Journal of Comparative International Management

Characteristics and Performance of Foreign Direct Investment in Retail Trade

The Case of Japanese Firms

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Volume 18, numéro 1, 2015

URI : https://id.erudit.org/iderudit/1034646ar

Aller au sommaire du numéro

Éditeur(s)

Management Futures

ISSN

1481-0468 (imprimé)
1718-0864 (numérique)

Découvrir la revue

Citer cet article

Liang, J., Tang, J. & Liu, B. S. (2015). Characteristics and Performance of Foreign Direct Investment in Retail Trade: The Case of Japanese Firms. *Journal of Comparative International Management*, *18*(1), 37–55.

Résumé de l'article

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Journal of Comparative International Management
2015, Vol. 18, No. 1, 37–55

Characteristics and Performance of Foreign Direct Investment in Retail Trade: The Case of Japanese Firms

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In the international business development, foreign direct investment (FDI) as a general phenomenon has been extensively studied, yet the understanding of particular characteristics of FDI in the retail industry remain limited. The success of international retail trade relies heavily on the understanding of consumers in the host countries. Therefore, this paper analyzed the characteristics and performance of foreign direct investment (FDI) in retail trade using the Japanese FDI data (JFDI) from 1986-2001 as a case. We found (1) an overall trend for JFDI to move from the developed countries to developing countries; (2) a modest correlation between subsidiary size and performance; (3) in certain countries/regions, a positive and significant correlation between entry mode and performance; and (4) a focus of JFDI on the USA and the Greater-China area. The results of this paper provide important implications for countries which want the FDI in retail trade and for companies which want to invest in international retail trade.

1. Introduction

With rapid globalization, more and more countries have witnessed the expansion of foreign direct investment (FDI) across numerous industries ranging from manufacturing to retailing. In addition, consumers from different countries have benefited from worldwide economic development, especially in emerging markets in Asia and Latin America. As consumers in different countries have more spending power, they develop different tastes and desire better lifestyles. Therefore, we should expect to see a fast growing retail industry, both domestically and internationally. Kuipers (1999) observed that a significant proportion of sales in many prominent retailers were derived from international operations. However, as Mooij & Hofstede (2002) pointed out, a number of additional new realities such as mega-mergers and new communication capabilities are changing the rules of the game in international retailing, leading to, for example, a focus on understanding differences rather than similarities among consumers across borders. Moreover, Goldman (2001) indicated that the pattern of internationalization activities by international retailers is changing from largely involving moves among developed economies to moves from developed economies to developing economies that provide opportunities such as high growth rates,

growing middle-class, and weak competition from local retailers (see also Barth et al., 1996; Hentzepeter, 1999; Reuling, 1998; Stores, 1998).

Nitsch, Beamish, & Makino (1995) argued that public policy makers and government officials can learn a lot from examining the characteristics and performance of foreign subsidiaries, such as job creation and investment stimulation. As Drabek & Payne (2001) pointed out, FDI is very important to the national economy in any country (see also Brewer, 1993; Boddewyn, Halbrich & Perry, 1986; Makino, Beamish & Zhao, 2004). Although it is possible for a country to generate funds by itself, many negative effects on the national economy may result from such isolationism, such as slow domestic economic development. Nitsch et al. (1995) found evidence that one significant effect of having trade barriers at the country level is to stimulate investment in another country in the region. Those countries that have trade barriers provide opportunities for others' economic development rather than their own. Nowadays, many developing countries realize the negative effects of having trade barriers and most of them actively encourage international behavior (Takagi, 2006), such as the FDI (Fan & Lu, 2011). For example, after opening the domestic market for more than 30 years, China has become a country that is in the 3rd place on purchasing power parity GDP in the world (after European Union and United States) by measuring economic output on the prices of a bundle of goods and services in local currencies (The World Fact Book, 2011), and is in the 4th place on gross national income (GNI) measured by valuing each country's goods and services in dollars, using three year average exchange rates (Atlas of Global Development, 2007). Therefore, the study of the characteristics and performance of FDI can provide important insights for countries to make related public policies (Pan, 1998; Park, 2003; Gao & Tisdell, 2008; Liu & Pearson 2010).

For companies that want to invest in international retail trade, there are many factors to be considered. For example, Anand & Delios (1997) found that depending on the required capabilities and location-specific resources, different entry mode choices (i.e., acquisitions, joint ventures and greenfield establishments) in FDI in wholesale and retail industries could significantly influence the performance of the foreign subsidiaries. Bouquet, Hébert & Delios (2004) found that the choice of foreign entry mode and expatriate staffing decisions in three service industries including retail trade have important consequences for a subsidiary's competitive advantage in new international markets (see also Edstrom & Galbraith, 1977; Hill et al., 1990). While most of the previous research on international retail trade focused on the internationalization activities among developed countries, a growing number of international retailers shifted attention to developing countries (Shiu & Dawson, 2002; Kim, 2008; Cao and Dupuis, 2010). Goldman (2001) investigated the transfer of retail formats (e.g., supermarkets, hypermarkets, specialty stores, department stores, wholesale-clubs and shopping centers) to developing economies, in particular China, and found that differences in economic conditions between China and the home countries, and the target market segments in China, determine the extent of transfer change of retail formats. Moreover, Mooij & Hofstede (2002) examined the convergence and divergence in consumer behavior across countries by using Hofstede's (1997, 2005) five-dimensional model of national culture and found that retailing strategies cannot be extended from one country to other countries without adaptation. This study attempts to provide guidance for international retailers to make better decision on those important issues.

