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Foreign Market Entry Strategies of Japanese MNCs

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Abstract

While much prior research has focused on Japanese multi-national corporations' (MNC) marketing strategies, little is known about the factors that influence Japanese MNCs' foreign market entry mode choice. In this study, a survey of Japanese MNCs is conducted in order to assess the factors that are the most influential in the foreign market entry decisions of Japanese MNCs. Using bargaining power theory, 8 factors are identified in the study. The findings indicate that 5 of the 8 factors (stake of the host country, need for local contribution, riskiness of the host country, resource commitment, and host government restrictions) are significant predictors of Japanese MNC's entry mode choice and that bargaining power theory is of value in predicting the entry mode choices of Japanese MNCs.

Introduction

Because of the success of many Japanese firms in the global marketplace, much attention has been focused on the marketing strategies and tactics used by Japanese MNCs. Areas where Japanese practices have been studied include: the use of global marketing strategies (e.g. Johanson and Yip, 1994; Yip, 1996), level of market orientation (Kotabe and Lanctot, 1997); new product development practices (Czinkota and Kotabe, 1990); marketing research practices (Johanson and Nonaka, 1987); and sourcing strategies (Kotabe and Omura, 1989). The remarkable performance of Japanese firms in the 1980s, a decade in which Japan clearly established its position as the world's second largest economy prompted this high level of interest in Japanese business strategy and practice (Czinkota and Kotabe, 1990).

While the Japanese economy has come upon somewhat harder times in the "post-bubble" era, many of its MNCs have continued to thrive in overseas markets (Yip, 1996). Undoubtedly, part of this continued success owes to Japanese MNCs doing effective planning in choosing the institutional arrangement (e.g. exporting vs joint venture vs full ownership) through which they serve individual foreign markets. In fact, Japanese firms have aggressively entered markets in Europe, North America, and Asia in the last several decades (Abegglen and Stalk, 1985). However, the process by which Japanese firms select an institutional arrangement (i.e. choose an entry mode) in entering a foreign market has not been widely studied.

The importance of the foreign market entry mode decision has been well documented (Tallman and Shenkar, 1994). The entry mode chosen has a major impact on the level of control the MNC has over the venture (Root, 1994). Some entry modes, such as exporting and licensing, are associated with low levels of control over operations and marketing, but are also associated with lower levels of risk. In contrast, other entry modes such as joint ventures and full ownership of facilities involve more control, but entail additional risk.

Since reversing an inappropriate entry mode choice can be difficult, it is important that well thought out decisions be made. As a result of the importance of entry mode decisions, a large body of research examining the factors involved in US firms' foreign market entry mode decisions has evolved. To date, however, very little research has focused on how Japanese firms make entry mode choices. The purpose of this paper is to examine the factors that Japanese MNCs consider in making the choice among alternative entry modes when entering a foreign market. To achieve this objective, a survey was sent to top executives of Japanese MNCs.

The remainder of the paper will begin by discussing the major alternatives available to firms making foreign market entry decisions. Bargaining power (BP) theory is then described and used to develop hypotheses pertaining to the factors which are important in entry mode decisions of Japanese firms. Next, the study's methodology is described. Finally, results and implications are discussed.

Entry mode alternatives and the theoretical framework

Major entry mode alternatives include exporting, licensing/franchising, joint ventures, and full ownership. Exporting involves a company selling its physical products which are manufactured outside the target country to the target country (Tallman and Shenkar, 1994). Licensing and franchising arrangements are nonequity associations between an international company and a party in the host country in which technology or management systems are transferred to the host party (Shane, 1994). A joint venture is an arrangement whereby the firm is required to share equity and control of the venture with a partner from the host country. An additional entry alternative is full ownership of facilities in the host country, whereby the parent company takes a 100 percent equity stake in the operation in the foreign country. Full ownership can involve either acquiring an existing business or investing in new facilities in the host country (Root, 1994).

In weighing foreign market entry alternatives, a central consideration is the level of control the firm will have over the operation. Control has been defined as, "the ability to influence systems, methods, and decisions" (Anderson and Gatignon, 1986). In general, when a firm moves from licensing/franchising to joint venture to wholly-owned subsidiary (WOS), the firm's investment and the degree of control that the firm has over the operations increase (Agarwal and Ramaswami, 1992; Hennart, 1989; Root, 1994).

