ENTRY STRATEGY IN THE VIEW OF NETWORK RELATIONSHIP AND STABILITY OF JAPANESE MANUFACTURING AFFILIATES IN 4 ASEAN COUNTRIES

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Abstract

This study aims to examine the factors that affect the stability of foreign affiliates of multinational enterprises, particularly focusing on the impact of entry strategy. This paper provides a new contribution in that we incorporate the concept of network relationship into the study of entry strategy. We classified entry strategy into 6 types, based on the institutional forms as well as the network relationship between foreign parents in the domestic level. The results provide new evidence against the view that joint ventures, in general, have poor performance. The higher rate of stability is found for either wholly-owned affiliates or joint ventures formed by parents which have domestic network relationship.

Introduction

Entry Strategy into international market is considered by many scholars to have impact on performance and stability of multinational enterprises (MNEs)' affiliates in foreign countries. Most of literature view entry strategy in aspects of governance structures or institutional forms, mainly based on ownership structure in an affiliate. The ownership in local entity usually reflects a parent firm's need for control over that affiliate as well as a parent firm's resource availability (Stopford and Wells, 1972). Consequently, based on ownership level in an affiliate, an entry strategy was often classified into the wholly-owned mode and the joint venture mode, and a joint venture (JV) was further divided into majority JV, balance-ownership JV, and minority JV.

With above classification, most empirical research often restricted the studies to foreign affiliates which were owned by not over than 2 partners. In fact, there are many affiliates which were formed by more than 2 parents. Further, in many cases particularly in Japanese foreign direct investment (FDI), affiliates were established by two or more foreign parents from same nationality which have interrelationship at the domestic level. Very few studies concerned about the impact of the relationship between parties that form the ventures. The study of Makino and Beamish (1998) proposed the non-conventional forms of joint ventures based on the joint venture partner's nationality and equity affiliation. Nevertheless, there appear to be numbers of joint ventures engaged by multiple foreign parents which are not affiliated under ownership form or accounting principle, but closely transact with affiliated-liked relationship. Continuous relationship based on interdependency and mutual concerns can be a mechanism that allows the external control of an organization (Pfeffer and Salancik, 1978). This paper applies the view of network relationship to the classification of entry strategies in order to incorporate the effect of intrafirm and interfirm relationship into the research on foreign market entry.

Network as a mode of organization

In industrial systems, market transactions involve the process of interaction among

several parties in many layers of production. The repeated interaction in market systems can develop connected, network-liked relationships among suppliers, customers, and other actors, in which the parties have some control over each other. In long-term business relationship, resource dependencies (Pfeffer and Salancik, 1978) are created between the exchanging partners, and such dependencies often enable the exchanging partners to exercise some degree of control or influence over each other for lasting relationship and mutual benefits. The organization of network is informal, not "pure" markets and not "pure" hierarchy (Thorelli, 1986). Network is viewed as a mode of organization in which long-term and purposeful arrangements are formed among distinct but related firms, that help those member firms sustain competitive advantage against their competitors outside the network (Jarillo, 1988). Long-term relationship can reduce costs of exchange and production, promotes development of competence of the parties, and can be even used as bridges to other firms (Johanson and Mattsson, 1987).

Japanese Business Community

Network approach is well applicable to explain the behavior of Japanese industry system. Japanese industry has been characterized by long-term business relationship in which member firms have a high level of coordination in order to manage their nonfinancial resource flows to create a stable collective structure of coordinated action centered around a core or lead firm (Aoki, 1988; Gerlanch, 1992; Odagiri, 1992). Subordinate firms become a part of the community either by hive-off from the core firm (Odagiri, 1992; Ito and Rose, 1994) or by voluntarily joining the network after having an increasing number of favorable transactions with the core firm (Banerji and Sambharya, 1998).

Japanese business community is basically characterized by three types of relationship; financial keiretsu, enterprise keiretsu, and interfirm relationship.

1. Financial keiretsu

Financial keiretsu or *kinyu keiretsu* consists of a large financial institution, called main bank, with numbers of firms operating in various sectors centered around it. There are six major groups: Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Daiichi Kangyo Bank. In general, each group has at least one bank and one general trading company, and diversifies group activities into various industries. There are closed interactions between members including reciprocal shareholding, in-group loans, in-group trading, management ties, and regular presidents' club meeting (Odagiri, 1992). First-tier members in each group are usually a large manufacturing or service firms which play key roles in major industries in Japan. Many of them have developed their own independent business network and also act as core firms in their business groups.

2. Enterprise keiretsu

Enterprise keiretsu (Kimura and Pugel, 1995); also called hierarchical business group (Odagiri, 1992), consists of one core firm and subordinate firms which usually are affiliates of a core firm. Some are direct affiliates which are created, mutated, or acquired by a core firm, while in others a core firm participates with only partial interest (shares). A core firm will have stronger control over subordinate firms through share-ownership. Personal ties are also strong because executives and other management staffs are sent from a core firm to subordinate firms (Odagiri, 1992).

