

Selecting international modes of entry and expansion

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Abstract

Selecting a mode for entering or expanding in a foreign market is a crucial strategic decision for an international firm. This article identifies and compares the most influential factors that affect the international modes of entry and expansion decisions of US and Japanese firms. Using mail surveys, this is one of the first studies on this subject to collect data from top executives in both Japan and the USA. Findings reveal that the Japanese are particularly sensitive to external risk and other target market factors. For Americans, company factors, such as international experience, appear to be most important when selecting modes of entry. Joint ventures may be more appropriate for internationally-experienced firms, than for inexperienced companies.

The rapid globalization of business in the last two decades has prompted an increasing number of firms to develop strategies to enter and expand into markets outside their home locations. Dynamic, emerging markets in Asia and Latin America, as well as large, stable markets in North America, Europe, and Japan now attract both small and large companies from around the world. But once a firm has decided to enter or expand in a foreign market, it must determine the structural nature of its operations in that nation.

Recognizing the huge potential market size, a US firm in the pharmaceutical industry recently decided to make a major new thrust into China. A manager from the company stated:

We wanted to export several lines of pharmaceuticals into China. However, their government wanted us to manufacture within the country in some kind of cooperative arrangement with a local firm ... Technology transfer for market share is the name of the game. So we decided to set up a joint venture with a local firm.

Selecting an institutional arrangement – a mode for entering or expanding in a foreign market – is one of the most crucial strategic decisions that an international firm has to make (Root, 1994). A well-chosen mode can enable a firm to gain competitive advantage. However, inappropriate modal decisions are difficult to change when long-term contracts and/or large resource commitments are made. Poor modal choices can lead to “sinking the boat” or “missing the boat” (Dickson and Giglierano, 1986). For example, a firm’s core technology can be unwillingly lost to competitors in certain “cooperative” modes. At the same time, some contractual modes of entry can prevent a company from taking full advantage of large market growth.

Careful assessment of these trade-offs is essential in today’s global economy.

The USA and Japan are the two largest national players in international business. In many markets, such as the European Union, companies from these two nations are primary competitors. However, firms from these two nations differ in both the patterns of institutional arrangements they prefer and the factors that affect their choice of foreign market entry mode. In the 1950s and 1960s the USA was the dominant exporter and direct investor in the world. Japan became a major international competitor in the 1970s, as its exports surged. Its large exporting firms included Sony and Matsushita in consumer electronics and Toyota in automobiles. In the 1970s firms from both nations primarily relied on exporting to serve foreign markets; however, the USA also had extensive numbers of overseas manufacturing sites. Japan used little foreign direct investment (FDI). The 1980s was the first decade in which Japanese firms chose to enter and expand in foreign nations via FDI on a large scale, rather than just using exports from Japan (Nakamura, 1991). Dramatic surges in Japanese FDI in the latter half of the 1980s led to some resentment and fear in both the USA and Europe, particularly when well known local firms, such as CBS Records and Columbia Pictures, were acquired by Japanese companies (*Business Week*, 1991). New Japanese FDI slowed in the 1990s, but economic data still reveal the strong position that Japanese firms hold in both exporting and direct investment. In 1995 the USA exported \$576 billion in goods (and \$219 billion in services), while Japan exported \$443 billion in goods (US DOC, November 1997). In outward FDI the USA made new investments of \$91 billion and Japan’s new

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outward FDI amounted to \$51 billion in 1995 (US DOC, July 1997).

Although previous studies have revealed some differences in the modes of entry that US and Japanese companies use to enter new markets (Anand and Delios, 1996; Nitsch *et al.* 1995; Sohn, 1994), more insight on the different factors and strategies that affect the modal choices of companies from these two leading nations is needed. As the important factors are uncovered, veteran and novice international managers may discover important conditions or issues to consider when making critical entry mode decisions. Because US and Japanese firms are often major competitors in foreign markets, gaining insights into the thought processes of national competitors may also be useful to managers and researchers in understanding and predicting their modal choices.