While exporting is generally viewed as a low commitment form of market entry, it is not as easily classified on this continuum. As has been noted in prior studies, there can be a wide spectrum of commitment and control of the exporting firms, since some exporting arrangements (i.e. indirect exporting) simply involve selling to an intermediary such as an export trading company, while other arrangements involve forging relationships with distributors. For this reason, past theories of modal choice have not been designed to predict the choice between exporting and the other three alternatives (e.g. Kim and Hwang, 1992; Erramilli and Rao, 1993). An additional factor that makes it difficult to compare exporting cases to other modes of entry is that exporting involves production in the home country, while the other modes involve production in the host country. When a MNC approaches a host government about entering into a licensing, joint venture, or full ownership mode of entry, the firm is acknowledging that it believes there are advantages associated with host country production that would not be afforded by exporting (Erramilli and Rao, 1993). The main issue from a bargaining power perspective (the theory being tested in this study) becomes the level of control the MNC will have over the venture. Exporting, however, does not involve host country production and, hence, does not involve bargaining with the government (at least not in the same context as the other three types of arrangements). Thus, it is not appropriate to compare exporting cases to licensing, joint venture, and WOS cases. For this reason, exporting cases are not included in our analysis.

In choosing a theoretical framework for analyzing the market entry decisions of Japanese firms, it is important to consider Japanese culture and business practices. While a number of theories of entry mode choice have been advanced by prior researchers, the assumptions of some of the theories may not be consistent with the way in which Japanese firms behave.

In the entry mode literature, there is a consensus that two major theoretical perspectives have emerged as viable frameworks for examining MNCs' entry mode choice (Gomes-Casseres, 1990; Tallman and Shenkar, 1994). The first framework, transaction cost analysis (TCA), has been used in several empirical studies of Western MNCs' entry mode choice (e.g. Davidson and McFeteridge, 1985; Anderson and Gatignon, 1986; Anderson and Coughlin, 1987; Erramilli, 1991; Erramilli and Rao, 1993). TCA theory posits that a company will internalize operations that it can perform at a lower transaction cost than would be the case if the firm exported or entered into a contractual arrangement with a local partner. The second framework, bargaining power (BP) theory, views entry mode choice as an outcome of negotiations between the firm and the government of the host country. While the BP framework is well developed from a theoretical standpoint, it has not been tested as extensively as TCA in the entry mode choice context, though there are a few notable exceptions (e.g. Lecraw, 1984, Gomes-Casseres, 1990).

While TCA has been the most widely used theory in prior studies of entry modes, some issues pertaining to its applicability to non-Western contexts have been raised. Indeed, several scholars have questioned the appropriateness of applying transaction cost analysis to East Asian cultures because of its focus on institutional structures and their impact on transaction costs. North (1981) and Granovetter (1979), for example, assert that the way in which institutions are structured in a country can have an impact on the transaction costs associated with partnering. Hence, since a society like Japan has different institutional structures than Western nations, the application of transaction cost analysis may be inappropriate. One good example of institutional difference is the presence of keiretsu in Japan, in which members of a network attempt to work closely with and help other members of the group (Camargo and Saito, 1995). In such a context, short-term focus on transaction costs may not be a central goal.

Hill (1995) has directly questioned the applicability of TCA to Japan based on the notion that several aspects of Japanese culture, including collectivism, group identification, loyalty, harmony, and reciprocal obligation reduce the cost of partnering. It can be argued that such elements of Japanese culture have led to both a more networked business system (as evidenced by the presence of the keiretsu) and to an economic environment that is typified by a higher level of trust between business partners. In a system with higher levels of trust, opportunistic behaviors (a central concept of TCA theory) may also be less of a threat to businesses, leading to a reduction in the costs associated with partnering. For the above reasons, it is worthwhile to consider alternatives to TCA theory in examining the entry mode choices of Japanese firms. It is also worth mentioning that an additional theory of entry mode choice, the OLI (ownership, location, internalization) perspective advocated by Dunning (1988) makes assumptions similar to TCA regarding transaction costs and internalization of operations. Hence, it is not a strong candidate for application to the Japanese case.