2. Data and Method

In order to investigate the characteristics and performance of JFDI in retailing, we used the TK (Toyo Keizai) database covering the years of 1986-2003. It has been compiled from *Japanese Overseas Investment: a Complete Listing by Firms and Countries*. Data was collected from publicly-available market data from the three major Japanese stock exchanges and from a survey sent to top Japanese managers in each subsidiary of those listed Japanese parent companies (Nitsch et al., 1995). This database had been tested for reliability and validity (Beamish & Nitsch, 1999) and had been used in over 100 refereed journal publications.

In this study, we first selected 853 Japanese subsidiaries that were categorized in retail trade according to the Standard Industrial Classification (SIC) code for subsidiaries established during 1986-2003. The further selection of the sample for data analysis followed the criteria outlined in Nitsch et al (1995). First, we excluded cases from countries/regions with less than five Japanese subsidiaries in order to identify patterns across countries/regions. Second, cases with incomplete data and unclear definition of entry mode were excluded. Third, we deleted those subsidiaries less than three years old due to evidence from other studies (e.g., Woodcock, Beamish, & Makino, 1994) that most subsidiaries need two years after establishment to stabilize their performance. Therefore, we had a sample of 743out of the original 853 cases.

Moreover, because we attempted to describe the characteristics of the JFDI subsidiaries, and to link those observations to subsidiary performance, we wanted to have a sample that had a measure of performance. According to Nitsch et al. (1995), incommensurable national accounting conventions and the difficulty of obtaining non-consolidated data led to few studies that made such a connection between the characteristics and performance of subsidiaries. In the TK database, the performance measure was one of the three possible performance (i.e., “Gain”, “Breakeven”, or “Loss”) ranked by the top Japanese managers in the subsidiary. However, in any given year that had the performance measure from 1986 to 2003, out of the 743 cases, only 20 to 137 subsidiaries had the data for the performance measure. We decided to choose the performance data from the year 2001, because only 39 subsidiaries had performance data in 2003 but 120 subsidiaries had in 2001. Following the above changes, we again ruled out the countries/regions that had less than five subsidiaries. In the end, we had a final sample of 98 cases.

Table 1 summarized the distribution of the final sample of the Japanese subsidiaries on country/region, entry mode and performance. These subsidiaries operated in seven countries/regions and in 16 different two-digit SIC groups. Table 2 summarized the industry performance and Table 3 summarized the entry mode performance.

Table 1. JFDI in Retail Trade: Entry Mode and Performance

		wholly owned	joint venture	acquisition	capital participation	Total
USA	Loss	3	0	1	0	4
	Breakeven	4	2	0	0	6
	Gain	12	3	2	0	17
Total		19	5	3	0	27
China	Loss	2	2	0	0	4
	Breakeven	0	1	0	0	1
	Gain	2	11	0	0	13
Total		4	14	0	0	18
Taiwan	Loss	1	3	0	0	4
	Breakeven	2	2	0	0	4
	Gain	2	4	0	2	8
Total		5	9	0	2	16
Hong Kong	Loss	2	1	0	0	3
	Breakeven	2	3	0	0	5
	Gain	3	3	0	1	7
Total		7	7	0	1	15
France	Loss	1	0	2	0	3
	Breakeven	1	0	0	0	1
	Gain	2	0	0	0	2
Total		4	0	2	0	6
Korea	Loss	2	0	0	0	2
	Breakeven	0	0	0	0	0
	Gain	2	2	1	0	5
Total		4	2	1	0	7
Australia	Loss	3	1	0	0	4
	Breakeven	0	0	0	1	1
	Gain	2	1	0	1	4
Total		5	2	0	2	9
All Countries/regions	Loss	14	7	3	0	24
	Breakeven	9	8	0	1	18
	Gain	25	24	3	4	56
Total		48	39	6	5	98

Table 2. JFDI in Retail Trade: Industry Performance

	USA	China	Taiwan	Hong Kong	France	Korea	Australia
Wholesale Trade - Durable	1.33	--	2.00	3.00	--	1.00*	1.00*
General Merchandise Stores	2.33	3.00	3.00	3.00	2.50	--	1.00
Apparel and Accessory Stores	2.75	1.00*	2.00	2.00	3.00*	--	3.00
Eating and Drinking Places	2.57	2.90	1.50	2.25	1.00*	--	3.00
Miscellaneous Retail	--	--	3.00*	2.50	1.00*	2.50	1.50
Other Retail	3.00	1.50	2.60	1.33	1.00	3.00	3.00
Country/region Means (All Industries)	2.48	2.50	2.25	2.27	1.83	2.43	2.00
	(*, single case)						
Averages were based on the following coding of questionnaire responses							
1="Loss"; 2="Breakeven"; 3="Gain"							