This article identifies and compares the most influential factors that affect the international modes of entry and expansion decisions of US and Japanese firms. Rather than just using secondary economic data, this is one of the first studies to survey executives in both Japan and the USA regarding their entry mode choices. This method enables us to uncover some of the thought processes and reasoning of global managers from the two nations. We found that there are some important differences that can help managers learn how to better determine modal choices. Target market factors are generally more important to Japanese firms than company factors; whereas, company factors seem most important to US firms, when making modal choices.

In this article we first discuss the modal alternatives. Then we describe our research approach and results. We conclude with a discussion of the key findings and their implications for managers.

Modes of entry and expansion

Firms that are beginning to internationalize and multinational companies that are expanding in nations outside their home base are both faced with the challenge of choosing the best structural arrangement. Four major alternatives are exporting, licensing, joint ventures, and wholly-owned subsidiaries (Root, 1994).

Exporting differs from the other modes in that a company's final or intermediate product is manufactured outside the target country and subsequently transferred to it. Indirect exporting uses intermediaries who are located in the company's home country

and who take responsibility to ship and market the products. With direct exporting the producer firm does not use home country middlemen, although it may utilize target country intermediaries. Boeing is one of the largest direct exporters in the world, manufacturing most of its aircraft within the USA, but selling the majority of its planes in other nations.

Licensing is a non-equity, contractual mode with one or more local partner firms. A company transfers to a foreign organization the right to use some or all of the following property: patents, trademarks, company name, technology, and/or business methods. The licensee pays an initial fee and/or percentage of sales to the licensor. For example, Borden set up a licensing agreement with Meiji Milk to produce and market dairy products in Japan.

Joint ventures and wholly-owned subsidiaries entail direct investment in business sites in the target country. Joint ventures involve two or more organizations that share the ownership, management, risks, and rewards of the newly formed entity. Each partner contributes equity that may take the form of money, plant and equipment, and/or technology. For example, Matsushita established a joint venture with Philips in Belgium to produce batteries. Wholly-owned operations are subsidiaries in another nation in which the parent company has full ownership and sole responsibility for the management of the operation. Japanese automobile manufacturers are well known for their use of wholly-owned subsidiaries in the USA in the late 1980s and 1990s (Sohn, 1994). Toyota is establishing a site in Indiana to manufacture and market four-wheel drive vehicles in the USA. Although Toyota's new Indiana plant is a greenfield investment, international firms may also acquire and utilize existing manufacturing sites as a mode of entry or expansion.

These four entry modes may be differentiated according to three characteristics of the modes that have been identified in previous research (Maignan and Lukas, 1997; Woodcock *et al.*, 1994):

- 1 quantity of resource commitment required;
- 2 amount of control;
- 3 level of technology risk.

Figure 1 illustrates the relationships between these elements and the entry modes.

Resource commitments are the dedicated assets that cannot be employed for other uses without incurring costs. Resources may be intangible, such as managerial skills, or tangible, such as machines and money. The

amount of required resources varies dramatically with the entry mode, ranging from almost none with indirect exporting, to minimal training costs in licensing, to extensive investments in facilities and human resources in wholly-owned subsidiaries.

Control is the ability and willingness of a firm to influence decisions, systems, and methods in foreign markets. In a franchise type of licensing agreement, control over the operations is granted to the franchisee in exchange for some type of payment and for the promise to abide by the terms of the contract. Thus, the licensor has little direct control. In a joint venture control is shared formally according to level of ownership, as when equity ownership over 50 percent gives one of the partners the largest number of directors on the board. However, informal control mechanisms may also be exerted as when one partner possesses and uses knowledge and information that the other lacks. Wholly-owned subsidiaries are attractive to many companies because this mode enables the MNC to exert the most control in decision-making.