The assumptions of bargaining power theory do not appear to conflict with Japanese values and business practices. BP assumes that both parties are looking to negotiate an outcome that is in their long-run best interests. This assumption is consistent with the widely observed tendency of Japanese firms to be longer-term oriented and less focused on near term profitability than their Western counterparts (e.g. Clark, 1979; Picken, 1987; Yip, 1996). Additionally, bargaining power assumes that the MNC uses its ownership advantage as a source of bargaining power, while the host government relies on its control over marketing access (Kumar and Subramaniam, 1997). This assumption would also appear to be consistent with Japanese practice, since Japanese businesses tend to see high value in ownership of foreign operations as these arrangements tend to enhance their ability to employ a globally integrated strategy (Yip, 1996). The focus of bargaining power theory on a power struggle involving negotiation is also consistent with the competitive dedication that has often been ascribed to Japanese firms (see Abbeglen and Stalk, 1985). Since the assumptions of BP theory seem consistent with Japanese values and practice, it is used in this study as the theoretical basis for explaining Japanese MNCs' entry mode choices. A full description of the theory follows.

Bargaining power theory and research hypotheses

Bargaining power theory asserts that the entry mode a firm chooses depends on the relative bargaining power of the firm and the foreign government (Franko, 1971; Stopford and Wells, 1972; Tallman and Shenkar, 1994). As noted by Gomes-Casseres (1990) and others who have employed the bargaining power framework, access to foreign markets is controlled by political actors at home and abroad, so that the initial market entry decision has to include the political imperative. Without these actors' explicit or implicit permission, no subsequent marketing activity is possible (Boddewyn and Brewer, 1994). International firms must often negotiate with a variety of government actors to accomplish all or part of their objectives (Wells, 1973). Thus, the bargaining power of the political and corporate actors in market entry decisions becomes a salient consideration (Fagre and Wells, 1982; Gomes-Casseres, 1990).

Bargaining power theory starts from the premise that a firm has a natural preference for a high-control mode of entry, since this is the most desirable arrangement in terms of the firm's long run ability to dominate a foreign market. However, the firm may be forced to settle for a lower control mode of entry if it has low bargaining power (as in cases where many foreign firms are seeking the investment opportunity).

As used in this study, the term bargaining power refers to a bargainer's ability to set the parameters of the discussion, win accommodations from the other party, and skew the outcome of the negotiation to the desired ownership alternative (Lax and Sebenius, 1986; Tung, 1988). A primary source of the host government's power in the negotiations is its ability to control market access (Kumar and Subramanian, 1997) and to hand out or withdraw incentives for the investment project. On the other hand, as noted by Kumar and Subramanian (1997), BP theory suggests that much of the firm's bargaining power stems from "ownership advantages" that it possesses, such as the ability to employ people and contribute to the local economy. According to the bargaining power theory, the actual mode of entry a firm eventually settles for will depend on the relative bargaining power between the firm and the host government.

A review of prior literature on foreign market entry modes and business practices in Japan led to the identification of several factors which may play a role in the foreign market entry mode decisions of Japanese firms. The primary criterion for a factor to be included in the study, however, was that it must affect the relative bargaining power of firms and host government. Following this criterion, eight factors are included in this study. These factors are:

- () (1)the stake of the firm;

- () (2)the stake of the host country;

- () (3)the need for local contribution to the venture;

- () (4)the riskiness of the investment;

- () (5)the intensity of competition for the investment;

- () (6)the level of resource commitment by the firm to the foreign market; and

- () (7)host government restrictions; and

- () (8)the size of the firm.

Stake of the firm is defined as the extent to which a MNC perceives itself as having a high stake in winning the right to enter a foreign market based on strategic considerations (see Hill et al., 1990). MNCs see some markets as important to have a presence in as part of an overall global strategy. A firm may also foresee synergy between the proposed venture and its existing operations leading to a competitive advantage.

