Influence of location factors on establishment and ownership of foreign investments: The case of the Japanese manufacturing firms in Europe

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Abstract

We test the hypothesis that location factors have strong predictive power for mode of establishment and ownership choice of MNEs, by controlling for parent experience and capabilities in a sample of 751 manufacturing subsidiaries of 405 Japanese MNEs. In the European context of few ownership restrictions we find that host competitiveness, host culture type, and industrial growth are the most appropriate location predictors for entry mode. We create a profile of joint venture, full acquisition and wholly owned greenfield modes and reveal how different strategic contexts interact with location factors to determine the MNE expansion approach. Our results imply that location variables are important determinants of expansion strategy, indispensable in analysing subsidiaries of MNEs even in hosts with stable political environment.
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1. Introduction

Entry mode expresses the means of internationalisation of the firm and is one of the most essential features of the multinational enterprise (MNE) activity. The entry mode determines the MNE level of exposure to, and use of, local assets and management. Many scholars point

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out that this level of exposure influences profitability and stability of operations (Beamish, Delios, & Lecraw, 1997; Chen & Hu, 2002; Nitsch, Beamish, & Makino, 1996; Woodcock, Beamish, & Makino, 1994). For this reason entry mode is extensively analysed in different contexts, by assessing the effect of the factors that determine the investment process: firm-specific capabilities, internalisation and location. The first two factors are manifestation of the MNE competence and strategy and make the subsidiaries with a common parent similar in design. However, the necessity of the parent to adapt to different host realities makes its subsidiaries less similar in practice. Therefore, location factors presumably shape the entry mode choice as much as MNE capabilities do. Some scholars insist that location is a neglected factor in the analysis of MNE activity and has to be reintegrated into it (Dunning, 1998). However, while there are many studies about the effect on entry mode of the first two groups of factors, the methodology for reflecting the location effect is barely developed.

Some authors control loosely, rather than analyse, the location factors through the (single-host) designs of their entry mode studies or through implicit assumptions, despite the fact that some location factors are indispensable in any research of entry mode. The best example of such a factor is government restriction on foreign ownership (Chen & Hu, 2002). More focused studies incorporate explicitly the relevant political hazards and government restriction by reflecting highly variant institutional environments, often of developing countries (Delios & Henisz, 2000; Padmanabhan & Cho, 1996). However, this sole focus on political factors contributes little to the understanding of how other types of location factors affect entry mode. Given the theoretical importance of all types of location factors we attempt to isolate their effect on 751 entries of 405 Japanese MNEs in Europe.

There is a two-fold reason to choose Europe as the focal point of the analysis. First, our aim is to choose a location where political restriction plays a minimal role and location variation comes primarily from non-political factors. European countries are ideal in this respect because their policy to investors is integrated and common, while important differences in local factors remain. Second, we exclude investments in other continents, in order to reduce as much as possible the variance of strategic and other motivational variables. The paper studies only subsidiaries in manufacturing industries because these entries of higher commitment depend most on local conditions, and have been frequently used in previous studies (Belderbos, Capannelli, & Fukao, 2001; Caves, 1996; Heitger & Stehn, 1990; Padmanabhan & Cho, 1996).

2. Explanatory factors for entry mode choice

Forms of international expansion like exporting and licensing are modes of low commitment that do not constitute foreign direct investment (FDI), and are beyond the scope of this study. The studies of modes of higher commitment have followed different approaches. Hennart and Reddy (1997) divide entry mode to local asset seeking and wholly owned modes and focus on the former one, which corresponds to acquisitions and joint ventures. Other scholars incorporate all relevant modes by using two separate variables for ownership structure and mode of establishment (Padmanabhan & Cho, 1996). We integrate both ownership structure and mode of establishment in one multinomial dependent variable, which includes greenfield investment, acquisition, and joint venture, in approximate order of

gradation of MNE subsidiary exposure to local participation in assets and management. Few studies use such an integrated approach (Chang & Rosenzweig, 2001).

2.1. Existing theory on FDI entry mode choice

The explanations of FDI entry modes as starting point of FDI activity have been given mainly from MNE perspective and refer to MNE experience, proprietary assets and technology, cost saving reasoning, and learning. Padmanabhan and Cho (1996) confirmed that entry modes depend on investor's experience and found shared ownership modes more likely at the early phases of involvement in a foreign country, whereas wholly owned greenfield entries occur after experience is accumulated. Other scholars theorized that it is the failure of the market for technology goods that explains FDI entry modes (Casson, 1995; Caves, 1996; Dunning, 1988). The proprietary asset hypothesis developed by Caves (1996) considers joint ventures and acquisitions as inferior choices for technologically intensive parents because of the respective difficulty to devise informed contracts and to separate the human factor from the technology one (Caves, 1996; Williamson, 1985). Furthermore, there is a view within the resource-based approach that although the MNE initially relies on its superior capabilities and greenfield entries to overcome the liability of foreignness, it will eventually try to secure key resources and knowledge residing in local firms (Chang & Rosenzweig, 2001; Delios & Beamish, 1999). In the case of such asset-seeking FDI (Dunning, 1998), which is often concurrent with parent diversification into new lines of business, acquisitions and joint ventures will be preferred to greenfield entries.

The most widely used FDI theory is the transaction cost framework (Coase, 1937; Williamson, 1985). In fact, resource-based explanations are used as complementary to the logic of the transaction cost theory (Andersen, 1997; Delios & Beamish, 1999). According to the latter FDI occurs when there are high costs associated with the use of the market as a medium for structuring the economic transactions. It predicts that internalisation of business activity is more likely to occur when asset specificity, environment uncertainty, and frequency are features of (overseas) transactions, because these features increase the costs of using the market (Williamson, 1985). Assuming that the concepts of control and integration are closely related, the empirical research has taken this postulate of the theory to mean preference for greenfield entries to joint ventures when transaction costs are high (Andersen, 1997); although joint ventures are also hierarchical organizations preferable to arm's length market transactions.

A recent theoretical development in entry mode theory is the behavioural perspective, which treats entry choice as a dynamic decision-making process grounded in MNE learning abilities (Chang & Rosenzweig, 2001; Vermeulen & Barkema, 2002). This approach recognizes explicitly that FDI is a sequential process in which learning facilitates entries in already practiced modes. For example, Chang and Rosenzweig (2001) found an empirical support for the claim that MNE experience with joint venture and acquisition modes is likely to promote further entries through the same modes.