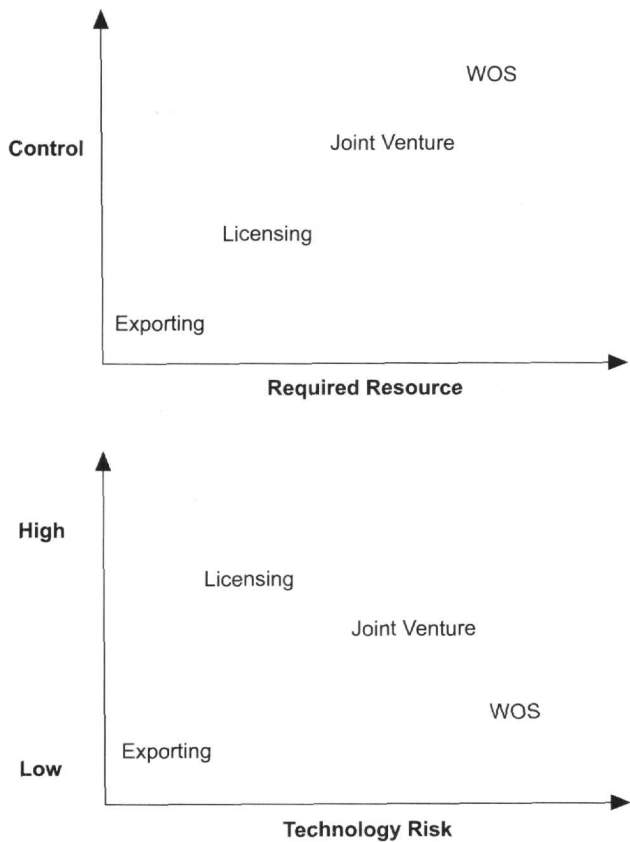
Technology risk is a third parameter of modal forms and decision-making. This

concept can be defined as the potential that a firm's applied knowledge (tangible and/or intangible) will be unintentionally transferred to a local firm. Some managers have referred to these undesired losses of technology as "bleedthroughs." In a licensing agreement, the risk of the licensee reproducing and using the licensor's technology in the future is fairly high. Joint venture partners may also learn and acquire unspecified elements of the other firm's technology in the context of their partnership. Technology risk is probably lowest in a wholly-owned subsidiary, since the operations are under the control of only one firm.

Resource commitment, control, and technology risk are highly correlated (Woodcock *et al.*, 1994). For example, as implied above, increased control leads to lower technology risk. Yet, control also requires increased resource commitment. Some researchers have argued that the entry mode decision consists mainly of determining the levels of resource commitment, control, and technology risk that the international entrant desires or can accept (Maignan and Lukes, 1997; Woodcock *et al.*, 1994). Since each mode has a certain level of each factor, the entry decision can seem clear cut.

In practice, the entry mode decision is highly complex. Besides the previously discussed qualities of each mode, there are a host of target market factors and within company factors that may affect decision-making. Certain antecedent conditions affect whether to use, say, a high control mode or a method that requires few resources. We designed a study to determine which factors are most important to managers of international firms in both the USA and Japan.

Figure 1
Key characteristics of modal alternatives



Research approach

To accomplish our objectives, two methods of data collection were utilized. First, we sent a mail survey to the CEO/President of 1,024 US manufacturing firms and 1,189 Japanese manufacturing companies that were doing international business. The US version of the questionnaire was printed in English and the version sent to Japan was printed in Japanese. A team of Japanese linguists translated and back-translated the survey to help ensure that the data from Japan were reliable. Eliminating undeliverable and unusable surveys, we received 165 responses from the USA and 178 from Japan for an effective response rate of 18 percent for the

US sample and 17.4 percent for the Japanese sample. For both the US and Japanese samples, t-tests indicate that responding firms are not statistically different from nonresponding ones, based on either average annual sales or average number of employees. Thus, it can be concluded that there is no evidence of nonresponse bias. Second, we conducted personal interviews in 12 multinational companies with 21 managers who were responsible for international mode of entry decisions. These interviews were used as follow up validation and to provide specific illustrations.