When the MNC believes it has a significant strategic stake in a foreign market or can realize global synergies in its operations its stake in the negotiations increases. As the firm's stake increases, its bargaining power decreases and it may be forced to settle for a lower control mode of entry than it desires. Thus:

H1: There is a negative relationship between the stake of the MNC and Japanese MNCs' choice of a high control entry mode.

Stake of the host country is defined as the degree to which the host government perceives a compelling need to attract the investment. When the host government believes that it has an important stake in attracting the venture, the bargaining power of the MNC will be increased (Gomes-Casseres, 1990). BP theory suggests that the host country is likely to perceive its stake to be high when it has a need to attract foreign capital and/or technology in order to spur economic growth (Yan and Gray, 1994). When the host country's stake is high, its relative bargaining position will be weakened, leaving a greater likelihood of the firm being able to negotiate full ownership. Thus:

H2: There is a positive relationship between the stake of the host country in attracting the investment and Japanese MNCs' choice of a high control entry mode.

Need for local contribution refers to the degree to which a MNC needs local capital, technology, or other resources to ensure the success of the venture. The need for local contribution increases the dependence of the MNC on the host country, since a completed deal allows the MNC to obtain resources and/or skills which complement its own. Thus, the host government has higher bargaining power and may be able to pressure the MNC into accepting a low control mode of entry (Yan and Gray, 1994). Japanese firms, in particular, may be willing to partner with those firms they believe they can trust if the potential partner brings a tangible contribution to the venture. Thus, we would expect Japanese MNCs to be more likely to settle for a low control entry mode in situations in which the venture requires a local contribution.

H3: There is a negative relationship between the need for local contribution and Japanese MNCs' choice of a high control entry mode.

Riskiness of the host country refers to the uncertainty associated with the success of the investment in the foreign market and can take the form of either: the political risk associated with doing business in the host country; or the financial risk associated with operating the venture. When there is a high level of risk, the number of alternatives available to the host government is likely to be limited, as most international firms will be cautious when considering entry into the market. From a bargaining power perspective, the availability and attractiveness of alternatives have a strong influence on negotiations. The party having more attractive alternatives will tend to be more powerful, since it can exercise its best alternative to a negotiated agreement. Thus, based on BP theory, a high level of risk in a foreign country will improve the bargaining position of the MNC, making it more likely that the MNC will be able to negotiate a high control mode of entry (Contractor, 1990; Hill et al., 1990). Since Japanese firms, like other MNCs, have been exposed to both types of risk, they are likely to consider this factor in making entry mode decisions. Hence, Japanese MNCs would be more likely to insist on using a high control mode in risky markets. Thus:

H4: There is a positive relationship between the level of risk associated with the host country and Japanese MNCs' choice of a high control entry mode.

Intensity of competition is defined as the extent to which entry into the foreign market is pursued by a firm's competitors. When a foreign investment is pursued by a number of different MNCs, the alternatives available to the host government increase. In competitive environments, BP theory would suggest that the bargaining power of the host government increases and that the host country government would be less likely to make concessions to any individual MNC (Li and Guisinger, 1992; Tallman and Shenkar, 1994). Since Japanese firms are especially prone to view the implementation of global strategies as essential to their success (Yip, 1996), they may frequently find themselves in competitive situations in which they are highly motivated to enter a market, but have to bargain in order to gain entry due to the presence of competitors. Hence:

H5: There is a negative relationship between the intensity of competition for a foreign investment opportunity and Japanese MNCs' choice of a high control entry mode.

Resource commitment refers to the expectations the firm and host country have in terms of resource commitment and scope of the project. Bargaining power theory suggests that high resource commitment levels increase the stake of both parties, but especially that of the MNC, since the company will want the opportunity to realize anticipated sales associated with a large capital commitment. While employment opportunities are often very appealing to host governments, it is unlikely that host governments will view a single investment as important enough to significantly alter their stake in negotiations (Fisher and Ury, 1981; Gomes-Casseres, 1990). Thus, when commitment is high, Japanese MNC's bargaining power is reduced, and they will be less able to negotiate a high control mode of entry:

H6: There is a negative relationship between the level of resource commitment required by a venture and Japanese MNCs' choice of a high control entry mode.