3. Interfirm relationship

Transacting relationship between suppliers and buyers is more continuous and stable in Japan than in other countries. In interfirm relationship, there exists a core firm, generally large

manufacturing or service firm, which maintains long-term transaction with their suppliers of intermediate products or lower-level goods in value chain. A core firm is not necessary to have share-ownership in subordinate firms, but interdependency and mutual benefits created bonds between the parties. Long-term orientation allows cooperative activities that promote innovation and improvements in quality and productivity. Mutual trust established through the continuous exchange between the parties maintains long-term relations while reputation effect works as the threat for untrustworthy (Odagiri, 1992).

### *Internationalization of Domestic Network*

The possession of proprietary assets drives a firm to engage in international expansion (Hymer, 1976). Due to the distinctive factor endowment between nations, firms with specific advantages may find it attractive to locate their production overseas where the host country has certain location-specific advantages (Dunning, 1981). Transaction cost theory is used widely to explain the existence of different *institutional forms* in different situations including FDI. Since market transaction of proprietary intangible assets frequently incurs substantial costs, a MNE with ownership advantages (Dunning, 1981) may need to exercise the full control over those kinds of assets through the wholly-owned mode. Transaction costs can be minimized by internalizing intermediate product market within a firm (Buckley and Casson, 1976). On the other hand, a firm which lacks some necessary resources may need to engage in joint venture with other firms (Pfeffer and Nowak, 1976, Beamish, 1987). Those resources can be capital; knowledge either product-related or market-related; skills and capabilities. The joint venture is an intermediate mode of organization which allows partial control in affiliates and facilitates inter-firm learning and transfer of intangible assets (Kogut, 1988). Incentives for opportunism can be reduced by interdependence created between the partners (Hennart, 1988).

Network approach views FDI as the construction of a link between a domestic network and a foreign network (Jahanson and Mattsson, 1987). As an alternative of internalizing all value-added activities in foreign market to only one particular firm, it would be economic to establish domestic networks in the foreign countries which are targeted locations for international production. Economies of scope can be fulfilled since member firms concentrate on their specialized activities relied upon their distinctive competence. Network members have benefits from exploiting their firm-specific and network-specific advantages and simultaneously accessing to strategic resources which lack in a domestic boundary but are available in a foreign country. The behavior on FDI of Japanese MNEs has evidently reflected the internationalization process of domestic network. When a core Japanese firm established a value-added activity in a specific region overseas, subordinate firms followed to establish their own value-added activities to supply critical/specialized resources. However, some affiliates are small and medium enterprises, which lack resources required for international expansion. A core firm often assisted in several forms including partnering with a subordinate firm in establishment of a joint venture affiliate in that region.

In previous literature, entry strategy was often classified into wholly-owned affiliate, national joint venture – joint venture without local partner, and international joint venture. Embedded in an institutional form of a joint venture, trust and relationship between partners are crucial for the longevity of the venture. Applying the concept of transaction costs together with network relationship, this study classifies entry strategy into 6 types. Those are (1) *wholly-owned affiliate*; (2) *related national joint venture* (RNJV) which is a joint venture formed by at least 2 parents of same nationality those have domestic network relationship; (3) *unrelated national joint venture* (UNJV) which is a joint venture formed by at least 2 parents of same nationality but have no domestic relationship; (4) *single-parent international joint venture*, namely, a joint

venture formed by single foreign parent and local partners; (5) *related international joint venture* (RIJV) – a joint venture formed by at least 2 related parents of same nationality and local partners; and (6) *unrelated international joint venture* (UIJV) – a joint venture formed by at least 2 unrelated parents of same nationality and local partner (see Figure 1).