In the survey 63 items that measured an array of factors that may affect modal choices were included. Previous research has suggested a number of target market and company factors that may play a role in the selection of particular modes of entry (Aulakh and Kotabe, 1997; Erramilli and Rao, 1993; Kim and Hwang, 1992; Kumar and Subramaniam, 1997; Root, 1994). The target market factors include elements related to risk, competition, host government involvement, culture, partner availability and market size. Company factors include aspects concerning the organization's experience, resources/needs, and strategy. In the analysis of the results, the ten items with the highest means associated with each mode were identified for both the Japanese sample and the US sample. Then, any items that were listed among all of the four modes were eliminated, since the objective of the study is to uncover factors that affect the choice of one mode over another. An example of an eliminated item is "large potential market size." Across each of the modes, managers apparently were motivated to enter the market due to the large potential size. Thus, that factor appears to be important in the overall decision of whether to enter a foreign market, but it does not appear to have major influence on the choice of one form of entry over another.

For each of the four modal alternatives – exporting, licensing, joint ventures, and wholly-owned subsidiaries, a set of important factors emerged that distinguished the use of one mode from another. The following section discusses the major findings of our study. Differences in what is most important to US and Japanese managers will be highlighted.

Important factors affecting entry mode choices

Knowing the factors that were central considerations in the modal choices made by

other companies can improve a firm's strategies and decision-making. Understanding why certain factors are associated with particular entry mode choices can be useful in developing and predicting international strategies.

In our sample, exporting was the most frequently used mode of entry into a foreign country. However, when combined, the investment modes of joint ventures and wholly-owned subsidiaries were used even more than exporting. Licensing was the least frequently chosen mode.

Each manager evaluated the relative importance of a large set of factors that may have affected his/her decision to use a particular mode. The following section analyzes the decisions to select exporting, licensing, joint ventures, and wholly-owned subsidiaries. Differences between US and Japanese decision-making are highlighted in the discussion of key factors associated with the choice of each modal form.

Exporting

Target market factors, particularly competitive issues, are the most important factors associated with the use of exporting by US companies, while company factors are salient to Japanese managers who select exporting. The US firms who recently chose to use exporting to enter a foreign nation, highlighted the fact that their target market is very competitive and that their competitors' products are viewed as similar and easily substitutable by customers. In atomistic markets, with many non-dominant competitors, US managers favor the use of exporting, rather than direct investment. They feel that there is no clear advantage in using a high control mode that requires high levels of resources, such as a wholly-owned subsidiary. When the products are easily substitutable, customers are sensitive to price. Costs and prices may be lowest if production occurs in only a few locations around the world and the efficiently produced goods are exported to most markets, as in the pharmaceutical industry.

Japanese companies also use exporting in highly competitive markets, but for different reasons than Americans. Company strategy plays a major role. Japanese managers in our study stated that an important factor in the choice of exporting is that this mode is the quickest means to enter a new market. For strategic reasons, Japanese firms use exporting to prevent competitors from gaining first-mover advantages in new markets and to not be left behind. Previous studies have also shown that the Japanese have a preoccupation with competition,

especially with other Japanese firms (Anand and Delios, 1996; Genestre *et al.*, 1995).

Many Japanese managers prefer exporting as a mode of entry. When the host government does not require locally-produced content in goods sold in the nation, or make other restrictions on exporting, Japanese executives noted that this condition is an important factor in their choice of exporting.

Licensing

US companies often use licensing reluctantly. The three important factors in US managers' use of licensing all involve pressures from the host government. One factor associated with the use of licensing is that the host government can easily find alternative companies to do business with. When many foreign competitors attempt to enter a market, the host government has more bargaining power than an individual MNC. Thus, when the host government expects new businesses to be managed by nationals and when the government prefers the use of cooperative arrangements, an MNC who wants to enter the foreign market must comply with the government's modal preferences. A manager from a large US chemical company doing business in China explained his experience:

We really wanted to develop a manufacturing facility in China. But [a government ministry official] told us that that would take too long. They wanted us to do a licensing agreement with a manufacturer in Beijing. But we're not good at licensing. We did not want to do it. But we went along with them in order to create better relationships with the government. It definitely wasn't to make profit.

