London, ON, Canada N6G 0N1
Tel. (519) 661-3237
Fax (519) 661-3700
Email: pbeamish@ivey.uwo.ca

BOEHR, Kevin
School of Business
Pacific Lutheran University
Morken Center for Learning & Technology
Tacoma, WA 98447
Tel. (253) 535-8722
Fax
Email: boehkk@plu.edu

BOUQUET, Cyril
IMD
Ch. de Bellerive 23
P.O. Box 915
CH - 1001 Lausanne
Switzerland
Tel. 41 21 618 02 54
Fax 41 21 618 07 07
Email: Cyril.Bouquet@imd.ch

CELLY, Nikhil
The University of Hong Kong
School of Business
Room 610, Meng Wah Complex
Pokfulam Road
Hong Kong
Tel. (852) 2859-1004
Fax
Email: ncelly@hku.hk

CHOI, Chang
College of Business Administration
Chung-Ang University
221, Heukseok-dong, Dongjak-gu
Seoul, Korea 156-756
Tel. 82-2-820-5583
Fax 82-2-813-8910
Email: choilee@cau.ac.kr

CHUNG, Chris Changwha
Korea University Business School
Anam-Dong, Seongbuk-Gu
Seoul, Korea 136-701
Tel. 82 2 3290 2624
Fax
Email: chungc@korea.ac.kr

DELIOS, Andrew
Department of Strategy & Policy
National University of Singapore
1 Business Link
Singapore 117592
Tel. 65 6516-3094
Fax 65 6779-5059
Email: andrew@musedu.sg

DHANARAJ, Charles
IMD Business School
Chemin de Bellerive 23
1003 Lausanne, Switzerland
Tel. 41 (0)21 618 0111
Fax 41 (0)21 618 0707
Email: Charles.Dhanaraj@imd.org
DOLANSKY, Eric
Department of Marketing, I.B. & Strategy
Faculty of Business
Brock University
Taro Hall
500 Glenridge Ave
St. Catharines, ON, Canada L2S 3A1
Tel. (905) 688-5550, x5159
Fax (905) 378-5716
Email: edolansky@brocku.ca

DUTTA, Dev
Whittemore School of Business & Economics
University of New Hampshire
Durham, NH 03824
Tel. (603) 862-2944
Fax
Email: Dev.Dutta@unh.edu

FANG, Yulin
City University of Hong Kong
ACAD-P7722, Department of Information Systems
83 Tat Chee Avenue
Kowloon Tong
Hong Kong
Tel. (852) 2788-7492
Fax (852-2788-8694
Email: ylfang@cityu.edu.hk

GOERZEN, Anthony
Faculty of Business
School of Business
Queen’s University
401 Goodes Hall
143 Union Street
Kingston, ON, Canada K7L 3N6
Tel. (613) 533-3130
Fax
Email: agoerzen@business.queensu.ca

HÉBERT, Louis
Ecole des Hautes Etudes Commerciales
3000, chemin de la Cote-Sainte-Catherine
Montreal, PQ, Canada H3T 2A7
Tel. (514) 340-6334
Fax (514) 340-5635
Email: Louis.Hebert@hec.ca

INKPEN, Andrew
Thunderbird, School of Global Management
15249 North 59 Avenue
Glendale, AZ 85306-6000
Tel. (602) 978-7079
Fax (602) 843-6143
Email: andrew.inkpen@thunderbird.edu

JANG, Frank
School of Business Administration
Faculty of Management
Dalhousie University
Kenneth C. Rowe Management Building
6100 University Avenue, 3rd floor
Halifax, NS, Canada B3H 3J5
Tel. (902) 494-8999
Fax (902) 494-1107
Email: frank.jiang@dal.ca

JANG, Ruihua
Department of Management and Marketing
School of Business Administration
Oakland University
2200 N. Squirrel Road
Rochester, MI 48309-4401
Tel. (248) 370-2832
Fax (248) 370-4275
Email: jiang@oakland.edu

JUNG, Jae
Henry W. Bloch School of Business
University of Missouri - Kansas City
5110 Cherry Street, Room 208
Kansas City, MO 64110-2499
Tel. (816) 235-5161
Fax (816) 235-6506
Email: Jungjc@umkc.edu