2.2. Location factors and entry mode choice

Experience, capabilities, assets, learning and transaction costs are factors within the sphere of MNE control and strategic decision-making. However, internationalisation

and entry mode choice depend critically on the sphere of host sovereignty, within which the MNEs have little control. The bargaining power model is a suitable framework to analyse this MNE–host interaction, because it rests on the same assumptions as transaction cost theory-bounded rationality and opportunistic behaviour—and in fact has been integrated with the transaction cost framework in previous studies (Gomes-Casseres, 1990; Padmanabhan & Cho, 1996). However, most of these studies are focused either on ownership restrictions limiting the investors' choices of entry mode, or on similarly limiting country-risk factors (Delios & Henisz, 2000; Padmanabhan & Cho, 1996). We believe that there is a need to analyse the effect of location factors on entry mode choice in a context with no ownership restrictions or expropriation hazards, in order to gain further insights in the interaction between MNE strategy and host country factors. Some studies show that the bargaining power approach is applicable even to such an extended agenda (Oman, 2000).

According to the bargaining power model when MNEs plan an entry into a labour endowed country and face host government restrictions or other unfavourable conditions, they are in a relatively stronger bargaining position because they can shift to another labour endowed location where greenfield investments are not obstructed. In addition, host governments have incentives to attract such efficiency-seeking FDI because the latter promotes growth in exports (Moon & Lado, 2000, p. 96) and employment. Therefore, it is likely that potential hosts will allow greenfield investments and will even provide additional incentives to investors in order to compete with rival host destinations (Oman, 2000). On the other hand, MNEs that aim at production and sales for the host market are in a weaker bargaining position with respect to the host government because they do not have a switching option and their investment is likely to increase competition in the host country and threaten domestic business interests (Moon & Lado, 2000, p. 98). In this context, host governments are likely to be concerned with technology spillovers and provide incentives for shared ownership modes. Even without enacted ownership restrictions, MNEs will prefer joint venture or acquisition modes in order to gain access to local distribution networks and meet better the customers' needs. However, this tendency is mitigated by host market growth, because MNEs prefer not to share the benefits of high growth with a partner and therefore choose greenfield, or acquisition (Hennart & Reddy, 1997), entries.

In summary, the MNE motivation for investing in a particular country determines its relative bargaining power with respect to the host and this power balance influences the mode of entry. Sizeable markets are likely to promote joint ventures or acquisitions, while low labour costs promote new wholly owned investments focused on operational efficiency in labour-intensive production for export to other countries. The latter choice is reconfirmed in the case of Japanese MNEs by the accepted opinion that the competitive advantage of Japanese producers arises from lean production techniques (Takamiya & Thurley, 1985) and such production organization will avoid local interference via wholly owned greenfield modes of entry[1] (Morgan, Sharpe, Kelly, & Whitley, 2002).

In addition to market size and growth and labour endowment, culture is another location-related variable often used in explaining entry mode choice (Chang & Rosenzweig, 2001; Kogut & Singh, 1988). Differences in culture between home and

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[1] For example, this mode has been preferred in the UK to acquisitions in order to avoid the negative effect of pre-existing multiunion arrangements (Takamiya & Thurley, 1985).

host countries hinder post-acquisition integration and often necessitate partnership with local firms for acquiring complementary knowledge for working in the new environment (Kogut & Singh, 1988). However, cultural distance may also increase the cost of assimilating equity partners when operating a joint venture (Padmanabhan & Cho, 1996). Other authors find that, independently from cultural differences, investing firm's country of origin is associated with preference for a particular mode, such as the tendency Japanese MNEs have to avoid acquisitions (Chang & Rosenzweig, 2001). Although these empirical studies have consistently relied on the cultural indices developed by Hofstede (1980), there is still a controversy about the exact effect of culture on entry mode.

2.3. Hypotheses

The different investment locations in Europe are aggregations of versatile location variables. These include market size and growth, labour cost and productivity levels, cultural and language proximity to the investing countries, abundance of other production factors besides labour, privatisation policy, strength of local competitors, and degree of positive host government attitudes and policies towards FDI. We assume that ownership restrictions play a minimal role in Europe, including Central and Eastern Europe (CEE) where most investments followed the period of liberalization, and focus on the remaining location variables.

Expressed in terms of the prescriptions of the bargaining power model, the European countries are in a stronger position to protect their sizeable markets against market-seeking investors. A major element in their approach is that they accomplish this task with a common set of (local content and other) rules. The fulfilment of these rules guarantees equal access to each country's market to the disadvantaged investor (Belderbos et al., 2001; Deutsch, 1999; Morgan et al., 2002). Owing to this regional relevance of the rules and the geographical proximity of the countries, the differentiation of locations according to market size or accessibility to local distribution channels is less important for the investors (Blanpain & Hanami, 1993). However, the foreign investors clearly differentiate the countries and the entries to each location on the basis of availability and costs of factors of production (Strange, 1993). On this basis, the bargaining power shifts to the investors and the potential host governments become rivals for FDI. In locations with abundant and less costly labour government support for FDI is likely to exist and the choice of greenfield entry is likely to prevail. To sum up, the MNEs are in a stronger bargaining position to seek efficient production organization by greenfield entries in countries with lower labour costs than the average for Europe.

Hypothesis 1. The lower the labour costs, the more likely MNEs' choice of wholly owned greenfield mode of entry rather than joint venture or full acquisition.

Although common rules of origin and trade policy apply for foreign MNEs, individual European countries have consistently interfered in the negotiation between the Commission and the Japanese MNEs (Deutsch, 1999). The bargaining power model predicts that countries with sizeable markets are willing and able to require from foreign investors shared ownership entry modes, which mitigate the competitive threat to local producers. Although the commitment of EU countries to make a common policy often

leads to weakening the individual country bargaining position (Deutsch, 1999), we expect that the influence of countries with sizeable markets on entry mode will persist.

Hypothesis 2. The bigger the market of the host country, the more likely MNEs' choice of joint venture rather than wholly owned greenfield modes.

The extent to which other factors of production besides labour are organized within local firms also affects the balance of host–MNE bargaining power with respect to entry mode decisions. The usual claim that foreign investment enhances the efficient use of host assets holds more for less developed host countries than for ones where strong local firms compete in using the existing productive factors (Lane, 1995, Chapter 5). In the former case the MNEs have clear advantage over promoting development hosts. In addition, in these host countries there are fewer advanced local firms with the specific assets sought by MNEs in joint ventures or acquisitions. The latter case of strong host competitiveness and productivity represents the opposite, where local interests and capabilities are likely to influence a MNE entry with joint venture or acquisition for accessing the local assets. We suppose that host competitiveness in a given industry is likely to attract MNEs to acquire local assets or create joint ventures with local partners.

Hypothesis 3. The more competitive the host country, the more likely MNEs' choice of joint venture or full acquisition rather than wholly owned greenfield mode.