Figure 1.   Entry Strategy in Consideration of Network Relationship[a]
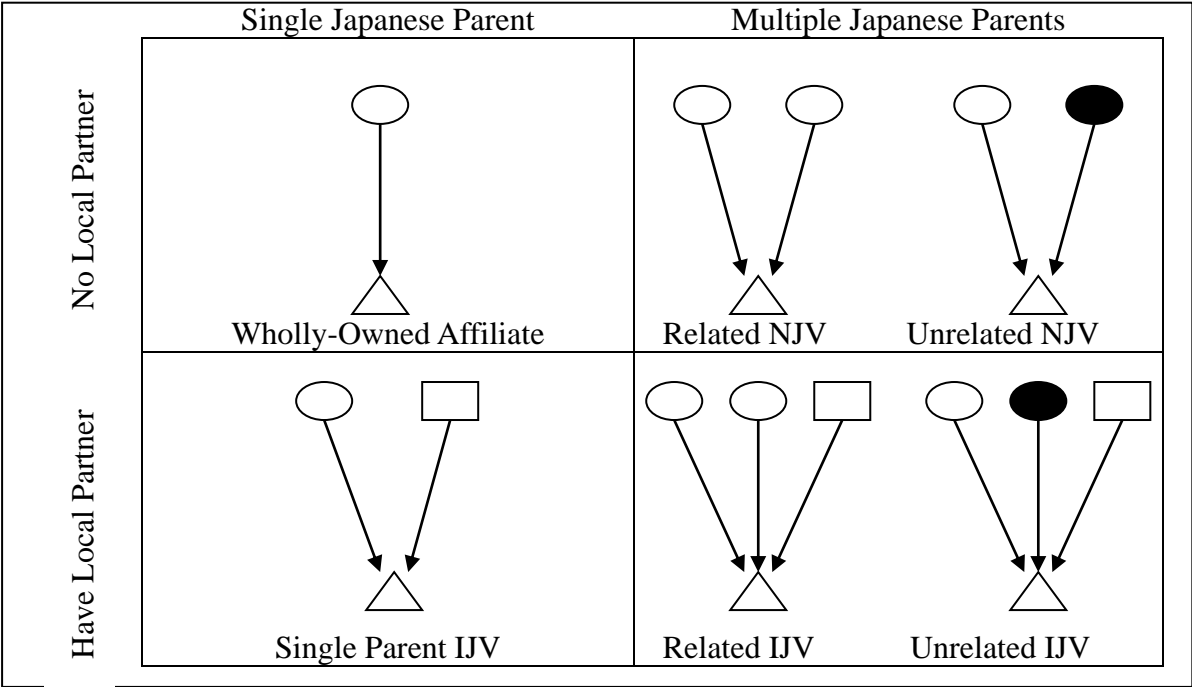
[a] ◯ is a Japanese parent (related), ● is an unrelated Japanese parent, □ is a local partner, and △ is a local affiliate.

Stability of Foreign Operations

The extensive international expansion in a few decades has followed by a large number of evidence of organizational instabilities in foreign affiliates. Instability in foreign operation refers to the rearrangements in governance structures, partial sales and even foreign divestments. Boddewyn (1979) have defined foreign divestment as the deliberate and voluntary liquidation or sales of complete or of a major part of an active foreign operation. In Li's study (1995), foreign firms can exit/divest through (1) bankruptcy and liquidation, (2) closure and (3) divestiture (e.g. acquisition by other firms). The motive of divestment can be either internal factors, i.e. poor performance, poor feasibility analysis, lack of strategic resources or capabilities; or external factors such as better alternative prospects, change in economic conditions or government policies.

Hypothesis

Based on the theoretical concept discussed in the previous sections, this study examines the factors that affect the stability of foreign affiliates focusing on the two groups of factors: 1) entry strategy in consideration of network relationship and 2) linkage to specific advantages.

Entry Strategy in Consideration of Network Relationship

Literature on entry strategies and stability of foreign affiliates found that joint ventures were more likely to be divested than wholly-owned affiliates, and that affiliates established through acquisitions were more likely to be divested than greenfield affiliates (Pennings *et al*., 1994; Li, 1995; Benito, 1997; Yamawaki, 1997; Hennart *et al*., 1998). The study of Makino and Beamish (1998) examined the survival of several forms of joint ventures: (1) intrafirm JVs, (2) cross-national domestic JVs, namely JVs that were formed between unaffiliated home-country based firms, (3) IJV with local firms and (4) IJV with third-country based firms. They found that the termination rates of intrafirm JVs and cross-national domestic JVs were significantly lower than those of IJV with local firms or with third country-based firms. Yet, they did not make a comparison with wholly-owned affiliates.

This study incorporates the view of network relationship into the conventional view of entry strategies in order to verify the impact of entry strategies on the stability of foreign affiliates.

Intrafirm and interfirm relationship

Japanese industry has developed on the ground of long term and lasting relationship between the transacting parties in the business exchange process. The interfirm relationship is developed under the exchange process, in which the parties transfer business transaction, social action, and information between each other. Johanson and Mattsson (1987) have mentioned that a continuous exchange process did not only lead to a learning process but also to an adaptation process. Adaptations among firms take place in different kinds of action including the modification in production or business processes, the cooperation in research and development or other investment activities, the interfirm transfer of personal knowledge or skills, and so forth. This leads to the higher asset specificity across the parties, that causes switching to another party becomes substantial costs to the member firms. Repeated exchange process between the members in the network, hence, develops a high level of interfirm trust and interdependency, that creates mutual orientation (Johanson and Mattsson, 1987) across distinct but related firms. This kind of *interfirm* relationship eventually comes close to the process of *intrafirm* industrial activities. The trust and dependency between firms in the same network or keiretsu can keep transaction costs to a minimum, probably approach to that in the case of internalization. This leads to the first hypothesis.

