Accounting for Persistence and Heterogeneity in Firms’ Foreign Entry Mode Choice: The Case of Japanese Firms’ Foreign Direct Investment

As firms venture abroad, the decision to establish wholly owned subsidiaries (WOS) or joint ventures (JV) with other partners takes on critical importance. Prior work in marketing and international business has selectively examined nation-, industry-, and parent firm-specific determinants of firms’ likelihood of establishing WOS; although useful, there has been no attempt to simultaneously assess the relative importance of each of the preceding sources of variation with regard to entry mode choice, nor to account for the inherent heterogeneity in this focal decision. Prior research has also provided robust evidence of firms’ propensity to persist with WOS, with the implicit assumption (based on fixed effect regression models) that such persistence occurs equally across all firms. We question this assumption of “homogeneity in persistence” and propose experience with the host nation and industry as determinants of variation therein. Further, we consider the diversity of firms’ experience with entry modes as a critical yet ignored determinant of their persistence with WOS. To test our hypotheses, we use a rich dataset comprising 4,459 subsidiaries established by 858 Japanese firms across 38 countries over a nine-year period. We specify a 3-way (parent x nation x industry) cross-classified random effects regression model, with a randomly varying coefficient of persistence with WOS, and employ a Hierarchical Bayes Markov Chain Monte Carlo (MCMC) technique to estimate our model parameters. In doing so, we provide a richer understanding of the different facets of experience, and their impact on firms’ FDI governance choices.

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