There is ambivalence with respect to the hypothesized effect of cultural difference on entry mode. Some authors find it related to greenfield entries (Padmanabhan & Cho, 1996) while others find it related to joint ventures (Brouthers & Brouthers, 2001; Hennart & Larimo, 1998). In addition, although most authors combine the Hofstede cultural indices into a composite index of cultural distance between investor and host countries (Chang & Rosenzweig, 2001; Kogut & Singh, 1988), it is possible to have one of the dimensions of culture more relevant than the others with respect to entry mode choice. In our single investor country design, cultural distance arises from differences in host cultures only; therefore, we decided to build a non-directional hypothesis. We follow a classification by Ronen and Shenkar (1985) to label the different cultural types in Europe. The types relevant to our sample are: Nordic and Germanic (Sweden, Finland, Denmark, Netherlands, Germany, Austria and Switzerland), Anglo (UK and Ireland), and Latin European (Belgium, France, Italy, Spain and Portugal), while CEE is not included. We accept the theoretical claim that different culture leads to different organization style and hypothesize that culture influences entry mode differently for each type in our sample. If such (non-zero) differences emerge we will further try to pinpoint the index they stem from.

Hypothesis 4. MNEs choice of entry mode differs significantly across the cultural types present in Europe.

Previous research has found that MNEs prefer acquisitions most when the industry entered grows either very fast or very slowly, because this entry mode permits faster entry in the former and does not add profit depressing capacity in the latter case (Hennart & Reddy, 1997). However, MNEs are likely to prefer also wholly owned greenfield modes when the industry entered grows very fast, in order to avoid sharing of guaranteed profits with a local partner.

Hypothesis 5. The higher the industry growth, the more likely MNEs' choice of wholly owned greenfield mode of entry or full acquisition rather than joint venture.

2.4. Controls

As discussed previously, there are three broad groups of explanatory factors for entry mode—experience/capabilities, internalisation, and location (Andersen, 1997; Casson, 1995; Dunning, 1988; Williamson, 1985). Controls for capability and internalisation are necessary for finding the real effect of location on entry mode in our non-random sample. We include the most important forms of experience and capabilities—international, industrial and host experiences (Delios & Henisz, 2000)—as three major controls in the present study. The former two express MNE technological and marketing advancement and are likely to be positively related to wholly owned greenfields. Diversification entries in new industries represent the extreme case of low industrial experience and are likely to occur through joint ventures or acquisitions.

On other hand, host experience helps MNEs overcome the liability of foreignness and is likely to be positively associated with joint venture and acquisition modes. However, empirical results about foreign experience effect on entry mode are controversial (Harzing, 2002). Song (2002) distinguishes between MNEs that passively absorb knowledge during a prolonged foreign presence and MNEs that actively develop location-bound competence in the invested host country. The latter parent firms are not only likely to upgrade their activities in the host, but also to employ a broader range of local procuring (Song, 2002). In this case, experience leads to decreased transaction costs and subsequent entry is likely to be acquisition of, or cooperation with, a local entity, which is not necessarily true for MNEs whose presence in a location is supported mainly by headquarter-level capabilities and employs little location-bound competence. Harzing (2002) defines the latter strategy as global and the former as multidomestic and finds that MNEs pursuing multidomestic strategy are more likely to enter with acquisition than MNEs pursuing a global one. Experience is likely to lead to acquisition in subsequent entries of MNEs pursuing multidomestic strategy.

Subsidiary age is another important control for time effects in this cross-sectional study, as previous findings suggest that the Japanese MNEs increase their ownership level with time (Beamish et al., 1997; Mansour & Hoshino, 2002). In addition, we include industry controls. The final (sixth) control is subsidiary parent profile. All parent firms, although diversified, have their main activity in some manufacturing industry. We exclude the manufacturing subsidiaries in the initial sample that belong entirely to general trading companies (Sogo Shosha), because Sogo Shosha strategies differ significantly from those of manufacturing parents. The latter, however, may invest in a subsidiary together with a Sogo Shosha or with another Japanese manufacturing firm. Most of the sampled subsidiaries have only one investing parent from Japan; therefore it is inapplicable to investigate in detail the influence of Sogo Shosha or other Japanese partners on the entry mode with the present design. Nevertheless, a dummy is introduced to reflect the positive effect an additional partner of a larger size and extended international experience has on the choice of wholly owned entry mode.

3. Research design

3.1. Sample

The sample of Japanese subsidiaries in Europe is drawn from the 2003 Japanese-language edition of *Kaigai Shinshutsu Kigyou Souran* (Japanese overseas investments), compiled by Toyo Keizai Inc. by means of surveys of all major Japanese companies (with a response rate of about 60%). The database provides basic features of respondents' subsidiaries in the world like place and year of investment, capital, employees, and reasons for investment. The total registered European manufacturing subsidiaries in the database, established prior to the end of 2001, comprised the initial sample of 783 firms, which was reduced, after deletion of 17 cases of firms belonging entirely to Sogo Shosha and 15 cases of firms without data on ownership structure, to 751 subsidiaries, owned by 405 Japanese parents. Most of these parents have commercial subsidiaries as well. Descriptive statistics for parent firms are listed in Table 1. The country distribution of subsidiaries is given in Table 2. The countries in Europe are grouped in seven sub-regions by geography and economic integration, but primarily by their cultural type (Ronen & Shenkar, 1985).

3.2. Variable measurement

While Nordic countries are grouped with Germanic ones because of their cultural similarity and the small sample size of the former, Latin European countries are split to smaller units because the sample size allows it. We do not expect significant differences in entry mode between these units that reflect the same culture pattern. Thus, the location dummy categories are 'UK–Ireland', 'France', 'Belgium', 'Spain–Portugal', 'Italy–Greece', 'CEE', and the base one 'Germany–Netherlands–Sweden' (Table 2).

Labour cost data is calculated from the ratio of two variables in the OECD STAN database for each year, country and industry (OECD, 1994, 1995, 2004a): 'wages' divided to 'number engaged'.[2] We divide this ratio to the average ratio by country, for each year and industry. This 'relative to the average' measurement reflects country differences but not differences in the nominal value of money between the years.

We measure market size of a country by its relative (to OECD 15) value added shares in each year and industry (OECD, 2004b).[3] This measure of production shows the relative scale of domestic business activity, and reflects the difference in the respective market scales. It is valid because it correlates highly with 'potential' and 'realised' market size.[4]

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[2] The former comprises of wages and salaries of employees as well as supplements such as contributions to social security, private pensions, health insurance, life insurance and similar schemes (in US dollars), paid by producers; while the latter comprises of both full and part time employees (OECD, 2004a).

[3] Value added (current prices) is measured at factor costs plus other taxes less subsidies, on labour and capital employed (OECD, 2004b). Value added shares measure for each industry and year the proportion of a country GDP to the sum of GDPs of a group of 15 OECD countries, which allows comparison between years (nominal values cancel out) and countries (the same denominator as basis).

[4] The ratio of the total (not just that of an industry as in our measure) GDP of a country to the sum of other country total GDPs measures the general purchasing power of its customers and hence its potential size for any industry. Sales volumes at the domestic market (approximated by value added minus exports plus imports for each industry) give the realised market size.