Hypothesis 1: The probability of instability will be indifferent for wholly-owned affiliates and related Japanese-national joint ventures.

The existence of a number of individual firms sharing in management authority and control over one affiliate can incur additional transaction costs. Those transaction costs can be created by the action necessary to exercise contracts between partnering parties, the control and cooperation process, the communication process, and so forth. Trust and shared benefits between partners are very significant inputs for lasting fruitful relationship. However, long lasting of trust and mutual benefits is hard to guarantee when the parties are external and independent. Although a joint venture with external parties facilitate access to the strategic resources which lack in an individual firm or a particular network, it incorporates higher transaction costs if comparing to a wholly-owned affiliate or a joint venture between firms in the same network. Joint venture involving unrelated parties may be troubled not only by cultural difference between partners, but also by difficulties in sharing proprietary assets (Li, 1995). This suggests the next hypothesis.

Hypothesis 2: The probability of instability of wholly-owned affiliates and related Japanese-national joint ventures will be lower than unrelated Japanese-national joint ventures and any types of international joint ventures.

In the cases of joint ventures with external parties, partners can be firms from the same nationality or local firms in the host country. There might exist international joint ventures with firms from third countries, but the number is considerably small. Joint ventures with local partners have benefit of providing access to the local market and to the resources which are specific to the individual firms of the host country. Joint ventures with firms outside networks but those of same nationality have benefit of allowing linkage to some strategic resources necessary for international expansion either financial resource or non-financial resources such as international marketing or management capabilities. Whatever types, joint ventures with external parties are subject to the risk of instability. Nevertheless, the unrelated partners from same nationality may differ in their corporate goals and strategies in domestic market, or they may be competitors, that force them to focus more on the corporate orientation as a whole rather than a specific investment opportunity. In the case of joint ventures with local partners, the difference in their original markets can reduce the probability of conflict of corporate goals between foreign parents and local parents. Further, when MNEs invest in the host country which is less developed, they usually possess strong bargaining power against the local parties. This is because in joint ventures under such circumstance, local firms with lower level of competence or proprietary assets (i.e. product differentiation, technological knowledge, and production know-how) will depend on foreign firms which are superior in firm-specific advantages. Resource dependency will reduces opportunistic behaviors as well as incentives to switch to another party, due to the fear of losing relationship with those foreign firms. The following hypothesis is formulated.

Hypothesis 3: The probability of instability of related Japanese international joint ventures and single parent international joint venture will be lower than unrelated Japanese-national joint ventures and unrelated Japanese international joint ventures.

Linkage to Specific Advantages

In many keiretsu, the core firm is generally large firm with high-level of firm-specific advantages. On one hand, the core firm depends on subordinate firms for critical resources that may form the basis of proprietary intangible assets for the core firm. On the other hand, via the linkage to the core firm, various resources have been transferred to the subordinate firm in forms of either financial resources or intangible assets such as technological or managerial expertise. Those resources principally become the source of advantages for subordinate firms, many of which are small and medium sized firms. Long-term interfirm relationship not only improve the internal knowledge and capabilities which strengthen the distinctive competence of an individual firm but also retain a firm competitiveness in the sector it operates. The interfirm linkage can create a bond and interdependence between the transacting parties, that promotes the pooling of resources (Pfeffer and Nowak, 1976) and the efforts to assure the performance of all members in the same network. As a result, the following prediction is made.

Hypothesis 4: The probability of instability will be higher for affiliates of which parents are not members of major keiretsu groups.

Control Variables

Other factors besides those mentioned in our hypothesis may have influence on the rate of

instability. When a firm expands the business to different product area, they usually face uncertainties of unfamiliar market conditions and unfamiliar products and technology (Cave, 1982). Diversification into unrelated product area can have negative impact on the survival rate of foreign affiliates (Pennings *et al*., 1994; Li, 1995; Yamawaki, 1997; Hennart *et al*., 1998).

Parent firm size may have impact on the performance of foreign affiliates. While some studies (for e.g. Pennings *et al*., 1994; Li, 1995) found that larger-sized firms were more likely to survive, the study of Hennart *et al*. (1998) found that larger firms were more likely to selloff their stakes in foreign affiliates. Nevertheless, large firms usually possess specific advantages which can lead to their success in the market they serve. Also, Large firms have strong asset power and that help them bear against the period of unsatisfactory performance or economic downturn such as the Asian monetary crisis since the mid of 1997.

Size of an affiliate may also affect the decision of foreign parent on divestment or rearrangement of ownership structure in that affiliate. Capital investment in durable tangible assets is suck cost, and that is one of barriers to exit (Shepherd, 1979). Therefore, foreign parents will be less reluctant to disinvest in local affiliates which are comparatively small.

Degree of control in a local affiliate usually reflect resource commitment by the foreign parents in that affiliate (Cave, 1982). The level of resource transfer, particularly the transfer of intangible assets, and even emotional attachment to a local affiliate would be lower if foreign parent hold minority control in that affiliate. This may make foreign parents feel less reluctant to disinvest in local affiliates in which they hold minority control.