Since that time we have not made any money from the agreement. Worse, we feel cheated. [The licensee] now produces the same product, using our technology. In northern China they dominate the market with what is, basically, our product. We created a successful competitor.

Despite these inherent risks of losing a technology unwillingly, Japanese firms used licensing when their company had no viable modal alternative. This situation occurs when a firm wants to expand into a country, but lacks the capital to do so. In licensing arrangements, a local licensee contributes all of the capital to establish the business. Thus, licensing is a quick and easy way for firms to expand into other nations when they lack the resources to do it alone.

Another factor that is important to Japanese licensors is low political risk. When governments support foreign businesses and protect intellectual property, there is less

likelihood of licensees reneging on contracts or stealing technology. This condition of a target market with a stable, firm government produces low political risk, which encourages the use of licensing as a mode of entry.

Joint ventures

When manufacturing in foreign nations, US companies have shown a greater preference for joint ventures (JVs) than have Japanese firms (Nakamura, 1991). However, recent evidence from both Europe and Asia indicates that the Japanese are beginning to increase their use of JVs in those regions (Anand and Delios, 1996; Nitsch *et al.*, 1995). In the USA, where Japan expended more FDI in the 1990s than in Asia and Europe combined (US DOC, July 1997), Japanese firms have not felt as much of a need or desire to use joint ventures with US companies. An executive with Mitsubishi Semiconductor noted:

When we came to the United States, we asked other Mitsubishi companies to support us. If we had to develop everything from scratch or rely on (US) companies we are not familiar with, it would be more difficult.

Japanese firms entering and expanding in the well-developed US market, often are a part of a network of corporate affiliates and suppliers, called a *keiretsu*. Members of the same business group often exchange information and personnel. Thus, a firm can easily transfer knowledge about foreign markets and operations to other firms within the *keiretsu*.

However, our study shows that host government policies and preferences are an important factor when Japanese firms use joint ventures. US federal and state governments encourage Japanese direct investment rather than exporting; but they have not developed policies that encourage the use of JVs. Many other nations have encouraged the use of JVs as a means for local companies to acquire technology. It is well known that the two largest nations of Asia, China and India, have pressured MNCs to develop joint ventures with local firms, rather than to set up wholly-owned subsidiaries (Anand and Delios, 1996). A Chinese official told an MNC in the telecommunications industry that from a national sovereignty and national defense point of view, China cannot afford to rely only on production from abroad or from foreigners within their country, in an industry so critical as telecom. The official felt that China must learn how to develop telecommunication technology and establish its own network of manufacturers.

In contrast to the Japanese case, company factors, specifically, international experience and strategy, are most important for US companies that chose to use JVs. As a US firm gains experience internationally, it is more willing and able to commit the high levels of resources required to initiate and manage a JV or a wholly-owned subsidiary. Experience in exporting and/or licensing gives managers a better feel for a market, with a clearer perception of the risks and rewards of investing there. This increase in knowledge increases confidence and decreases risk aversion.

Several strategic factors are also associated with the use of JVs by US companies. Because of strategic decisions to participate in such large potential markets as China and India, firms may be willing to use a less preferable mode of entry, such as a JV. US respondents in our study stated that an important factor in choosing JVs is that they felt they would be at a competitive disadvantage if they did not set up a joint venture. Missing out on a major growth market leads to lower global market share.

The fact that technology is often disseminated from one partner to another in a joint venture is a motivation for a firm in a developing nation to establish a JV with a developed nation firm, and a reason for an experienced MNC to not use this mode of entry (Woodcock *et al.*, 1994). Yet, our research reveals that US companies are willing to set up joint ventures when the technology of focus in the JV is not a type that must be protected. The potential losses to the firm are lower when non-core technologies are exposed. Technologies that are not critical to a business or that are not proprietary are more often the basis of joint ventures than the opposite. A US executive explained:

We believe we have to be in control of our fate. We're nervous about a transfer of our core technology. Many markets have been invented and developed by us. We have a responsibility to our company to not allow some transfer that in the long-run would imperil our business.