Table 1
Descriptive statistics for 405 Japanese parent firms (consolidated)

Parent characteristic	Mean	Median	SD	Min	Max
Number of foreign manufacturing subsidiaries in world as a parent[a]	10.68	8	13.92	1	144
Number of countries invested in as a parent[a]	9.66	6	7.71	1	47
Number of continents invested in as a parent[a]	3.37	3	1.13	1	6
Number of manufacturing subsidiaries in Europe	1.95	1	1.98	1	18
Number of employees (for 332 firms)	16,545	5260	36,748	120	328,562
Total equity in millions of dollars	2004	695	4749	2	60,295
ROA (for 281 firms)	0.56	0.77	2.96	−15.44	10.65

Source: Toyo Keizai Inc. (2001, 2003).
[a] The numbers for parents as *main* are almost the same if only manufacturing parents are considered for main parents (ignoring Sogo Shosha). All data are as of the end of 2001.

However, market size turns out to have non-linear effect on entry mode. It is, therefore, introduced as a factor variable with three categories, each including equal number of cases. Medium market size is one with relative value added share between 5 (inclusive) and 7, large size is one with relative share more than or equal to 7, and small size refers to shares below 5. Medium size is set as a reference category.

Host competitiveness equals the ratio of R&D intensity of firms in a given country to the average R&D intensity of firms in Europe, calculated separately for each industry and year. This averaging out is necessary because of the R&D-intense nature of some industries. Our Hypothesis 3 refers to country differences not differences in industrial R&D levels. R&D intensity has often been used in previous research as a measure of firm capabilities. Firm R&D intensity data by country, year and industry, are calculated in the OECD STAN indicators database (OECD, 2004b) as a ratio of business enterprise research and development to production, both in current prices. Like market size, this variable, when split to three categories of equal size, has non-linear effect on entry mode with the effect of middle and low values not different from each other but different from high values. Therefore, we introduce a dummy for values above 1.25.

Industry growth is based on industry growth averages for the three years prior to investment in a given industry and country, where growth is calculated as change in volume produced (OECD, 2004a). Due to high correlations between country averages for each industry as well as missing values for some of the countries, the final measurement is an average of the major country (France, UK, Germany, Italy) growth. We believe that the possibility of unimpeded intra-EU exports[5] is the factor behind intra-industry growth equalisation on the host level and set our variable to reflect inter-industry growth differences on EU level.

As for the controls, the theory of FDI existence postulates that the number of subsidiaries (for a given industry) each MNE has in the world is a sign of the MNE intangible assets (Caves, 1996) and reflects the MNE technological advancement.

[5] Although the CEE countries included in this study (mainly Poland, Hungary, and the Czech Republic) were not part of the common market in the sampled period, their associated country status gained early in the liberalization period gives enough credibility to consider them as such a part.

Table 2
Entry mode according to region

Region number and name[a,b]	Population '95 (mln)	Average '95 GDP per capita in US$	Firms with non-greenfield mode (NG)		All firms (A)	NG/A Ratio
			Joint venture	full acquisition		
1 UK and Ireland	62.7	17,500	49	47	251	0.38
2 France	58.8	22,950	42	17	96	0.61
3 Belgium, Luxemburg	10.6	22,515	8	7	43	0.35
4 Spain, Portugal	49.1	11,050	36	7	62	0.69
5 Italy, Greece	67.9	17,800	24	8	49	0.64
6 CEE	87.0	5000	18	5	53	0.43
7.1 Germany, Austria, Switzerland	97.1	25,100	30	23	119	0.45
7.2 Sweden, Finland, Denmark	19.1	22,400	8	6	22	0.64
7.3 Netherlands	15.7	21,733	14	13	56	0.48
All European countries	468.0	19,680	229	133	751	0.48

Source: OECD (1997) and Toyo Keizai Inc. (2003).

[a] Region 1 has only 15 firms located in Ireland. Region 3 has only two firms in Luxemburg. Region 4 has 15 firms in Portugal. Region 5 has only three firms in Greece. The CEE region includes Poland, the Czech Republic and Hungary (46 firms) as well as the Slovak Republic and Romania (seven firms). Region 7.1 has only five firms in Austria and four firms in Switzerland; therefore, it reflects the entry mode for German subsidiaries. Region 7.2 has 14 firms in Sweden.

[b] Region 7.1, 7.2 and 7.3 are combined in the regression as region 7, called for brevity Germany–Netherlands–Sweden. With regards to these final seven regions $\chi^2 = 37$, $P < 0.001$.

Therefore, the number of subsidiaries of each MNE in the world measures its industrial experience as a function of its intangible resources. The number of countries each parent has invested in, irrespective of industry, measures MNE international experience.[6]

Subsequent entry is a dummy, which equals 1 when a MNE has previous entry in the host. 'Time trend' is the year of investment. We find that its effect on entry mode is not linear and introduce three categories—1969–1986, 1987–1992, and 1993–2002—with the second being the reference one. The dummy 'Second parent' is set to '1' for subsidiaries whose main (manufacturing) parent is supported by Sogo Shosha or by another Japanese partner of bigger size. Finally, a dummy used for industry analysis is divided to eight categories, following Toyo Keizai Inc. (2003). The category 'Resource-based' takes value of 1 for activity in wood processing, paper, leather, stone and clay, iron and other metal processing, and metal goods. The other categories are 'Traditional' (mainly food and textiles), 'Construction', 'Chemicals', 'Machinery', 'Electronics', 'Pharmaceutics', and 'Automobiles'. Table 3 summarizes the variable design and measurements.

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[6] The country and subsidiary number variables are correlated ($r = 0.6$ when the former is in log form), which makes difficult to estimate their separate effects. The log form of the former is almost perfectly related to the number of continents (NC), where MNE invests ($r = 0.9$). We found that the effect of NC on entry mode is not linear, with the smallest category (= 1) accounting for most of the variation. Therefore, we include it, in place of country number, as a dummy variable measuring international standing.

