



# Firm-level Factor versus National Institutional Difference: Ownership Structure in a Foreign Subsidiary of a Japanese Logistics Firm\*

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## Abstract

When a firm undertakes foreign direct investment, it must determine the level of ownership in its foreign subsidiary. This study examines the determinants of the ownership strategy of a Japanese logistics firm from the perspective of international business studies (IB). The study focuses on firm-level factors, including “contributed assets” for shaping firm-specific advantage which a parent firm possesses, “complementary assets” which such firm may need to acquire in a foreign country, and international experience. It also analyzes country-level factors including the institutional difference between a home country and a host country. The study conducts a Tobit regression analysis on the relationship between such factors and the equity ownership level in a foreign subsidiary based on the data-sets of Japanese logistics firms.

**Key Words :** Ownership Strategy, Foreign Subsidiary, Firm-Specific Advantage, International Experience, Institutional Difference

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## **I. Introduction**

When a firm undertakes foreign direct investment by creating a foreign subsidiary, it must make decisions about its level of ownership in the subsidiary. The ownership strategy is the most important among various strategic decisions regarding foreign subsidiaries because it relates to effective control and governance of the foreign subsidiary and to its subsequent performance.<sup>1)</sup> If the firm desires a higher level of ownership, it may create a wholly-owned subsidiary; if it desires a lower level of ownership, it may opt to create a joint venture.

Firms in both the manufacturing and service industries have shown a dramatic increase in their levels of foreign direct investment. Logistics firms are no exception. As Figure 1 shows, Japanese logistics firms that are members of the Japan International Freight Forwarders Association increased their foreign subsidiaries between 1981 and 2011.<sup>2)</sup> Furthermore, their ownership strategies are more diversified. Some of these firms pursue a higher level of equity ownership in their foreign subsidiaries, while others opt for joint ventures with a lower level of equity participation. The firms also pursue different strategies according to different countries.

Few studies have explored the international ownership strategies of logistics firms with respect to foreign subsidiaries. Yet, logistics firms have been fast internationalizing themselves along the dramatic development of globalization of business. Their internationalization strategies, and especially their foreign ownership strategies, thus offer an important research opportunity to investigate whether logistics firms exhibit similar or different patterns of international business strategy compared with those of manufacturing firms and other services firms.

This study examines the ownership strategy of foreign subsidiaries of Japanese logistics firms from the perspective of international business studies (IB). The study focuses on both firm-level and host-country-level factors as determinants of the ownership strategy. The study conducts a Tobit regression analysis regarding the relationship between firm-level and host-country-level factors, on the one hand, and equity ownership levels of

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1) Delios and Beamish(1999)

2) Japan International Freight Forwarders Association(2012)

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