Wholly-owned subsidiaries

Wholly-owned subsidiaries (WOS) offer firms the highest levels of control and the lowest technology risk, but they require the highest resource commitments. Target market factors are most dominant in Japanese firms' choice of WOS, while company factors are most important to US firms who use wholly-owned subsidiaries.

Japanese firms use WOS when the risks of investing in a particular foreign market are low (Sohn, 1994). Although no cases of

expropriation of foreigners' assets have been reported in the last 15 years, some companies still fear this drastic event and factor the possibility into their entry mode decisions. Hyperinflation and other economic crises can also increase the investment risk; so the Japanese prefer to use WOS in stable economies, such as the USA. In 1995 45 percent of all of their new FDI was in the USA, where they use WOS more than joint ventures (US DOC, July 1997). The Japanese are more risk averse than the Americans (Genestre *et al.*, 1995), so it is not surprising that investment risk is more important to the Japanese than to Americans.

The Japanese and Americans both seem to prefer to use WOS rather than joint ventures, since they both use WOS when host governments have open trade and investment policies. Government incentives for JVs and restrictions on WOS are important factors in modal choices. For example, expatriate managers in China report the following incentives for the use of JVs rather than WOS:

- greater freedom to use an array of promotional activities;
- lower tax rates on profits;
- fewer inspections and less government interference in daily operations;
- greater assurance of continuous electricity supplies;
- more infrastructure support, such as roads and water lines to the plant;
- easier access to local government-controlled raw materials and supplies.

Another target market factor that is especially important to the Japanese is the number of qualified partners available. The Japanese appear to have higher standards than Americans concerning qualities of a "good partner." Because Japanese firms are often unable to find suitable local partners, they tend to choose WOS more than JVs. US firms are learning from their mistakes that partner selection is a critical success factor in the operation of JVs.

One strategic factor that is particularly important to Japanese firms that use WOS is their commitment to respond quickly to competitors in foreign markets. Because of the high control possible in wholly-owned subsidiaries, this mode enables firms to act and react more quickly than when using joint ventures. It often takes less time to build a new facility than to select and negotiate with local JV partners. Several years may pass from the point of initial contact with a potential partner to the completion of negotiations and the signing of a JV contract. In addition, decision-making is often slower

in JVs, since multiple parties are involved in the process. After India liberalized its economy in the early 1990s, Kawasaki, Honda, and Suzuki all built new plants (Anand and Delios, 1996). A manager from Yamaha, which had relied on exporting only to serve India, stated that the main reason that they established a new manufacturing facility in India and committed many Japanese managers to the plant was to compete with their Japanese rivals in the motorcycle industry. Our findings on competitive response as reason for WOS are consistent with previous research that showed that Japanese managers use direct investment as a means to maintain a market position initially developed through trade (Kim and Kim, 1993).

Americans, too, are sensitive to competitors' actions. Managers mentioned that they felt they would be at a competitive disadvantage if they did not also invest in foreign facilities. "We can't afford not to set up a new plant in East Asia," stated one US executive in the pharmaceutical industry.

Wholly-owned subsidiaries have several advantages over joint ventures. Yet, few companies possess the resources to be able to establish operations independently. The US companies who chose WOS stated that one reason they did so was because they possessed the capital and local market knowledge to be able to "go it alone."

Conclusions and implications

Managers who attempt to seize new opportunities for growth and/or cost reduction in foreign markets face complex, significant modal decisions. First, managers need to understand the nature of each of their modal choices. Modes vary in terms of the level of control, the quantity of required resources, and the amount of technology risk. Then, several key target market and company factors must be analyzed. There are several factors that are important to both Japanese and US managers. Yet, Japanese and US managers have identified different factors that are most important to them in making modal entry decisions. Of the important factors to Japanese managers, the following list identifies those that are more important to Japanese than to Americans.

1. *Target market factors:*
 - Political risk.
 - Investment risk.
 - Host government local content requirements.
 - Qualifications of local partners.