Table 3
Variable operatioinalization

		Factor being measured
Main explanatory variables and their measurement		
Labour cost	Employee remuneration in the host country divided to the European average for the respective industry at time of entry	Cost effects
Market size	Three categories for low, medium and high relative value added share (in OECD 15) of the host country for each industry at time of entry	Market size
Host competitiveness	A dummy set to one when the ratio of host R&D intensity to European average R&D intensity, for each industry at time of entry, is bigger than 1.25	Relative competitiveness of host domestic firms
Industry growth	Average growth rate in the respective industry for UK, Germany, France, Italy at time of entry	Profit opportunity
CEE, UK, etc.	Dummy for culture type	Differences in culture
Control variables and their measurement		
International inexperience	Dummy set to one if the number of continents a parent has invested in, irrespective of industry, equals one at time of entry.	International standing/ experience at the time of entry
Subsidiary number	Number of subsidiaries of a parent in the world in the respective industry at time of entry	MNE industrial experience at the time of entry
Subsequent entry	Dummy set to one if a parent has already invested in any manufacturing industry in the same country, at time of entry.	Host experience at the time of entry
Second parent	Dummy for presence of more than one Japanese parent at the time of entry	Mainly the effect of Sogo Shosha at the time of entry
Time trend	Three categories for time of investment	Time effects

3.3. Model

All entry modes are described at the time of commencing manufacturing activity. We apply the standard definition of joint ventures (and partial acquisition) as greenfield investments (and acquisition) with more than 5% participation of a local, non-Japanese firm in equity. Beside 133 full acquisitions and 389 wholly owned greenfield entries, the database contains for our sample 229 joint ventures, in which 16 cases are partial acquisitions and 57 cases are 'capital participations in existing European enterprises' (Toyo Keizai Inc., 2003). Although not greenfield ventures, these combined 73 cases of subsidiaries of local and foreign parents are similar in structure to joint ventures. As we stated in the beginning, we consider all relevant modes in the order of gradation of MNE exposure to local participation in assets and management. While in full acquisitions the MNEs challenge is the existing corporate climate, in the last 73 cases of mostly capital participations MNEs challenge is to make shared decisions over assets and management with a local partner. The MNEs face the same challenge in greenfield joint ventures. Previous studies considered capital participations as a subset of international joint ventures (Chen & Hennart, 2004). Therefore, these 73 cases of capital participation and the 156 cases of greenfield joint ventures form one category called 'joint ventures'. We construct a multinomial logistic model, in which the dependent variable has three non-ordinal categories: wholly owned

Table 4
Descriptive statistics based on the full sample ($N=751$)

	Variable	Mean	Median	SD	Min.	Max.
(1)	Joint venture	0.30	0.00	0.46	0.00	1.00
(2)	Full acquisition	0.18	0.00	0.38	0.00	1.00
(3)	Subsidiary number	7.18	4.00	11.02	1.00	119.00
(4)	International inexperience	0.11	0.00	0.32	0.00	1.00
(5)	Subsequent entry	0.14	0.00	0.35	0.00	1.00
(6)	Second parent	0.11	0.00	0.32	0.00	1.00
(7)	1993–2002	0.36	0.00	0.48	0.00	1.00
(8)	1987–1992	0.41	0.00	0.49	0.00	1.00
(9)	1969–1986	0.23	0.00	0.42	0.00	1.00
(10)	Labour cost	0.97	0.97	0.27	0.20	1.59
(11)	Small market size	0.43	0.00	0.50	0.00	1.00
(12)	Medium market size	0.36	0.00	0.48	0.00	1.00
(13)	Large market size	0.21	0.00	0.41	0.00	1.00
(14)	Host competitiveness (missing 61 cases)	0.24	0.00	0.43	0.00	1.00
(15)	Industry growth	3.10	3.23	3.03	-6.24	11.27
(16)	UK/Ireland	0.33	0.00	0.47	0.00	1.00
(17)	France	0.13	0.00	0.34	0.00	1.00
(18)	Germany/Sweden/Netherlands	0.26	0.00	0.44	0.00	1.00
(19)	Belgium/Luxemburg	0.06	0.00	0.23	0.00	1.00
(20)	Spain/Portugal	0.08	0.00	0.28	0.00	1.00
(21)	Italy/Greece	0.07	0.00	0.25	0.00	1.00
(22)	CEE	0.07	0.00	0.26	0.00	1.00
(23)	Traditional industries (food, textiles)	0.11	0.00	0.32	0.00	1.00
(24)	Construction industry	0.04	0.00	0.20	0.00	1.00
(25)	Resource-based industries	0.04	0.00	0.20	0.00	1.00
(26)	Chemical industry	0.14	0.00	0.35	0.00	1.00
(27)	Pharmaceutical industry	0.06	0.00	0.23	0.00	1.00
(28)	Machinery	0.13	0.00	0.34	0.00	1.00
(29)	Electronic industries	0.30	0.00	0.46	0.00	1.00
(30)	Automobiles	0.18	0.00	0.38	0.00	1.00

greenfield, full acquisition and joint venture. We set all coefficients of the first mode to zero, making it a reference option. The model calculates the relative probability of choice compared to the reference option (Hosmer & Lemeshow, 2000; McGullagh & Nelder, 1989). The exponential of a coefficient for the respective choice (full acquisition or joint venture) is referred to as the relative risk, or the ratio of the probability of choosing this mode to the probability of choosing the reference mode, for a unit change in the independent variable corresponding to that coefficient. Tables 4 and 5 present variable statistics and correlations.

4. Results

Although we report only results based on raw data, we confirmed these results with analysis of grouped data as well, because the latter has better asymptotic properties and