Methodology

The appreciation in Yen since 1985 follows by the transplant of Japanese production bases to lower cost countries, including 4 ASEAN countries[1]: Indonesia, Malaysia, Philippines and Thailand. This study focuses on the Japanese affiliates established in 4 ASEAN countries during 1986 to 1994. The status of divestment and instability was observed since establishment up to the end of 1998.

Dependent Variable
The data for entry and instability is derived from the Toyo Keizai, Kaigai Shinshutsu Kigyou Souran, listed by countries. From the census of affiliates entering into 4 ASEAN countries during 1986 to 1994, we elaborately observed any changes in their profiles of governance structures in consecutive editions since the 1987 to the 1999 editions. This is to determine by what pattern and when instability occurred to the corresponding affiliates.

We examine the factors that have impact on both probability of divestment and probability of instability in general. The dependent variables incorporate the status for terminated event and survival time. An affiliate is considered as divestment if its exit was reported in annual list of exit or its record disappeared from the list of Japanese overseas investments, based on Kaigai Shishutsu Kigyou Souran. Instability of an affiliate involves either the cases when an affiliate was divested or when it experienced rearrangement of contract. Rearrangement of contract takes place when a Japanese or a local parent sells their stakes to others, either Japanese or local parties, and that brought about the change in mode of organization or in control structure

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[1] In 1995, there were 2897 Japanese foreign affiliates operating in 4 ASEAN countries. These four countries were in the top ranks of Japanese investment recipients in the world, with Thailand at the fourth, Malaysia at the eighth, Indonesia at the eleventh and Philippines at the seventeenth. However, aggregately, they were the second largest Japanese investment recipients in the world following the U.S. (Toyo Keizai, Kaigai Shinshutu Kigyou Souran, 1996).

in that affiliate.

Totally 827 manufacturing affiliates were established in 4 ASEAN countries by Japanese firms during 1986 to 1994. Out of those, 98 affiliates were divested and 144 affiliates experienced rearrangement of contracts, whereas 585 survive without any great rearrangement until the end of 1998 (See Table 1).

Table 1. Entry and Instability of Japanese Manufacturing Affiliates Entering into 4 ASEAN Countries during 1986-1994 by Year[a][b]

Entry	Instability										Censored	Total Entry
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998		
1986			1		2				1		16	24
					2	1				1		
1987					1	1	3			1	37	54
					1	1	2	1		6		
1988	1		4	3	3	2	3	3	1	3	98	147
				7	1	2	3	5	3	5		
1989			2		2	3	4	4	6	4	97	151
			2	2	5	2	1	2	7	8		
1990				1	1	3	4	2	4	4	112	156
				2	3	4	5	3	3	5		
1991					1	2	3		2	2	80	112
				1		1	5	5	4	6		
1992								1	2	2	52	72
						2	1	3	4	5		
1993									1	2	34	44
							1		2	4		
1994								1	1	1	59	67
								1		4		
Total Exit	1		7	4	10	11	17	11	18	19	585	827
			2	12	12	13	18	20	23	44		

[a] The upper figure shows a number of divested affiliates, and the lower figure shows a number of those which experienced rearrangement of contract.

[b] Data source: Toyo Keizai, Kaigai Shinshutsu Kigyou Souran, listed by countries, the 1987 to the 1999 editions.

The unavailability of data for explanatory variables resulted in our sample of 806 affiliates[2] established by 519 Japanese firms, of which 229 experienced instability; out of which 91 were divested[3]. Table 2 shows the classification of instability and number of cases that experienced those conditions.

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[2] The list of firms in our sample can be provided on request to the authors.
[3] Life tables for divestment and instability are shown in Appendix 1.

Table 2. Patterns of Instability and Number of Cases Experienced Each Pattern[a]

Patterns of Instability	No. of Cases
1. Divestment	91
2. Rearrangement	
a. Localization (Local partner owns at least 90 percent of shares)	4
b. Selloff by Japanese parent (to existing partners)	35
c. Selloff by local parent (to existing partners)	61
d. Add new Japanese partner(s)	27
e. Add (new) local partner(s)	8
f. Change Japanese partner(s)	6
g. Change from Japanese partner(s) to local partner(s)	1
h. Change from local partner(s) to Japanese partner(s)	2
i. Reposition of main parent	3

[a] Data source: Toyo Keizai, Kaigai Shinshutsu Kigyou Souran, listed by countries, the 1987 to the 1999 editions.