Table 3. JFDI in Retail Trade: Entry Mode Performance

	USA	China	Taiwan	Hong Kong	France	Korea	Australia
Wholly Owned Subsidiary	2.47	2.00	2.20	2.14	2.25	2.00	1.80
Joint Venture	2.60	2.64	2.11	2.29	--	3.00	2.00
Acquisition	2.33	--	--	--	1.00	3.00*	2.50
Capital Participation	--	--	3.00	3.00*	--	--	--
	(*, single case)						
Averages were based on the following coding of questionnaire responses							
1="Loss"; 2="Breakeven"; 3="Gain"							

2.1 JFDI in Retail Trade: Industry Distribution

Although the JFDI in retail trade distributed widely in the entire spectrum of the available SIC codes, about 80% of the subsidiaries could be categorized into five two-digit industrial classifications:

- SIC 50 – wholesale trade-durable (9% of the cases): Subsidiaries in this category operated in the retail trade as the subsidiary's second, third, or fourth industry. For example, Kaga (Korea) Electronics Co. Ltd., Tasaki Shinyu (Hong Kong) Ltd., and Honolulu Optical Co. Inc.

- SIC 53 – General Merchandise Stores (14% of the cases): For example, Mitsukoshi (U.S.A) Inc., Takashimaya Retailing Australia Pty. Ltd, and JUSCO Stores (Hong Kong) Co., Ltd.

- SIC 56 – Apparel and Accessory Store (10% of the cases): For example, Issey Miyake Europe S.A., Fashion Force (HK) Ltd, and Yoshinoya Taiwan Co. Ltd.

- SIC 58 – Eating and Drinking Places (36% of the cases): For example, Genki Sushi Hawaii Inc., MitsuiKoshi Restaurant Service Ltd., and Tianjin Kobe Restaurant.

- SIC 59 – Miscellaneous Retail (10% of the cases): For example, Japan Air System Hong Kong Ltd., Mandom Korea Corp, and UMC Electronics Hong Kong Ltd.

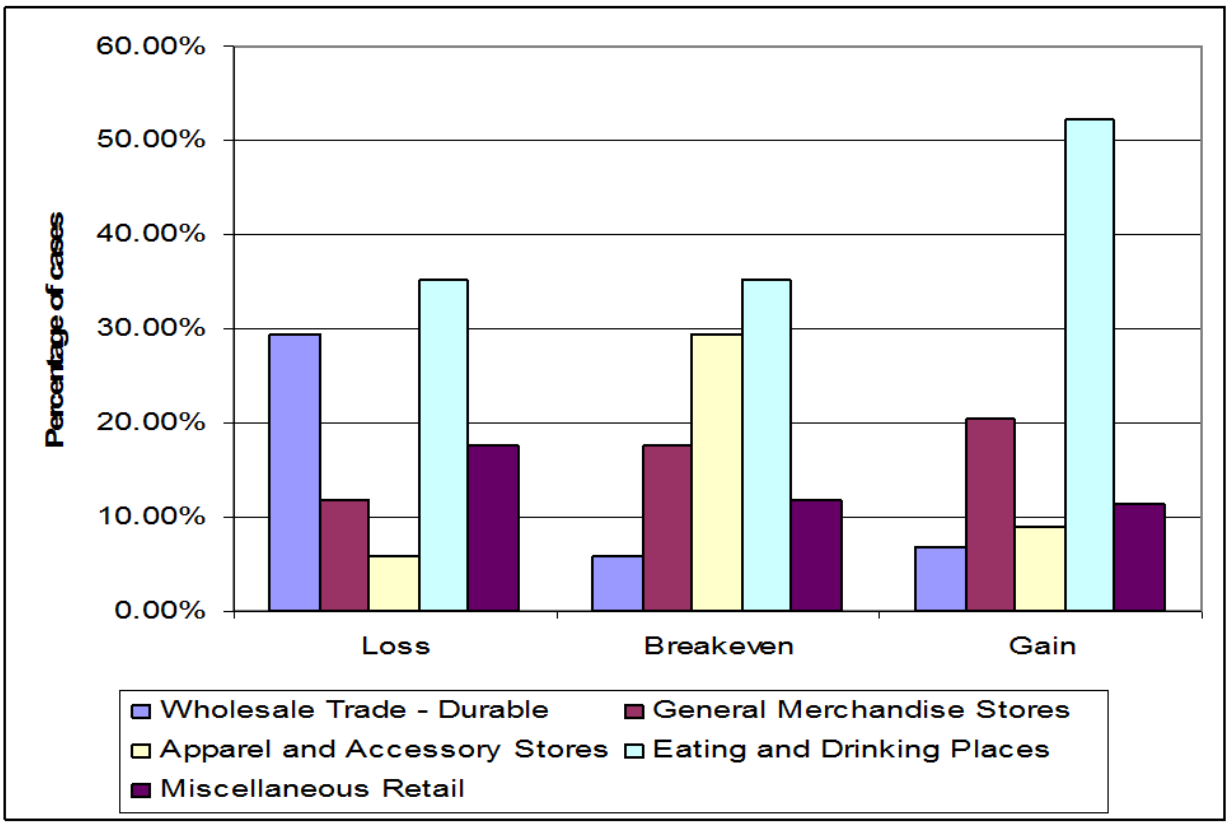

Figure 1. JFDI in Retail Trade: Performance by Industry

Following the tradition of Nitsch et al. (1995), we labeled these five industries as "major industries". The performance of these five major industries is summarized in Figure 1. The percentage of cases in each performance category was broken down according to these major industries. For example, wholesale trade - durable accounted for about 30% of all the cases that reported loss. Moreover, the sales performance (US$ millions) for each major industry in 2001 was shown as below respectively: $385.15 for apparel and accessory stores, $70.43 for general merchandise stores, $17.12 for eating and drinking places, $15.98 for wholesale trade – durable, and $14.48 for miscellaneous retail.