Table 5
Zero-order correlations (without intra-industry correlations)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)
(1)	1.00																					
(2)	−0.31	1.00																				
(3)	−0.03	−0.07	1.00																			
(4)	−0.01	0.07	−0.19	1.00																		
(5)	0.02	0.09	0.27	−0.12	1.00																	
(6)	0.07	−0.09	−0.12	0.14	−0.06	1.00																
(7)	0.00	0.03	0.20	−0.18	0.11	−0.08	1.00															
(8)	0.00	0.08	−0.13	0.02	0.01	0.05	−0.63	1.00														
(9)	0.00	−0.12	−0.08	0.19	−0.14	0.03	−0.41	−0.45	1.00													
(10)	0.01	0.08	−0.17	0.10	−0.01	−0.09	−0.17	0.06	0.12	1.00												
(11)	0.04	0.00	0.08	−0.07	−0.09	0.05	0.16	−0.12	−0.05	−0.14	1.00											
(12)	−0.01	−0.06	−0.06	0.03	0.04	0.00	−0.06	0.11	−0.06	−0.13	−0.65	1.00										
(13)	−0.04	0.08	−0.03	0.05	0.05	−0.06	−0.13	0.02	0.13	0.32	−0.45	−0.39	1.00									
(14)	−0.02	0.08	−0.10	0.08	−0.06	0.02	−0.07	0.03	0.05	0.21	0.03	−0.07	0.04	1.00								
(15)	−0.11	−0.06	0.02	−0.02	0.03	−0.01	−0.20	0.22	−0.03	−0.06	−0.02	0.12	−0.11	−0.12	1.00							
(16)	−0.17	0.02	−0.04	−0.03	0.09	0.00	−0.03	0.11	−0.09	−0.39	−0.29	0.51	−0.24	0.00	0.10	1.00						
(17)	0.11	0.00	−0.06	0.04	−0.03	−0.07	−0.01	−0.01	0.03	0.27	−0.22	0.27	−0.04	0.04	−0.03	−0.27	1.00					
(18)	−0.05	0.06	−0.06	0.08	0.03	−0.02	−0.05	−0.02	0.08	0.54	0.01	−0.41	0.47	0.13	−0.05	−0.42	−0.23	1.00				
(19)	−0.06	−0.01	−0.06	−0.01	−0.03	−0.02	−0.07	0.02	0.06	0.25	0.28	−0.18	−0.13	0.03	0.02	−0.17	−0.09	−0.15	1.00			
(20)	0.18	−0.05	−0.01	−0.01	−0.03	0.05	−0.10	0.02	0.09	−0.20	0.31	−0.19	−0.15	−0.15	0.04	−0.21	−0.12	−0.18	−0.07	1.00		
(21)	0.10	−0.01	0.04	−0.04	−0.03	0.02	0.02	−0.02	−0.01	−0.05	−0.10	0.01	0.11	−0.09	−0.08	−0.19	−0.10	−0.16	−0.07	−0.08	1.00	
(22)	0.02	−0.06	0.27	−0.06	−0.08	0.08	0.29	−0.16	−0.14	−0.53	0.32	−0.21	−0.14	−0.10	−0.04	−0.19	−0.11	−0.16	−0.07	−0.08	−0.07	1.00
(23)	−0.04	0.05	0.06	0.07	−0.02	−0.03	−0.09	−0.05	0.15	0.07	−0.09	−0.14	0.27	0.05	−0.29	−0.07	0.09	0.02	0.00	−0.03	0.06	−0.03
(24)	−0.11	−0.01	−0.01	−0.07	−0.03	−0.05	−0.02	−0.02	0.05	−0.01	−0.02	0.03	−0.01	−0.05	−0.11	0.02	−0.06	0.03	0.01	−0.04	−0.06	0.07
(25)	−0.01	0.00	−0.08	0.11	−0.03	0.13	−0.08	0.02	0.07	0.01	0.10	−0.09	−0.01	−0.01	−0.11	−0.07	−0.02	0.08	0.06	−0.02	−0.03	0.02
(26)	0.05	−0.05	−0.11	0.16	−0.04	0.13	−0.03	0.01	0.02	0.08	0.02	0.06	−0.10	0.10	−0.04	−0.08	0.04	0.00	0.08	0.06	0.01	−0.05
(27)	−0.03	0.08	−0.05	−0.03	0.03	−0.07	0.05	0.02	−0.08	0.08	−0.02	−0.05	0.09	0.00	−0.07	−0.05	−0.01	0.08	0.04	−0.03	0.03	−0.07
(28)	0.03	0.05	−0.14	0.01	−0.02	−0.04	0.00	0.01	−0.01	0.13	−0.10	−0.02	0.15	0.11	−0.24	−0.04	−0.03	0.12	−0.03	−0.05	0.08	−0.09
(29)	−0.19	−0.01	0.13	−0.07	0.04	−0.09	−0.03	0.05	−0.02	−0.14	−0.05	0.13	−0.09	−0.10	0.54	0.16	−0.02	−0.04	−0.06	−0.08	−0.08	0.03
(30)	0.27	−0.09	0.10	−0.13	0.04	0.06	0.16	−0.05	−0.13	−0.13	0.18	−0.01	−0.20	−0.07	0.01	0.04	−0.01	−0.18	−0.04	0.15	−0.01	0.12

deals successfully with outliers. We confirmed the coefficient values and statistical significance by using two statistical packages (SPSS 11.0 and S-plus) and analysing the three binary choices with separate binary logistic regressions. The reported results are for the categories of joint ventures (including capital participations) and full acquisitions and do not change largely if we exclude capital participations from the former. Thus, the following discussion about joint venture is valid for greenfield joint venture as well.

Table 6 presents results only for the best model. Selection of the best model requires likelihood ratio tests for inclusion of each variable, with main explanatory ones preferably included last (Collett, 2003). It also requires checking the linearity assumption and variable interactions. While the latter check showed no significant interactions for inclusion, the former showed that time, market size, host competitiveness and international inexperience effects are not linear; therefore, we included them as factor variables. Likelihood test ratios also revealed that from all industries automobiles and

Table 6
Multinomial logistic regression results (with wholly owned greenfield mode as a base)

| Variable	Joint venture		Full acquisition		Likelihood ratio
	Coefficient	SE	Coefficient	SE	χ^2
Location factors					
Labour cost	0.57	0.78	1.12	0.92	1.59
Market size (small)	−0.23	0.30	0.59*	0.31	6.03
Market size (large)	−0.19	0.33	0.50	0.36	
Host competitiveness	0.23	0.24	0.46[#]	0.25	3.37
Industry growth	−0.11**	0.03	−0.09*	0.04	11.12**
UK/Ireland	−0.68	0.45	0.35	0.49	
France	0.54	0.36	0.37	0.40	
Belgium/Luxemburg	−0.84[#]	0.52	−0.45	0.51	54.31**
Spain/Portugal	1.50**	0.51	1.15*	0.62	
Italy/Greece	1.25**	0.47	1.01[#]	0.58	
CEE	0.05	0.86	0.33	1.11	
Controls					
Subsidiary number	−0.03*	0.01	−0.04*	0.02	10.46**
International inexperience	0.18	0.33	0.82*	0.34	5.59[#]
Subsequent entry	0.72*	0.31	1.03**	0.32	12.09**
Second parent	−0.18	0.32	−0.92*	0.45	4.87[#]
1969–1986	−0.34	0.26	−1.29**	0.33	18.60**
1993–2002	−0.25	0.25	−0.16	0.26	
Chemicals	0.05	0.28	−0.57[#]	0.35	49.72**
Automobiles	1.75**	0.28	0.18	0.36	
Constant	−0.62	1.07	−1.76	1.25	0.00
Null deviance (intercept only)	1385.26				
Residual deviance	1209.22				176.04**
Pseudo R^2	0.23 (Cox and Snell), 0.26 (Nagelkerke), 0.13 (McFadden)				
Sample size	690 (due to 61 missing data on business R&D)				

[#]$P<0.1$. *$P<0.05$. **$P<0.01$.
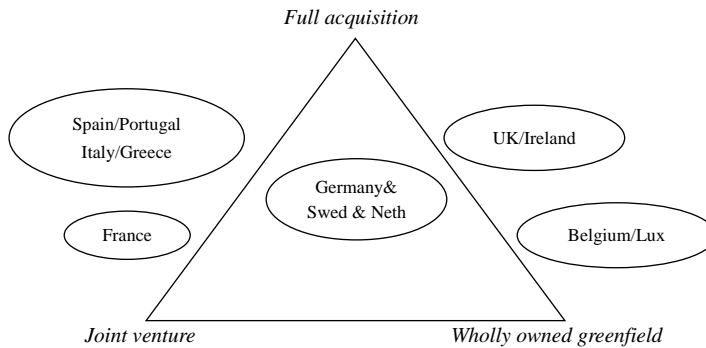
Fig. 1. Summary of country effects on entry mode.

chemicals have strong effects on entry mode, while differentiation of any of the rest does not contribute to the deviance and we depict them as a common base category.