2. *Company factors:*

- Need to respond to competitors.

In contrast, of the important factors to American managers, the following list identifies those that are more important to Americans than to Japanese.

1. *Target market factors:*

- Host government alternatives.
- Host government expectations for local managers.

2. *Company factors:*

- International experience.
- Need for local knowledge.
- Synergies among global operations.
- Competitive position.
- Need to protect technology.

Target market factors seem to be more important to the Japanese than to Americans; whereas Americans show more concern for internal, company considerations, when making mode of entry decisions. The Japanese, in particular, are sensitive to external risk. The political stability of the target market and the risk of losing their investments are important considerations to them. In high-risk situations, Americans may face less competition from Japanese firms. When investment risk is low, wholly-owned subsidiaries become a viable alternative to Japanese. However, exporting is often a preferred mode for Japanese firms. Japanese managers are attuned to nations that do not require local content, and often use exporting in those cases.

In addition, the qualifications of local partners are especially important in Japanese modal decisions. In many international situations foreign partners cannot be found that meet the standards of the Japanese. As a result, they do not choose to use cooperative arrangements. Managers should learn from the Japanese to be more careful in analyzing potential local partners. Joint ventures often do not perform as well as newly-developed wholly-owned subsidiaries (Woodcock *et al.*, 1994). One reason is that attempting to work with poorly qualified local partners undermines performance. The management costs may exceed the benefits of using weak partners.

The only company factor that is unique to Japanese managers is a strategic one. The Japanese differ from Americans in that they prefer a WOS over a JV because they can respond to competitors more quickly with their own subsidiaries. Both in initial set up time and in the time it takes to make new decisions, a WOS offers advantages over a JV. Both exporting and WOS seem more

flexible and appear to be faster means for the Japanese to enter a market than to try to develop a cooperative agreement with a local partner.

Regarding target market factors, US managers have a few unique considerations that they regard as important. Both the presence of other foreign firms for host government firms to choose from, and host government expectations of local management participation in foreign ventures affect US managers' modal choices in important ways. These situations are associated with the use of licensing. Licensing is often a "last choice" of US firms, but appears to be used when a government's bargaining power is strong, and the MNC is unwilling to comply with government regulations concerning joint ventures and wholly-owned subsidiaries.

Interestingly, US managers identified a large set of company factors, particularly strategic factors, that were important to them, but not to Japanese managers. This study reveals an important insight that joint ventures, rather than WOS, may be more appropriate for internationally-experienced US firms than for novice companies. Because of the difficulty in selecting appropriate partners and managing complex JV relationships, new firms should be cautious about selecting JVs as a mode of entry. Firms that know the local situation, and that have experience from elsewhere in managing JVs, may be best suited to use this cooperative arrangement. Another factor important in Americans' use of joint ventures is technology. When it is not crucial to protect technology, JVs are more likely to be used. However, with core technologies, wholly-owned subsidiaries are a superior mode of entry, due to the high control offered by this mode. Other strategic factors uniquely important to Americans include situations when synergies are important among global operations, and when the firm would be at a competitive disadvantage if it did not set up a venture in a foreign nation.

Managers from both nations are attuned to their competitors and to the relative bargaining power that results when negotiating modal choices in foreign markets. Both sets also recognize that the role of governments is a major factor in international business decisions. Even in so-called "open markets," governments provide incentives or encouragement for foreign corporations to use certain modes. In every nation where they want to do business, MNCs must know the "local rules" regarding local content requirements, market access requirements, etc., and play according to

those rules. Wholly-owned subsidiaries are used by both the Japanese and Americans when the regulations do not prevent full foreign ownership of corporations. Furthermore, when a firm can acquire capital and local market knowledge on its own, firms from both nations prefer wholly-owned subsidiaries over joint ventures.

Although modal decisions are complex, this article provides guidance to international managers and researchers, enabling managers from around the world to learn from US and Japanese companies that are involved in today's dynamic global business environment. Managers may also improve their ability to predict which modes of entry their competitors may select.

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