Model

The empirical analysis aimed to determine how the probability of instability depends on several explanatory variables. We applied an event history method, based on a longitudinal record of when events happened to a sample of individuals. Two central concepts in event history analysis are the risk set and the hazard rate. Risk set is the set of individuals who are at risk of event occurrence at each point of time. Hazard rate is the probability that an event will occur at a particular time to a particular individual, given that the individual was at risk at that time[4] (Allison, 1984). Cox proportional hazard model allows incorporating hazard function into the regression modeling approach, using the proportion of the events occurring at a particular point of time as the dependent variable[5].

Variables
Entry strategy

Based on the ownership structure at the time of entry reported in Kaigai Shinshutsu Kigyou Souran, we basically classified entry strategy into wholly-owned affiliate (WOA), national joint venture (NJV), and international joint venture (IJV). In the cases of joint venture by multiple Japanese parents, the relationship between Japanese partners was determined. The Japanese partners are related if they have parent-affiliate relationship or business transaction relationship. This data was obtained from Toyo Keizai, Kigyou Keiretsu Souran for listed Japanese firms, and Toyo Keizai, Nihon No Kigyou Group and Nikkei, Annual Corporation Reports (Unlisted) for unlisted Japanese firms.

Linkage to specific advantages

A Japanese firm is considered to possess linkage to specific advantage (KEIRETSU) if it is a member of 6 financial keiretsu groups or 40 independent business groups[6].

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[4] The hazard rate can be expressed as, $h(t) = \lim_{s \to 0} P(t, t+s)/s$.

[5] The proportional hazard model for time-constant variables may be written as:
log $h(t) = a(t) + b_i x_i$; where $a(t)$ is a base line hazard function of survival time, and $b_i x_i$ characterized how the hazard function changes as a function of explanatory variables.

[6] The list of 40 independent business groups is shown in Appendix 2.

Control variables

The dummy variable for diversification (DIVERS) takes place when the products of an affiliate were different from the 4-digit industry classification level of its main Japanese parent. Size of Japanese parent (PARSIZE) is measured by the employment at the time of entry of the main Japanese parent; namely the Japanese firm that holds the largest share in the affiliate. The dummy variable for small affiliates (AFFSIZE) is used to capture affiliates of which employment is less than 100 employees. The dummy variable for minority control (CONTROL) is used to capture affiliates in which dominant controls are hold by local parents.

Results and Discussions

First, we examine the effect of entry strategy in consideration of network relationship on probability of divestment and probability of instability in general, in comparison to the model of entry strategy based on institutional form only. The results in Table 3 show that regardless of network relationship, IJV appears to have the highest probability of being divested as well as of experiencing instability. NJV inclines to be more likely to experience divestment and instability than WOA.

Table 3. Proportional Hazards Regression Model for Divestment and Instability: Comparing between Two Different Models of Entry Strategy[a,b]

Variables	Entry Strategy Based on Network Relationship		Entry Strategy Based on Institutional Form	
	Divestment [c]	Instability [d]	Divestment	Instability
WOA	-1.607***	-1.844***	-1.196***	-1.497***
	(20.369)	(55.095)	(13.634)	(43.808)
NJV			-0.721*	-0.239
			(3.738)	(1.508)
RNJV	-2.475**	-1.589***		
	(5.912)	(13.798)		
UNJV	-0.614	-0.049		
	(2.111)	(0.043)		
IJV1	-0.368	-0.435**		
	(2.148)	(6.598)		
RIJV	-1.354***	-0.617***		
	(10.268)	(8.360)		
Log Likelihood	-560.760	-1397.338	-569.520	-1409.706
Chi-square	37.155***	88.087***	19.636***	63.351***
No. of Cases	806	806	806	806
Events	91	229	91	229

[a] t-statistics in parentheses.

[b] * significant at the 0.1 level, ** significant at the 0.05 level, *** significant at the 0.01 level.

[c] Mann-Whitney tests between each paired group yield significance at the 0.01 level for *WOA* vs IJV1, *WOA* vs UIJV, *RNJV* vs IJV1, *RNJV* vs UIJV, *RIJV* vs IJV1, and *RIJV* vs UIJV; and at the 0.05 level for *WOA* vs UNJV and *RNJV* vs UNJV.

[d] Mann-Whitney tests between each paired group yield significance at the 0.01 level for *WOA* vs UNJV, *WOA* vs IJV1, *WOA* vs RIJV, *WOA* vs UIJV, *RNJV* vs UNJV, *RNJV* vs IJV1, *RNJV* vs UIJV, and *RIJV* vs UIJV; and at the 0.05 level for *RNJV* vs RIJV, *IJV1* vs UIJV, and *RIJV* vs UNJV.