2.2 JFDI in Retail Trade: Subsidiary Size by Employees

Apparel and accessory stores, eating and drinking places, and general merchandise stores were the largest establishments when measured with the absolute numbers of employees per subsidiary. An interesting pattern was that the number of employees per subsidiary started decreasing after reaching a peak in recent years for some major industries. For the apparel and accessory stores, the number of employees per subsidiary increased from the year of 1986 to 1994 (from 1153 to 6468 employees) and then decreased steadily (to 4418 in 2001). For the eating and drinking places, the number of employees per subsidiary started decreasing in the year of 1999 and changed to 3504 in 2001, while it increased from 387 in 1986 to 4517 in 1999. The same also happened to wholesale trade – durable. However, for general merchandise stores, after a small decrease from the year of 1994 to 1999 (from 2518 to 1973 employees), there was a large and dramatic jump in the number of employees per subsidiary in 2001 (to 7292

employees), which makes general merchandise stores sector the largest industry in the sample in 2001. It should be pointed out that wholesale trade-durable and miscellaneous retail tended to be relatively small, with only 424 and 129 employees per subsidiary in 2001, respectively. Additional information was provided on the number of Japanese employees per subsidiary in each major industry, which indicated that general merchandise stores tended to have the largest number of Japanese employees per subsidiary (100 Japanese employees in 2001), followed by eating and drinking places (49 Japanese employees in 2001).

A further analysis of the dataset found that from the year 1986 to 1999, the number of missing values on the number of employees ranged from two to 13, respectively. But in 2001, there were more than 20 missing values on this measure. When we included only those subsidiaries that had complete information in both 1999 and 2001, and ran the mean comparison for the subsidiaries in these two years, we found that the number of employees per subsidiary decreased in the wholesale trade-durable (from 126 to 61 employees), apparel and accessory stores (from 860 to 698 employees), and miscellaneous retail (from 22 to 20 employees), whereas the number of employees per subsidiary increased in the general merchandise stores (from 192 to 483 employees) and the eating and drinking places (from 141 to 147 employees). Therefore, consistent results were found for the wholesale trade-durable (decreasing trend), apparel and accessory stores (decreasing trend), and general merchandise stores (increasing trend) in both types of data analyses.

In order to calculate an index (percentage) for the average number of employees by industry, we used the data in 2001 as reference points and included all available data in each year in the dataset (see Figure 6). We found an interesting pattern from 1999 to 2001: the number of employees decreased quite substantially for some developed countries, including the USA (17 percent decrease in the index), France (69 percent decrease) and Australia (104 percent decrease), while the number of employees increased dramatically in developing countries such as China (58 percent increase), Korea (9 percent increase), and Hong Kong (59 percent increase).