The results reported in Table 6 show that, contrary to Hypothesis 1, lower labour costs are not significantly associated (deviance of 1.59) with wholly owned greenfield entries although the signs are correct. Hypothesis 2 is not supported as well, because the correct sign of Market size (small) is not significant, while Market size (large) is not at all different from the medium category. In fact the results show (when acquisition is reference category) that full acquisition mode is preferred to joint ventures as well, in both small and large markets. The correct signs and moderate significance of the host competitiveness coefficients support Hypothesis 3. There is strong empirical support for Hypothesis 5 because MNEs clearly prefer wholly owned greenfield entries rather than any other option when entering in growing industries. Finally, there are marked differences in the preferred entry mode across cultural types as Hypothesis 4 predicts. MNE parents are less likely to choose joint ventures in UK/Ireland than in the other regions, more likely to enter with wholly owned mode in Belgium/Luxemburg, and more likely to choose joint ventures in France and joint ventures and acquisitions in Spain/Portugal and Italy/Greece, the effect being stronger in the latter two regions.[7] Most Latin European (Ronen & Shenkar, 1985) countries have similar effect on entry decisions except Belgium, which diverges from the countries in the cluster towards the wholly owned choice option (Fig. 1).

From the control variables, 'Subsidiary number' is positively and significantly related to the greenfield mode, as expected. Entries of industrially inexperienced parents and diversification of experienced parents, both with low 'subsidiary number', are associated with joint ventures and acquisitions. 'International inexperience' shows that parents who invest only in Europe at the time of entry are more likely to prefer full acquisitions to other modes than more geographically diversified parents. Subsequent entries are less likely to be wholly owned greenfield than initial ones, as expected. We note that if previous production experience (what the subsequent entry variable reflects) is replaced with

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[7] We reached these conclusions after confirming significance of country coefficients for different base categories for the dependent and country dummy variables. Results of these tests are summarized in Fig. 1 and are available upon request.

a dummy that reflects previous production or sales FDI experience in the host, the results for the new experiential learning variable are not significant. This shows that the type of involvement in the host determines the extent of MNE learning.

Subsidiaries with second parent seldom result from acquisition entries. The coefficients of the two variables that measure time trend show that acquisitions were avoided before 1986, but increased significantly since then. The Japanese MNEs preferred acquisition and to lesser extent joint venture entries in the period from 1987 to 1992, probably due to the easy credit conditions in Japan during that time. Finally, the industry controls show a strong relationship between automobiles and joint ventures. Parents in this industry systematically prefer joint ventures to any other entry mode. 'Automobiles' contributes a major share to the explanatory power of the model. The Europeans attach high importance to this industry and tend to take a defensive stand towards competitive threats from Japan (Deutsch, 1999). This explains the desire of the Japanese MNEs to legitimise their market activity through forging links with European firms in this industry. This effect is similar to investment restriction of the type we ruled out at the beginning of the analysis. None of the other industries have such clear-cut effect on entry mode; therefore, it is best to pool them together as a reference category.[8]

5. Discussion

There are two ways of reasoning the labour cost effect on entry mode. One is the bargaining power approach, used to build Hypothesis 1, which emphasizes the MNE desire for and power to obtain operational independence in cost-efficient locations. It explains a general preference for wholly owned greenfield entries in such locations. The other is related to Hypothesis 3, emphasizing the asset-seeking motivation in competitive locations where labour costs are usually higher, as the positive correlation between labour cost and host competitiveness shows (Table 5). It explains a preference for acquisitions in locations with higher labour cost. Therefore, it is necessary to include both cost and competitiveness variables in the model. If we omit host competitiveness variable from the model, labour costs become significantly (and spuriously) associated with full acquisitions and capital participations relative to greenfield joint ventures (P-value$=0.09$) and to wholly owned entries ($P=0.01$). With host competitiveness included, the labour cost association with non-greenfiled modes weakens (P-values$=0.26$ and 0.12, respectively). Host competitiveness, on the other hand, reveals preference for full acquisitions and avoidance of wholly owned greenfields (with joint ventures choice in between) in highly competitive locations, which supports Hypothesis 3. Thus both labour cost and local

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[8] We reached these conclusions after repeating the analysis with different base categories for the industry dummy. We wanted to show that the effects of labour cost, host competitiveness and industry growth are not spuriously derived from the significant influence of some industry on entry mode. This test is necessary because of the relatively high correlations between these variables and various industries (Table 5). 'Chemicals' was the only industry except automobiles to decrease significantly the deviance by its negative effect on non-greenfiled entries. Therefore, we showed its effect in the model.

competitiveness variables show the expected influence on entry mode, although with weak significance in the former and moderate significance in the latter case.

Contrary to Hypothesis 2 prediction, joint ventures and wholly owned modes do not occur in large versus small markets, respectively. This suggests that the compromise European countries make, in order to maintain a common stance towards foreign investors, is not secondary to their individual bargaining positions as we supposed, but replaces their leverage entirely. Surprisingly, the significant effect of market size on entry is analogous to the effect low and high growth have, according to some authors: MNEs prefer acquisitions, because this mode does not add profit depressing capacity in the former and permits faster entry in the latter case (Hennart & Reddy, 1997). Our results support strongly the small market size influence on acquisitions. The effect of large market size is similar but less significant (*P*-value of about 0.14 relative to joint ventures as well as to wholly owned modes). We shed more light on this peculiar relationship when we discuss the acquisition mode profile below. We note that the association between high industry growth and wholly owned greenfield modes supports Hypothesis 5 and shows that Japanese MNEs in Europe behave differently from the ones in US, where high growth is related with acquisitions (Hennart & Reddy, 1997).

We assumed that cultural differences stand behind any remaining location influence on entry mode and introduced a dummy for regions (Hypothesis 4). However, a dummy may reflect any other relevant country difference besides culture. We discuss first the culture hypothesis and then other rationalizations of the country dummy effect. Fig. 1 shows that the differences among Latin European, Anglo, and Germanic cultural types are greater than the differences within them. Only Belgium is exception.