Still another factor that can play a role in entry mode decisions is the level to which host government restrictions exist. Host government restrictions are laws and regulations that have an impact on the operations of a foreign firm and may serve to have an impact on a firm's entry. Major types of government restrictions include equity limits, local content requirements, and exchange controls (Contractor, 1990; Root, 1994). BP theory posits that these types of restrictions will reduce the firm's bargaining power and the ability of the MNC to negotiate for a high control mode, since they either explicitly or implicitly discourage such arrangements (Contractor, 1990; Li and Guisinger, 1992). Thus:

H7: There is a negative relationship between the presence of host government restrictions and Japanese MNCs' choice of a high control entry mode.

A final factor considered in this study is the size of the firm, which is defined in terms of the firm's annual worldwide sales volume. BP theory suggests that large firms, as a result of their scale, tend to have higher bargaining power in negotiating to enter foreign markets than small firms (Bacharach and Lawler, 1981). The reasoning is that larger firms have less stake in any individual transaction than do small firms. Additionally, large firms may be able to leverage their reputations into increased bargaining power. As a result of these advantages associated with scale, BP predicts that:

H8: There is a positive relationship between firm size and Japanese MNCs' choice of a high control entry mode.

Methodology

The sample

The sampling frame consisted of a list of over 1,400 Japanese manufacturing MNCs obtained from Dun and Bradstreet Information Services, Inc. The list included the firm's annual sales, number of employees, and key contact persons. For the purposes of this study, only firms with at least 100 employees and $20 million in annual sales were included. These criteria were consistent with the focus of the research, namely firms which are of sufficient size to have a range of possibilities in terms of entry mode arrangements. After applying these criteria, 1,189 firms remained in the sampling frame.

Questionnaire and measures

A structured survey questionnaire was developed through a review of prior literature which identified constructs relevant to the study. A list of items was then developed (see Appendix) to measure these independent constructs. Most items were measured using a five-point Likert scale. A few questions (e.g. size of the firm, mode of foreign market entry) asked the respondent to choose from a list of categories. Established measures for the eight independent factors in the context of entry mode decisions were generally not available, since most prior studies in this area have relied on secondary data. In general, these studies had to use proxy measures to measure abstract theoretical constructs (e.g. stake of the host country), raising concerns about the quality of the data. As a result, items used to measure the eight factors in this study had to be newly developed based on a review of the related literature.

The questionnaire was pretested through personal interviews with Japanese executives responsible for international market ventures and with academicians familiar with research on entry modes. Based on feedback from these interviews, some questionnaire items were dropped and others were modified. Prior to finalizing the questionnaire, the survey was sent to several Japanese business executives in order to evaluate the validity of the revised items and the amount of time it took to complete the survey.

Once the English version of the questionnaire was finalized, it was translated into Japanese and backtranslated into English following Douglas and Craig's (1983) framework. The translation work was performed by a team of academics teaching in a Japanese department, including one individual with considerable business experience in Japan. The initial and backtranslated English versions of the questionnaire were compared in order to ensure that equivalent constructs were being measured in the two languages. Discrepancies were reconciled by modifying the wording of some items.

The dependent variable measure in this study was type of entry mode chosen. Respondents could choose from the following options: exporting, licensing/franchising, joint venture, or full ownership. As noted earlier, exporting cases were deleted for the purpose of analysis.

Data collection

A mail survey was sent to the CEO/President of the 1,189 Japanese firms in the sampling frame. Confidentiality of responses was assured in the cover letter and respondents were promised a summary report of the study's finding upon request. Five weeks after the initial mailing, a follow-up mailing was sent to those firms which had not responded to the first mailing.

Of the 1,189 questionnaires sent out, 107 were undeliverable and returned, and 64 more were not usable, in most cases due to the firm indicating that it was no longer engaged in international business operations. Of the remaining 1,018 questionnaires, 178 responses were obtained, for an effective response rate of 17.4 percent.

Assessment of non-response bias

Potential non-response bias was assessed by comparing responding firms to nonresponding firms in terms of:

- their annual sales volume; and

- the number of employees.

The results of these comparisons indicated that there are no statistically significant differences on either of these dimensions. Moreover, MNCs responding to the first mailing were compared to those responding to the follow-up mailing with regard to the measured items. No statistically significant difference was found. Thus, it does not appear that non-response bias is present in the sample. The characteristics of the sample are summarized in Table I.