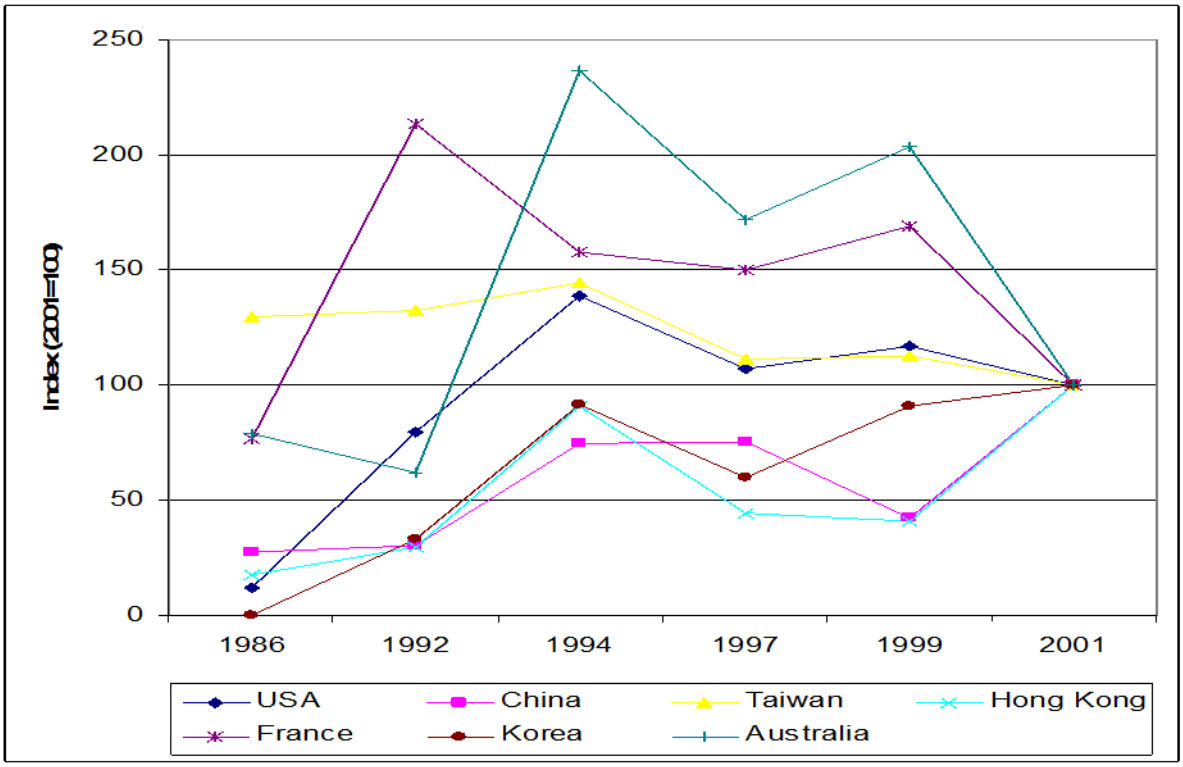

Figure 6. JFDI in Retail Trade: Relative Changes in the Number of Employees

Such a pattern had appeared before in various periods but became more obvious between 1999 to 2001, which were consistent with the findings of Goldman (2001) and other researchers (e.g., Barth et al. 1996; Hentzepeter, 1999; Reuling, 1998; Stores, 1998) on the moves of internationalization activities from developed countries to developing countries. From 1986 to 2001, the cumulative annual rates of decline for the developed countries were: USA – 39 percent; France – 113 percent; Australia – 136 percent. On the other hand, the cumulative annual rates of increase for the developing countries were: China – 72 percent; Hong Kong – 82 percent; Korea – 100 percent.

The trends in the number of employees for Japanese subsidiaries in each country/region are shown in Figure 7, which also indicates that the absolute sizes of the subsidiaries are substantially different across countries. The results indicated that the Japanese subsidiaries had the largest number of employees in the USA and Taiwan, although both showed a declining trend from 1992. Further investigation found that the USA had one subsidiary with almost 3500 employees (Kyo-ya Ltd), and one subsidiary with 4000 employees (Talbots Inc.). Both subsidiaries were much larger than average and thus affected the average size of subsidiaries in the USA where there were only 24 cases. On the other hand, China and Hong Kong had a relatively small number of employees in the Japanese subsidiaries but showed a dramatic increase in 2001 after a big drop in 1999 and 1997, respectively. Since Hong Kong was returned from England to China in 1997, it was not surprising to see a big drop at that time when the foreign companies were uncertain about the changes. In 2001, after four years of observations on the development of Hong Kong and rapid growth in China, Japanese firms became optimistic about the future of this emerging market and thus increased employment dramatically.

We have summarized the relationships between the changes of the subsidiaries' total number of employees from 1986 to 2001 and their performance in Table 4. We found: (1) highly significant positive correlations of the number of total employees between one period and the corresponding ones in different periods. This indicated that the size of Japanese subsidiaries tended to be stable; (2) highly significant positive correlations of the performance between one period and the corresponding ones in different periods. This indicated that the performance of Japanese subsidiaries also tended to be stable; and (3) there was no significant correlations between the number of total employees and the performance of the subsidiaries in the same period or across periods. This indicated that the size of Japanese subsidiaries was only a modest predictor of the performance of the subsidiaries, as the signs of the coefficients were positive.

