Abstract

With the relentless onslaught of globalization, many firms are facing with the question of where and how to launch their operations in the world markets or to expand and integrate their existing international operations. In order to achieve these goals, a firm must determine are appropriate mode for organizing its foreign business activities. Among the vast array of alternative modes available, international joint ventures (IJV) and wholly owned subsidiaries (WOS) represent two primary but largely competing strategic options that a firm may choose. Each of these strategies has different implications for the degree of control that a firm can excise over the foreign operation, the resources it must commit to the foreign operation, and the risks it must bear to expand into a foreign country. Thus, the performance of one mode in relation to another is a critical measure of its relative efficacy and would directly affect their choice by firms.

A primary objective of this study is to measure the performance of a sample of Japanese parent companies engaged in IJV and WOS in China. The performance measures used in this 'study are net income, return on assets (ROA) and return on equity (ROE). These are generally accepted performance measures used to test the impact of entry mode choice between IJV and WOS on their subsidiary's performance.

The study focused on Japanese multinational companies invested in China manufactures industry, and the secondary data was collected through Toyo Keizai, Kaigai Shinshutsu Kigyou Souran (Toyo Keizai, Japanese Overseas Investments), a subset of the Toyo Keizai (1996, 2001) datasets. Non-parametric statistic of Mann-Whitney U test was used to test hypotheses in this study.

The result of hypotheses test shows that there is significant impact of entry modes choice between joint venture and wholly owned subsidiary on their performance. The wholly owned subsidiary mode performs better than joint venture mode by comparing their performance means.

As wholly owned subsidiary offers new hope for a more effective way to work in China. Therefore, investors should carefully consider the best way to establish and operate them there. In so doing, they can take advantage of the country's huge business opportunities by fully exploiting their competitive advantages and further enhance their capabilities.