Analysis and results

Reliability of independent factors

Seven of the independent factors in this study were measured using multiple item scales (the eighth, firm size was measured based on self-reported sales volume). For these seven factors, coefficient alphas were computed in order to assess the reliability of the scales. The Appendix shows the coefficient alphas for each variable. As can be seen, four items have a coefficient alpha between 0.6 and 0.7, one item is between 0.7 and 0.8, and two items have alphas of 0.8. Since prior studies have generally not attempted to measure these factors through primary data collection, most scales had to be newly developed for this study. Given the exploratory nature of the measurement scheme, the reliability coefficients are considered to be relevant for the purposes of our study (Nunnaly, 1967).

Discriminant analysis

Discriminant analysis was used to test the research hypotheses. Since the dependent variable, entry mode, is categorical, and since tests of the skewness and kurtosis of the variables, as well as a Box's M test indicated no evidence of violation of the basic assumptions of discriminant analysis, discriminant analysis is considered appropriate for analyzing the data. To apply discriminant analysis, the sample was randomly split into two: a calibration sample and a validation sample. Using the calibration sample, two discriminant functions were fitted onto the factors corresponding to the BP-based hypotheses. Table II shows the fit statistics of the two discriminant functions, as well as the discriminant loadings of the factors. As can be seen, the first discriminant function is statistically significant, but the second discriminant function is not. Thus, only the significant discriminant function is used for subsequent analysis.

Although one significant discriminant function was found on the calibration sample, the stability of this finding must be verified by the validation sample. Specifically, using the significant discriminant function, the cases in the validation sample were classified into one of the three groups: licensing/franchising, joint venture, and wholly-owned subsidiary. The classification table is shown in Table III. As can be seen, nearly 55 percent of the cases in the validation sample are correctly classified by the significant discriminant function obtained from the calibration sample, which is substantially higher than the random hit rate of 42.6 percent. The success in classifying cases in the validation sample indicates that the significant discriminant function obtained from the calibration sample is stable and valid. Therefore, it is apparent that bargaining power theory is useful in helping to predict the modal choice of Japanese firms and that the discriminant loadings reported in Table II can be used for testing the research hypotheses.

From the first column in Table II, we see that five of the eight BP-related factors were significant predictors of the Japanese MNCs' entry mode choices. Specifically, it is found that Japanese MNCs tend to adopt a high control mode to enter a foreign market when the stake of the host country is high (supporting H1), when the investment is regarded as risky (supporting H4) and when they have a high need for local contribution (refuting H3). In contrast, Japanese MNCs tend to adopt a low control mode to enter a foreign market when resource commitment is high (refuting H6) and when host government restrictions are present (supporting H7). The remaining three factors, stake of the firm, resource commitment, and firm size, did not produce statistically significant results.

The variable producing the largest discriminant loading (statistically significant at $p < 0.001$) is the need for local contribution. However, the sign of the loading is positive, which contradicts H3's prediction of a negative relationship. This result suggests that Japanese firms actually opt for a high control mode when a substantial contribution is required. Possible reasons for this finding, along with the possibility of reconciling it with BP theory, are discussed in the discussion and implications section.

Discussion and implications

Although the success of Japanese MNCs in international marketing in the 1980s led to many research efforts investigating Japanese marketing strategy, no previous study had focused specifically on factors that Japanese MNCs consider when making foreign market entry mode choices. This study has made an attempt to investigate factors that are important in Japanese MNCs' foreign market entry decisions. Based on a survey of top executives of Japanese MNCs, this study has found that bargaining power theory related factors do play a significant role in Japanese MNCs' choice of entry mode. The specific findings are discussed below.

Key factors in Japanese entry decisions

The findings of this study suggest that five factors are particularly important in the foreign market entry mode choices of Japanese MNCs. First, when the host country perceives a significant stake in attracting the investment, Japanese firms are more likely to be able to negotiate a full ownership arrangement. Based on BP theory, this ability to negotiate higher control is linked to the higher bargaining power of the firm in negotiations.