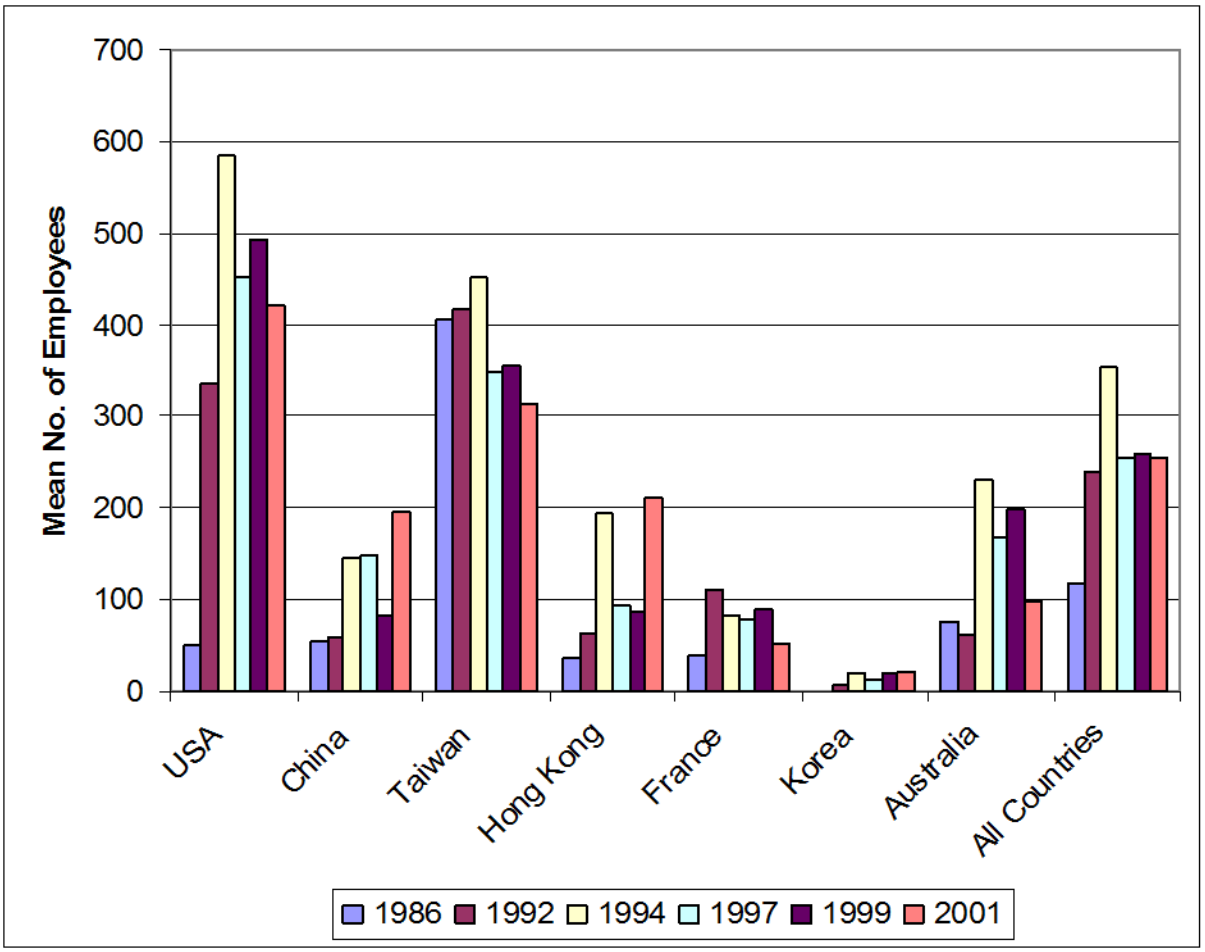

Figure 7. JFDI in Retail Trade: The Number of Employees by Country/Region

Since the capital investment could be considered as another illustration of subsidiaries size, we summarized the capital investment by countries in Table 5 and the relationships between subsidiaries' capital investment from 1986 to 2001 and their performance in those years in Table 6. We found similar conclusions to the above ones made by using the number of total employees as a measure of the subsidiary size.

Table 4. JFDI in Retail Trade: Employee – Performance Correlations

	Performance - 1986	Employees - 1986	Performance - 1992	Employees - 1992	Performance - 1994	Employees - 1994	Performance - 1997	Employees - 1997	Performance - 1999	Employees - 1999	Performance - 2001
Employees - 1986	0.33										
Performance -1992	0.67	0.35									
Employees - 1992	0.37	.936(**)	0.16								
Performance -1994	0.33	0.37	.770(**)	0.22							
Employees - 1994	0.36	.989(**)	0.16	.945(**)	0.19						
Performance - 1997	0.00	0.18	.623(**)	0.15	.640(**)	0.14					
Employees - 1997	0.35	.937(**)	0.17	.995(**)	0.16	.953(**)	0.12				
Performance - 1999	-0.04	0.20	.484(**)	0.18	.476(**)	0.19	.717(**)	0.15			
Employees - 1999	0.34	.981(**)	0.17	.960(**)	0.18	.949(**)	0.11	.973(**)	0.15		
Performance - 2001	0.06	-0.08	.401(*)	0.11	.400(*)	0.13	.616(**)	0.09	.897(**)	0.09	
Employees - 2001	0.18	0.08	0.18	.894(**)	0.27	.849(**)	0.19	.826(**)	0.19	.880(**)	0.20
**	Correlation is significant at the 0.01 level (2-tailed).										
*	Correlation is significant at the 0.05 level (2-tailed).										

Table 5. JFDI in Retail Trade: Capital Investment by Countries/regions

Nation in which subsidiary was established		Capital invested in subsidiary (US$) - 1986	Capital invested in subsidiary (US$) - 1992	Capital invested in subsidiary (US$) - 1994	Capital invested in subsidiary (US$) - 1997	Capital invested in subsidiary (US$) - 1999	Capital invested in subsidiary (US$) - 2001
USA	Mean	3476000	10994561	8762876	21369310	20237083	19752978
	% change		216.30%	-20.30%	143.86%	-5.30%	-2.39%
China	Mean	2750000	2225752	14333333	8141108	5148920	31443205
	% change		-19.06%	543.98%	-43.20%	-36.75%	510.68%
Taiwan	Mean	3256941	9955426	221382393	43852893	48173794	20056337
	% change		205.67%	2123.74%	-80.19%	9.85%	-58.37%
Hong Kong	Mean	87291	3902063	37768075	7589282	5999333	6049844
	% change		4370.16%	867.90%	-79.91%	-20.95%	0.84%
France	Mean	318471	6096192	45553007	5933887	5766571	3855570
	% change		1814.20%	647.24%	-86.97%	-2.82%	-33.14%
Korea	Mean		1675726	1800000000	1209538	852342	2203826
	% change			107316.12%	-99.93%	-29.53%	158.56%
Australia	Mean	177305	28826218	138577570	24150782	21067167	17075086
	% change		16157.99%	380.73%	-82.57%	-12.77%	-18.95%
Total	Mean	2509167	10512793	146847013	19448246	17155711	17202704
	% change		318.98%	1296.84%	-86.76%	-11.79%	0.27%