The model of entry strategy in consideration of network relationship provides a number of different implications. Deviated from the conclusions of previous literature, when joint ventures were further classified with respect to network relationship, RNJV appears to have much lower likelihood of divestment than WOA. Further WOA have merely slightly less likelihood of divestment than RIJV, while RIJV inclines to have less likelihood of being divested than UNJV, IJV1 and UIJV. However, the model for instability shows that WOA have the lowest probability of experiencing instability, following by RNJV and RIJV. UNJV and UIJV appear to have higher risk of instability as well. The model with entry strategy in consideration of network relationship shows statistical improvement in the goodness-of-fit. The partial likelihood ratio tests for the difference between two models yield G values of 17.52 for model for divestment and 24.74 for model for instability, which are significant at p [$\chi^2(4)$] < 0.01 level and p [$\chi^2(4)$] < 0.001 level respectively[7]. This suggests that the classification of entry strategy proposed by this paper can better explain the relationship between entry strategy and stability.

The results of further tests between each paired group of entry strategy support the hypothesis 1 in that there is *no difference* in the probability of divestment and instability between wholly-owned affiliates and related national JVs. The hypothesis 2 is supported for the instability model. In other words, wholly-owned affiliates and related national JVs are *less likely to experience instability* than unrelated national JVs and any types of IJVs. For the divestment model, wholly-owned affiliates and related national JVs are *less likely to be divested* than unrelated national JVs, single parent IJVs and unrelated IJVs, but nor are they if compared with related IJVs. The hypothesis 3 is partly supported only for the fact that related IJVs are *less likely to experience instability* than unrelated national JVs and unrelated IJVs, and *less likely to be divested* than unrelated IJVs, whereas single parent IJVs are *less likely to experience instability* than unrelated IJVs only.

The findings also suggest that though wholly-owned affiliates have the lowest likelihood of instability in general, they seem to be more subject to the risk of divestment, compared to related-Japanese national JVs. This is probably due to the insufficiency of crucial resources, as a prerequisite for international expansion, of some Japanese parent firms that employ the wholly-owned mode. The study of Siripaisalpipat and Hoshino (2000) proposes that the fit between firm-specific advantages and entry mode choice has impact on the performance of foreign affiliates. Entry strategy can be either a channel facilitating the transference of firm-specific advantages, or a channel for accessing partners' contributions to compensate for insufficient specific advantages. Since the wholly-owned mode requires high degree of resource availability and resource commitment, those firms which lack some specific resources would benefit, with minimum transaction costs, if they form collaborative arrangement with the domestically-related Japanese partners which possess the resources they lack. Yet, the instability in governance structures of related-Japanese NJVs or IJVs is possible because after a subordinate firm accumulates more knowledge or capabilities for international operation, a lead (core) firm may reduce or retreat their roles in that affiliate.

In the full model with control variables[8] (see Table 4), the coefficients for variables of entry strategy show similar directions as in the model with entry strategy only, except that of RIJV. Surprisingly, RIJV becomes slightly less likely to be divested comparative to WOA. In other words, there is no difference in performance of WOA and RIJV. This finding provides new evidence against the view that joint ventures are generally poor performed. Indeed, the benefit of

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[7] G statistic is used in the partial likelihood ratio test comparing between 2 models, that plays the same role as does the partial F test in linear regression. The G value can be obtained as:

G = -2 [log likelihood without the variables – log likelihood with the variables].

[8] Descriptive statistics of our variables and their correlation coefficients are shown in Appendix 3.

joint venture formation can lead to the synergy effect as long as the partners share the common goals and benefits and the needs for partners are realized by both sides. In the situation where transaction costs of collaborative arrangement can be minimized or eliminated, the benefit of joint venture can be efficiently fulfilled.

Table 4. Proportional Hazards Regression Model for Divestment and Instability: Full Model[a,b]

Variables	Divestment	Instability
Independent Variables		
WOA	-0.828**	-1.458***
	(4.836)	(31.788)
RNJV	-1.791*	-1.216***
	(3.049)	(7.832)
UNJV	-0.308	-0.086
	(0.515)	(0.126)
IJV1	-0.101	-0.176
	(0.143)	(0.987)
RIJV	-0.984**	-0.349
	(5.219)	(2.519)
KEIRETSU	0.222	-0.028
	(0.872)	(0.037)
Control Variables		
DIVERS	1.157***	0.917***
	(25.825)	(38.760)
PARSIZE	-3.33E-05*	-1.75E-05**
	(2.890)	(3.936)
AFFSIZE (1 = small)	0.723***	0.256*
	(11.238)	(3.324)
CONTROL (1 = minority)	0.328	-0.127
	(1.627)	(0.512)
Log Likelihood	-535.153	-1372.526
Chi-square	88.369***	137.712***
No. of Cases	806	806
Events	91	229

[a] t-statistics in parentheses.

[b] * significant at the 10 percent level, ** significant at the 5 percent level, *** significant at the 1 percent level.