A second significant finding is that Japanese MNCs tend to opt for high control modes when the risk of doing business in the host country is high. Instead of attempting to reduce the resource commitment by using a low control mode (e.g. licensing and franchising) like some Western MNCs would do in risky foreign markets (Kim and Hwang, 1992), Japanese MNCs apparently use the high risk associated with investment in the host country to their advantage by bargaining for a high level of control in their ventures. Presumably, Japanese MNCs are focused on the long-term viability of their ventures and use the low bargaining power of the risky host country to establish long-term control. Clearly, Japanese MNCs' behavior is consistent with the bargaining power theory's prediction with regard to the riskiness factor.

A third significant factor for the Japanese MNCs' entry decision is resource commitment. Our results indicate that when resource commitment is high, Japanese firms are less likely to be able to negotiate for a high control mode of entry. Instead, their bargaining power is reduced, likely due to the proposed scale of the operations, and they end up negotiating for licensing arrangements or joint ventures.

Government restrictions are a fourth factor that plays a significant role in the entry mode choices of Japanese firms. Not surprisingly, when the host country has restrictions on local content, foreign exchange, or ownership level, the Japanese firm is unlikely to be able to negotiate for a high control mode of entry.

A final significant factor for the Japanese MNCs' entry decision is the need for local contribution. Contrary to our hypothesis, when Japanese MNCs have more need for local contribution, they actually seek a high control mode to enter the host country. One possible explanation for this unique finding is that Japanese MNCs may attach greater importance to overseeing production, marketing, and distribution operations when a local contribution is needed. Fears of becoming too dependent on local firms and loss of proprietary knowledge/technologies may contribute to the desire for greater control in such instances (see Lei and Slocum, 1992).

An alternative explanation for this unique finding is that Japanese MNCs may be thinking very long term in insisting on a high control mode. When the need for local contribution is high, Japanese managers may perceive a need to become "insiders" by establishing their own operations so that they will be able to offer the needed "local contribution." This thinking is consistent with the frequently observed tendency for the Japanese to plan over very long time horizons (Aaker, 1995). Japanese MNCs may actually view the need for a local contribution as a long-term drawback to a potential investment, unless they have some ability to establish themselves as insiders who can be trusted by the local firms with whom they do business.

It is notable that prior discussions employing the BP framework suggest that the need for greater involvement in the venture by local parties decreases the bargaining power of the MNC and, in turn, leads to negotiation of a low control mode of entry. The finding of this study suggests that this "tenet" of bargaining power may have to take into account the different power perceptions that exist across cultures. It may be the case that the need for local contribution actually increases the bargaining power of Japanese MNCs by allowing the host government to perceive a sense of cooperation, or at least a lower threat of the MNC becoming too powerful in the foreign country. Nevertheless, more research is needed which explicitly investigates the impact of the need for local contribution on the bargaining power of Japanese MNC.

Implications

The findings of this study have both theoretical and practical implications. On the theoretical front, the findings indicate that the bargaining power theory is useful in helping to explain Japanese MNCs' foreign market entry decisions. Thus, support has been found for the application BP theory to foreign market entry decisions in an Eastern culture. Of course, the findings also suggest that additional research is needed to modify the BP theory to better explain Japanese MNCs' entry decisions. Other factors that potentially influence the bargaining power of Japanese MNCs should be studied to improve our understanding of Japanese foreign market entry behavior.

Managerially, the findings of this study suggest that Japanese MNCs are very aggressive and long-term oriented when entering foreign markets. They appear to often be able to turn a risky situation to their advantage by using higher bargaining power to gain long-term control of their foreign ventures. Additionally, they appear to be able to capitalize on situations in which the host government has a large stake by negotiating for full ownership. They are willing to accept a low control mode of entry if government restrictions dictate it or if the venture is of such a large scale that resource commitment is high. Countries and firms negotiating with Japanese MNCs for potential investment or partnership must understand their aggressiveness and long-term oriented behavior. They need to identify ways that can influence Japanese MNCs' bargaining power in order to achieve their negotiation objectives. Firms competing with Japanese MNCs for entering foreign markets would be well advised to take into account the Japanese MNCs' aggressiveness when pursuing foreign market opportunities.