Table 6. JFDI in Retail Trade: Capital Investment – Performance Correlations

	Performance - 1986	Capital -1986	Performance -1992	Capital -1992	Performance - 1994	Capital - 1994	Performance - 1997	Capital - 1997	Performance - 1999	Capital - 1999	Performance - 2001
Performance -1986											
Capital -1986	0.12										
Performance -1992	0.67	0.19									
Capital -1992	0.08	.837(**)	0.24								
Performance -1994	0.33	0.24	.770(**)	0.29							
Capital -1994	0.34	0.19	0.10	0.13	0.18						
Performance -1997	0.00	0.24	.623(**)	0.27	.640(**)	0.23					
Capital -1997	-0.02	.808(**)	0.19	.743(**)	0.17	0.04	0.14				
Performance -1999	-0.04	0.29	.484(**)	0.26	.476(**)	0.20	.717(**)	0.12			
Capital -1999	-0.05	.706(**)	0.20	.709(**)	0.18	0.04	0.14	.997(**)	0.11		
Performance -2001	0.06	0.00	.401(*)	0.22	.400(*)	0.11	.616(**)	0.08	.897(**)	0.08	
Capital 2001	-0.20	0.25	0.21	.585(**)	0.22	-0.02	0.17	.586(**)	0.15	.572(**)	-0.02
**	Correlation is significant at the 0.01 level (2-tailed).										
*	Correlation is significant at the 0.05 level (2-tailed).										

3. JFDI in Retail Trade: Major Country/Region Comparisons by Entry Mode, Industry and Performance

Four major countries/regions (i.e., the USA, China, Taiwan, and Hong Kong) accounted for 78 percent of the subsidiaries in the sample. Although China, Taiwan and Hong Kong could be considered together as the Greater-China area, they were quite different in terms of economic development, political system and social environment. Therefore, we deemed it more appropriate to have in-depth observations into all four of these countries/regions and compared the similarities and differences on the entry mode, industry and performance of the JFDI in retail trade in these places.

3.1 United States of America (USA)

Subsidiaries in the USA represented the largest portion (28%) of JFDI in retail trade in our sample. Overall reported performance put the US subsidiaries in the top-ranked group on the country/region basis in terms of the highest absolute number of subsidiaries (17 subsidiaries) that made profits (i.e., Gain as performance), the highest overall percentage of the number of subsidiaries who were at least breakeven (85%), or the lowest overall percentage of the number of subsidiaries who lost money (15%). The eating and drinking places sector (SIC 58) had the largest number of subsidiaries (14 cases) and also had the largest number of subsidiaries who reported gain in 2001 (10 out of 14 cases, 71%). Wholly owned subsidiary was the dominant entry mode in this industry (11 out of 14 cases, 79%).

Compared with the entry mode in the overall dataset (wholly owned subsidiary: 48 cases, 49% of total cases vs. joint venture: 39 cases, 40% of total cases), JFDI in retail trade in the USA displayed a definite preference for wholly-owned subsidiary, with 19 (70%) of the total 27 cases in this mode (vs. five joint ventures and three acquisitions). Nevertheless, as indicated before, eating and drinking places represented 52 per cent of the USA subsidiaries in our sample (14 out of 27 cases), which accounted for the strong preference for wholly-owned subsidiary overall. The distribution among entry modes became even after excluding the eating and drinking places from the USA data and became similar to the overall distribution across countries/regions in the sample. No other country displayed such a skewed preference for wholly-owned subsidiaries in the eating and drinking places sector.

3.2 China (Mainland)

The number of subsidiaries in mainland China (18 cases) was the second largest to the number in the USA in our sample. The China subsidiaries reported performance that was also comparable to that reported by the US subsidiaries. In particular, 13 (72%) subsidiaries reported gain in performance, which was even higher than the percentage of the USA subsidiaries (63%) which reported gain. Four subsidiaries (22%) reported loss in performance and one (6%) reported breakeven. Interestingly, similar to the US subsidiaries, the eating and drinking places sector (SIC 58) had the largest number of subsidiaries (10 cases) and also had the largest number of best performers who reported gain in 2001 (9 out of 10 cases, 90%). However, contrary to the pattern of entry mode in the US subsidiaries in this industry, joint-venture (9 out of 10 cases, 90%) rather than wholly-owned subsidiary (one case, 10%) was the dominant entry mode in this industry. In the eating and drinking places sector, the only one wholly-

owned subsidiary reported gain in performance, while eight joint-ventures reported gain and one reported breakeven. Such observations indicated that seeking Chinese joint-venture partners could be worthwhile for Japanese parent companies. Moreover, there was no other reported entry mode in the JFDI in retail trade in China in our sample.

Compared with the entry mode in the overall dataset, JFDI in retail trade in China displayed a definite preference for joint-ventures, with 14 of the total 18 cases in this mode (vs. four wholly owned subsidiaries). However, such a preference may be explained by the large percentage (56%) of the eating and drinking places in the sample of China subsidiaries. The distribution among entry modes became even after excluding the eating and drinking places from the China data, similar to the overall distribution across countries/regions in the sample. No other country/region displayed such a skewed preference for joint-ventures in the industry of eating and drinking places.