The literature on entry mode refers frequently to four cultural dimensions supposedly affecting entry decisions: power distance, uncertainty avoidance, individualism and masculinity (Brouthers & Brouthers, 2001; Chang & Rosenzweig, 2001; Hennart & Larimo, 1998; Kogut & Singh, 1988; Padmanabhan & Cho, 1996). The latter two express differences in work goals and have significant consequences for personnel management (Hofstede, 1980). Japanese subsidiaries in Europe tend to employ local managers to carry out personnel policies congruent with host values (Blanpain & Hanami, 1993). Takamiya and Thurley (1985) find the source of competitiveness of the Japanese transplants in the UK not in Japanese-style personnel policies but in organizational factors like production process management. Therefore, we claim that it is the power distance dimension that accounts for differences in organizational structures across the locations in our sample.[9]

Power distance is related conceptually to concentration of authority in organizations and affects directly the number of hierarchical levels and management personnel (Hofstede, 1980: p. 134). The greater need for management personnel in subsidiaries in high power distance countries and the limited labour market for such positions are likely to cause MNE entry by joint ventures (or acquisitions) that utilize the management resources

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[9] The fourth—uncertainty avoidance—dimension is strongly positively correlated with power distance, and this correlation coefficient is close to one for our sample (Hofstede, 1980). Only Austria deviates from this relationship because of its extremely low power distance index. In addition uncertainty avoidance reflects both cultural and personality traits (Hofstede, 1980: pp. 161–163), which makes it a weak predictor of organizational structure.

of existing local firms. Respect for rules and authority in such countries also facilitates the control of these shared-ownership ventures. Therefore, countries with high power distance scores (France, Belgium, Portugal, Greece, Spain, and Italy) would tend to have more joint ventures than countries with low scores (Netherlands, Germany, UK, Switzerland, Sweden, Ireland, Denmark, and Austria), which is empirically confirmed for our sample except for Belgium (Fig. 1).

There may be other explanations of the country dummy effect. For example, the positive effect of 'Automobiles' on joint ventures and capital participation suggests that although open restriction to investment does not exist in Europe, there are marked differences in attitude about how to face strong foreign competition. Deutsch (1999), for example, divides the European countries according to their policy preferences with regards to foreign trade issues in two groups, free traders and protectionists. Germany, the Netherlands and Denmark belong to the first group, with the United Kingdom considered also a part of it. France, Greece, Italy, Ireland and Portugal belong to the second group, with Belgium and Spain also, generally, treated as a part of it (Deutsch, 1999: p. 43). It is clear from Fig. 1 that the country clusters, generally, fit this 'policy preference' rationalization, with the latter countries (protectionists) having an effect on entry mode similar to that of 'Automobiles'. Belgium again is a major exception.

One political consequence of power distance is that high power distance countries often revert to political force and oppression to maintain their position in the face of foreign threat (Hofstede, 1980). Therefore, the cultural and political explanations are the two sides of the same power concentration factor; with the former focused more on subsidiary internal organization and the latter on its external legitimacy. The deviation of Belgium may be explained with its central position, the existence of two different subcultures, and the concentration of Japanese investment in the northern part of the country. In fact, the major reasons for investing in this country—'physical distribution' and 'availability of English speaking managers'—coincide with the reasons of investing in the Netherlands (Blanpain & Hanami, 1993).

Finally, we repeated the analysis adding subsidiary size in terms of employee number as explanatory variable.[10] It is significantly positively associated with acquisitions. Thus the profile of full acquisition entries is large subsidiaries, in highly competitive locations, in low growth industries, in small and big size markets, effected after 1986 by parents of low industrial experience, focused only on Europe, entering alone. This contrasts with a joint ventures profile where subsidiaries are smaller, in medium size markets, in Southern Europe, effected with possible Sogo Shosha cooperation by parents of high international experience, often in automobile industries. It contrasts also with a wholly owned greenfield mode profile of low competitiveness, high growth, average market size, Northern European location, not in subsequent entry, and by internationally and industrially advanced parents (Table 7).

The combination of factors in the wholly owned and joint venture mode profiles represents anticipated and well-confirmed influences on these entry modes. The former

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[10] Due to missing employee data the sample size decreases to 570. We do not show a separate table of results because the remaining variables do not diverge from the values reported in Table 6. In addition, subsidiary size is only a suggesting variable for acquisition entry features and has no theoretical meaning.

Table 7
Entry mode profiles (contribution to deviance in parentheses)

	Full acquisitions	Joint ventures	Wholly owned greenfields
Location factors			
Host competitiveness (3.4)	High	Any level	Low
Market size (6)	Small and large	Medium	Medium
Industry growth (17)	Low	Low	High
Region (54)	None particularly	Southern incl. France	Northern incl. CEE
Employee number (36)	High	Low	Low
Strategic context			
Subsidiary number (12)	Low	Low	High
International experience (15)	Low (only Europe)	High	High
Subsequent entry (15)	Yes	Yes	No
Second parent (5)	No[a]	Yes	Yes
Time trend (19)	After '86	Before '86, after '92	Before '86, after '92
Industry (50)	Not in chemical[a]	Automobiles	None particularly

Note: contribution to deviance diverges slightly from the given value with change of the basis mode.

[a] This effect is stronger when capital participations are combined with full acquisitions.

combination of exploiting existing profit opportunities in less power-concentrated countries by capable MNEs suggests wholly owned modes, while the latter one of low growth, medium size markets in power-concentrated countries by less capable parents necessitates joint ventures. On the opposite, the combination of factors in the acquisition mode profile seems to be inherently unstable. Who are these less advanced parents starting their initial and only (at time of entry) expansion abroad with such extensive and costly investments in low growth industries and small (but to some extent also large) markets populated with competitive local firms?

We suppose that these acquisition parents are specialised supplier firms that have followed their main customers' investments abroad and the unaccounted factor is again a location one: the presence of keiretsu-related major Japanese MNEs in the host. However, these acquisition parents may also be narrowly specialized asset-seeking firms, strategically focused on the European market.

6. Conclusions and limitations

This study investigates the effects of location and location-related factors on establishment and ownership decisions of the Japanese multinationals in Europe. It shows that location factors influence significantly entry mode in a model that includes explicitly the strategic context of subsidiary creation like parent capability and experience, presence of second Japanese partner, timing, and industry. Three hypotheses were empirically supported with a sample of 751 manufacturing subsidiaries. We found out that low host competitiveness, Northern European countries, and high industry growth are related to wholly owned greenfield mode of entry. On the other hand, Southern European countries are associated with joint ventures, high competitiveness with full acquisitions,

and low growth with both. These findings show also that MNEs choose locations that best fit their strategy and suggest that host factors influence host selection besides entry mode.

Our analysis has several major limitations, related to its validity and scope. First, inclusion of keiretsu relationship will shed more light on the market size effect on entry mode. Second, the scope of our conclusions is limited to the context of the sampled countries of investment origin and destination. Our results are conditional on the assumption that there are no major political or social risks and no ownership or other restrictions imposed upon investors. We fail to explain why Japanese MNEs prefer different modes in high growth industries in the US (acquisition) from those in Europe (wholly owned greenfield). Finally, investors from a different home country may respond differently to identical location factors (Tatoglu & Glaister, 1998). A more general study of location effect on entry mode has to incorporate all these concerns.

Acknowledgements

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