Limitations

A few limitations of the study must be acknowledged. First, the sampling frame consists of only Japanese firms that have at least 100 employees and $20 million dollars in annual sales. Thus, the modal choices of small Japanese businesses are not analyzed here. Future research should examine whether various factors take on additional importance in the entry mode decisions of small firms. Additionally, while the effective response rate to the survey (17.4 percent) is comparable to that of other published surveys of CEOs, it must be acknowledged as a limitation. A final limitation of the study is the fact that exporting cases were dropped from the analysis because the study is not able to ascertain the degree of control for the exporting firms. While the exclusion of exporting cases is consistent with the approach taken in previous entry modes research, future researchers should attempt to develop a measure of the level of control present in specific exporting arrangements that is comparable to other forms of operations.

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Tables

Characteristics	Range	Percent of cases
Entry mode	Licensing/franchising	15.3
	Join venture	47.7
	Wholly-owned subsidiary	36.9
Sales of parent firm	Below $100 million	23.9
	$100 – 500 million	37.0
	$500 – 1,000 million	31.5
	Over $1,000 million	7.6
Years of international operation	Less than 5	20.2
	5 – 10	24.8
	10 – 20	21.1
	Over 20	33.9
Number of foreign countries operated in	1	16.7
	2 – 5	39.8
	6 – 10	13.9
	11 – 20	13.0
	Over 20	16.7
Type of product	Consumer	27.0
	Industrial	60.4
	Both	12.6

Table I.
Key characteristics of the sample

	Function No. 1*	Function No. 2
Discriminant loadings		
Stake of the firm	–0.18	0.07
Stake of the host country	0.20*	–0.01
Need for local contribution	0.46*	0.44
Riskiness of the host country	0.30*	0.63
Intensity of competition in the host country	–0.13	0.13
Resource commitment by the firm	–0.45*	0.57
Host government restrictions	–0.20*	0.28
Firm size	–0.11	0.22
Statistics		
Variance explained, percentage	80	20
Chi-square (d.f.)	32.55 (16)	7.79 (7)
Significance level	0.009	0.351

Note: * Significant at 0.05

Table II.
Discriminant functions fitted by the calibration sample

		Predicted group membership		
Actual group membership	Number of cases	Licensing/ franchising	Joint venture	Wholly-owned subsidiary
Licensing/franchising	6	3	3	0
Joint venture	28	4	12	12
Wholly-owned subsidiary	17	0	4	13

Notes: Percent of cases correctly classified: 54.9 percent
Random chance rate: 42.6 percent

Table III.
Classification of the validation sample

Appendix

Table AI. Measurement scales and reliability estimates

Variable items	Coefficient alpha
Stake of the firm	0.64
It is very important for our business unit to have a presence in this foreign market	
It would put our business unit at a competitive disadvantage if we didn't set up this venture in this foreign country	
Investing in this foreign market is a risky endeavor	
Stake of the host country	0.63
Our investment in this foreign market is extremely important to the host country	
To the host country, the cost of not winning our investment there is very high	
Need for local contribution	0.60
Local capital is needed in order for us to enter this foreign market	
Local technology is crucial to the success of this venture	
Local materials and supplies will be important to the success of this venture	

(continued)

Variable items	Coefficient alpha
Stake of the firm	0.64
Riskiness of host country	0.73
The political risk of operating in this foreign market is very high	
Investing in this foreign market is a risky endeavor	
Intensity of competition	0.80
This foreign market we are entering is very competitive	
If we initiate a new campaign in this foreign market, competitors will be very likely to retaliate	
We must respond quickly to competitors' attacks in this foreign market to allow our venture to survive	
There are many competitors in this foreign market	
Resource commitment	0.80
Our business unit has made (or will make) a huge capital commitment to this venture	
We have hired (or will hire) a large number of employees for this venture	
The venture is expected to generate a considerable amount of sales	
Host government restrictions	0.63
This foreign government has demanding laws that require a certain percent of a product's components be produced locally	
There is extensive government control over foreign exchange in this foreign country	
This foreign government expects significant local participation in the management of our venture	
Size of the firm (measured by a rating scale)	na