3.3 Hong Kong

The performance reported by the Hong Kong subsidiaries was lower than the other major countries/regions in the sample. In particular, only seven of 15 cases (47%) reported gain in performance, which was the smallest number of subsidiaries (either the absolute number or the percentage) reporting gain compared with the other three countries/regions, whereas five (33%) and three (20%) subsidiaries reported breakeven and loss, respectively. The average performance for the 15 Hong Kong subsidiaries was the second lowest (2.27) among the four major countries/regions. The industries with the best performance in 2001 in Hong Kong were wholesale trade-durable, general merchandise stores, and eating and drinking places (eight out of 15 cases, 53%). Their average performance was 2.63.

The distribution of entry mode in this region may not explain the relative poor performance of the subsidiaries. JFDI in retail trade in Hong Kong showed a strong propensity to use wholly-owned subsidiaries and joint-ventures but no preference between these two modes (both have the same number of subsidiaries – seven cases each). Such a pattern of entry mode is comparable to the overall pattern of distribution in the overall dataset. Moreover, in the overall dataset, the average performance of the wholly-owned subsidiary (2.23, n=48) is slightly lower than that of the joint-venture (2.44, n=39). For the Hong Kong subsidiaries, a similar pattern was also found between wholly-owned subsidiary (2.14, n=7) and joint-venture (2.29, n=7). However, the average performance of Hong Kong subsidiaries was slightly below the mean in each of these two modes.

Further investigation indicated that the poor performance may be explained by the performance in the industries of food products, apparel and accessory stores, and furniture stores, which had 33% of the total number of subsidiaries but an average performance only at 1.60 (i.e., not even at a breakeven level). The average performance of apparel and accessory stores (2.00) and furniture stores (1.00) in Hong Kong were substantially lower than the corresponding performance (2.30 and 2.33, respectively) in the overall dataset.

3.4 Taiwan

The average performance reported by the Taiwan subsidiaries was the lowest (2.25) among the four major countries/regions in our sample, although the number of subsidiaries reported gain in

performance (8 out of 16 cases, 50%) was slightly more than that in Hong Kong (7 cases, 47%). The industries with the best performance were industrial machinery, general merchandise stores, automotive dealers and service, and miscellaneous retail, which had a total of seven subsidiaries (44%) and all reported gain in performance.

The distribution of entry mode in the Taiwan subsidiaries, where there were five wholly- owned subsidiaries (33%), nine joint-ventures (56%), and two capital participation (13%), was comparable to that in the overall dataset. The average performance of these three entry modes were 2.20, 2.11, and 3.00, respectively, the former two of which were both lower than the overall average performance in the overall dataset (2.23 and 2.44, respectively).

Further investigation indicated that the poor performance may be explained by the performance in the industries of wholesale trade-durable, food stores, apparel and accessory stores, and eating and drinking places, which had 56% of the total number of subsidiaries but an average performance of only 1.67 (i.e., not even able to breakeven). The average performance of apparel and accessory stores (2.00) and eating and drinking places (1.50) in Taiwan were substantially lower than the corresponding performance (2.30 and 2.49, respectively) in the overall dataset.

4. Conclusion

The characteristics and performance of JFDI in retail trade as presented in this paper provided insights for countries that want to capture JFDI or other FDI in retail trade and also for companies that want to invest in international retail trade. The patterns of JFDI in retail trade not only varied over time but also varied across countries and/or regions in the performance, entry mode, and industry. Several major conclusions could be drawn from our observations in the data analyses.

First, there was an overall trend for the JFDI in retail trade to move from the developed countries to developing countries. Such an observation was consistent with the pattern proposed in previous research (e.g., Goldman, 2001; Barth et al., 1996; Hentzepeter, 1999; Reuling, 1998; Stores, 1998). Moreover, the observations on performance also provided encouraging prospects of investing in the developing countries/regions, such as China, which had the highest proportion of subsidiaries that reported gain in performance.

Second, there was a modest correlation between subsidiary size and performance, no matter whether the sizes were measured with the number of employees or the amount of capital investment. There were also positive and significant correlations on subsidiary size itself and on performance itself over time. In certain countries/regions, there was a positive and significant correlation between entry mode and performance in certain industries. For example, eating and drinking places performed very well in both the USA and China, but the subsidiaries in the USA were mainly wholly owned and those in China were mainly joint ventures. Therefore, we concluded that there was a positive and significant correlation between wholly owned (joint venture) subsidiaries and good performance in the eating and drinking places in the USA and China.

Third, broadly speaking, JFDI in retail trade mainly focused on the USA and the Greater-China area, the latter of which included China, Hong Kong and Taiwan. For their best interests, these countries and regions should investigate further the characteristics and performance of the JFDI and other FDI in retail trade. Interesting patterns and findings had been observed in this study and provided a starting point for future research. Future research should also investigate why the characteristics and performance varied across these countries/regions and determine what factors led to those different characteristics and performance.

Finally, for companies that want to make FDI in retail trade, this study provided useful information, for example, on the relationship between entry mode, industry and performance in different countries/regions, especially in the USA and the Greater-China area. The USA is still the largest economic entity and the Greater-China area is the fastest growing market in the world. Therefore, these two markets represent the two most important business territories, especially for the international retailers.

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