Keiretsu relationship of Japanese parents seems to have no impact on stability and the likelihood of divestment of affiliates. Affiliates of which product areas are different from those of their main parents are significantly more likely to experience divestment or rearrangement in governance structures. Size of main Japanese parent has significant negative relationship with probability of divestment and instability. This implies that the larger Japanese parents have lower likelihood of divesting their foreign affiliates as well as rearranging the governance structures in affiliates. As for affiliate's size, small affiliates are more likely to be divested and more likely to experience rearrangement in their organization. Degree of control over affiliates has no significant impact on stability of affiliates, as well as the probability of divestment.

Conclusions

This paper provides new evidence regarding the stability of foreign affiliates of different entry strategies. Firstly, the stability of wholly-owned affiliates is similar to that of joint ventures formed by parents of same nationality those have domestic network relationship. Wholly-owned affiliate and related national JVs appear to have more stability than other types of JVs, while related IJVs incline to have more stability than both unrelated national JVs and unrelated IJVs.

Secondly, comparing the rate of divestment, there is no difference among wholly-owned affiliates, related national JVs, and related IJVs. Wholly-owned affiliates and related national JVs are less likely to be divested than unrelated national JVs, single parent IJVs and unrelated IJVs, while related IJVs are significantly less likely to be divested than other 2 types of IJVs.

The major implication of this study is the fact that poor performance in general joint ventures is not due to the institutional form itself. The managerial issue that challenges MNEs, which employ the joint venture mode, is how to minimize transaction costs in the operation of a joint venture. Trust and interdependency between the parties allow the external control over each other. The greater magnitude the interfirm relationship has, the more it approaches to the process in the internal organization. Consequently, joint ventures of which parents possess prior relationship as well as mutual orientation are less subjected to the renewal of the partnership, and thus the instability in an organization.

Yet this paper has some limitations. Firstly, the empirical study did not distinguish the causes of instability. In some cases, the instability might be the outcome of poor business performance of an affiliate. However, some adjustments in an individual affiliate are the strategic move of a parent firm. Further study regarding the causal effects of instability could be considered. Secondly, the fit between entry strategy and resource availability was not determined. An appropriate decision on entry strategy would also have impact on the performance of a given affiliate.

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Appendix

Appendix 1. Life Table for Divestment and Instability

Survival Time (years)	Divestment			Instability		
	No. of Events	At Risk	Probability of Divestment	No. of Events	At Risk	Probability of Instability
1	3	806	0.0037	8	806	0.0099
2	6	803	0.0075	16	797	0.0201
3	12	797	0.0151	28	781	0.0359
4	12	763	0.0157	40	733	0.0546
5	10	704	0.0142	30	649	0.0462
6	18	641	0.0281	38	577	0.0659
7	13	553	0.0235	27	485	0.0557
8	7	437	0.0160	22	375	0.0587
9	6	309	0.0194	9	259	0.0348
10	2	168	0.0119	8	145	0.0554
11	2	63	0.0320	3	53	0.0571
12	0	19	0.0000	0	16	0.0000
13	0	3	0.0000	0	3	0.0000

Appendix 2. List of the 40 Independent Business Groups

Taisei, Kirin Brewery, JT, Toray, Asahi Chemical Industry, Japan Paper Industry, Mitsubishi Chemical, Sekisui Chemical, Kao, Takeda Chemical Industries, Fuji Photo Film, Nippon Oil, Bridgestone, Asahi Glass, Nippon Steel, NKK, Mitsubishi Materials, Sumitomo Electric Industries, Kubota, Hitachi, Toshiba, Mitsubishi Electric, NEC, Fujitsu, Matsushita Electric Industrial, Sony, Mitsubishi Heavy Industries, Nissan Motor, Toyota Motor, Honda Motor, Canon, Mitsui, Mitsubishi, Daiei, Ito-Yokado, Orix, Mitsui Fudosan, JR, NTT, Tokyo Electric Power.

Appendix 3. Descriptive Statistics and Correlation of Explanatory Variables in the Regression Model

Variables	Mean	Std. Dev.	1	2	3	4	5	6	7	8	9	10	11
1.WOA	0.28	0.45	1										
2.RNJV	0.06	0.24	-.16	1									
3.UNJV	0.07	0.25	-.17	-.07	1								
4.IJV1	0.28	0.45	-.39	-.16	-.17	1							
5.RIJV	0.15	0.35	-.26	-.11	-.11	-.26	1						
6.UIJV	0.16	0.37	-.28	-.11	-.12	-.28	-.18	1					
7.KEIRETSU	0.55	0.50	-.11	.07	-.09	.03	.14	-.03	1				
8.DIVERS	0.19	0.39	-.20	-.06	.02	.03	-.01	.24	.13	1			
9.PARSIZE	6560.12	13504.71	.07	-.01	-.08	.06	-.01	-.09	.33	-.10	1		
10.AFFSIZE	0.30	0.46	-.13	-.04	-.01	.06	-.02	.13	-.13	.10	-.15	1	
11.CONTROL	0.15	0.36	-.27	-.11	-.10	.29	.04	.07	.12	.23	-.01	.07	1