LU, Jane
Faculty of Business and Economics
The University of Melbourne
198 Berkeley Street, Building 10
Carlton 2010 VIC Australia
Tel. 613 8344 1751
Fax
Email: jane.lu@unimelb.edu.au
LUPTON, Nathan
Graduate School of Business
Management Systems Department
Fordham University
1790 Broadway, #1147
New York, NY 10019
Tel. (212) 636-6133
Fax (646) 312-8295
Email: nlupton@fordham.edu

MAKINO, Shige
Department of Management, K.K. Leung Building
The Chinese University of Hong Kong
Shatin NT, Hong Kong
Tel. 011-852-2609-7636
Fax -855-2603-5104
Email: makino@baf.msmail.cuhk.edu.hk

NEUPERT, Kent
College of Business and Economics
Boise State University
1910 University Drive
Boise, ID 83725-1600
Tel. (208) 426-2397
Fax (208) 426-3637
Email: kneupert@boisestate.edu

NITSCH, Detlev
School of Business and Economics
Wilfrid Laurier University
75 University Avenue West Room 2050
Waterloo, ON, Canada N2L 3C5
Tel. (519) 884-1970
Fax (519) 884-0201
Email: dnitsch@wlu.ca

PAPYRINA, Veronika
College of Business
San Francisco State University
1600 Holloway Avenue
San Francisco, CA 94132
Tel. (415) 338-6291
Fax (415) 338-0596
Email: papyrina@sfsu.edu

PENG, George
Faculty of Business Administration
University of Regina
Regina, SK, Canada S4S 0A2
Tel. (306) 337-8485
Fax
Email: george.peng@uregina.ca

RIAZ, Suhaib
Department of Management & Marketing
College of Management
University of Massachusetts Boston
100 Morrissey Blvd.
Boston, MA 02125
Tel. (617) 842-3139
Fax
Email: suhaib.riaz@umb.edu

ROWE, W. Glenn
Ivey Business School
Western University
1255 Western Road
London, ON, Canada N6G 0N1
Tel. (519) 661 3299
Fax
Email: growe@ivey.uwo.ca

SCHAAN, Jean-Louis
Ivey Business School
Western University
1255 Western Road
London, ON, Canada N6G 0N1
Tel. (519) 661-4198
Fax
Email: jlschaan@ivey.uwo.ca

SCHOTTER, Andreas
Ivey Business School
Western University
1255 Western Road
London, ON, Canada N6G 0N1
Tel. (519) 661-3038
Fax (602) 661-3700
Email: aschotter@ivey.uwo.ca

TANG, Jianyun
Faculty of Business Administration
Memorial University of Newfoundland
St. John's, NL, Canada A1B 3X5
Tel. (709) 864-3144
Fax (709) 864-7680
Email: jytang@mun.ca

TANG, Jing’an
John F. Welch College of Business
Sacred Heart University
5151 Park Avenue
Fairfield, CT 06606
Tel. (203) 371-7960
Fax
Email: tangj3@sacredheart.edu
VOYER, Peter
Odette School of Business
University of Windsor
401 Sunset Avenue
Windsor, ON N9B 3P4
Tel. (519) 253-3000, Ext. 3153
Fax
Email: p.voyer@uwindsor.ca

WADE, Michael
IMD
Ch. de Bellerive 23
P.O. Box 915
CH-1001 Lausanne
Switzerland
Tel.
Fax
Email: michael.wade@imd.ch

WANG, Huanglin
Assistant Professor
State University of New York at New Paltz
1 Hawk Dr.
New Paltz, NY 12561
Tel. (845) 257-7869
Fax
Email: wanghai@newpaltz.edu

WOODCOCK, Patrick
University of Ottawa
136 Jean Jacques Lussier
Ottawa, ON, Canada K1N 6N5
Tel. (613) 562-5800
Fax (613) 562-5164
Email: woodcock@management.uottawa.ca

ZHAO, Natalie
Faculty of Business Administration
Simon Fraser University
8888 University Drive
Burnaby, B.C. Canada V5A 1S6
Tel. (778) 782-5552
Fax
Email: nbzhao@sfu.ca

ZHOU, Changhui
Guanghua School of Management
Peking University
Beijing 100871, China
Tel. 86-10-62755089
Fax 86-10-62751463
Email: czhou@gsm.pku.edu.cn