FOREIGN DIRECT INVESTMENT AND PERFORMANCE OF JAPANESE SUBSIDIARIES IN MALAYSIA

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ABSTRACT

This paper investigates the relationship between Japanese subsidiary's performance, entry mode, domestic variables, and international experience. We used a sample of 270 subsidiaries from Toyo Keizai Inc., Japan Overseas Investments, listed by countries, from 2005 to 2009. The purpose of this paper is to establish a relationship that is statistically significant with regard to the performance of Japanese subsidiaries, measured through subsidiary and parent company data. A logistic regression model has been applied in this research. The results reveal that domestic variables and international experience had influenced the subsidiary's performance. Moreover, a parent companies establishment and performance can create better performance for their subsidiaries, especially in parent profit to net sales and parent net sales per employee to an optimum level to retain their profitability.

KEYWORDS: *Entry mode; Foreign Direct Investment (FDI); subsidiary's performance*

1.0 INTRODUCTION

This study focuses on Foreign Direct Investment (FDI) and Multinational Companies (MNCs) with the aim of determining the main factors that contribute to the MNCs subsidiary's performance within a developing country. Host countries often associate the inflows of FDI with a wide variety of benefits; the most common of which, is the transfer of modern technologies. The extent to which a host country can secure these FDI benefits is likely to depend upon the mode of entry of foreign firms. To maintain or achieve competitiveness and profitability, a manufacturing firm or enterprise must respond to a range of challenges, including rapid improvements in technology, declining employment and output, globalization of markets, and environmental requirements.

MNCs play an important role in the process of global economic integration. Anderson & Forsgren (2000) reveals in their research that MNCs can provide intangible assets, such as advanced technology, rather than the MNCs stock of physical capital. The FDI, interconnected with MNCs, has already become an increasingly vital source for many developing countries to obtain international capital and advanced technology. Thus, the Malaysian government provides attractive policies for foreign investors and maintains a free market, in order to retain its existing investors and attract more potential investors.

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Therefore, various actions have been taken by the government to maintain the competitiveness of the country, including the reduction of corporate tax, down from 27% in 2007 to 26% in 2008; and a further reduction to 25% in 2009. Moreover, according to the International Institute for Management Development (IMD) World Competitiveness Yearbook 2010, Malaysia is the top ten most competitive nations among the economies. The overall index score for Malaysia also improved from 77.162 to 87.228 in year 2010.This is the highest index score recorded as Malaysia benefits from strong demand in Asia, as well as the implementation of efficient policies (World Competitiveness Yearbook, 2010).

The increase FDI inflow 2010 in Malaysia with 409% from US$ 1.4 billion to US$ 7 billion shows the increase investors confident and is an indication that Malaysia has recovered from economic downturn in 2009 (JETRO, 2009). Malaysia Ministry of International Trade and Industry (MITI) state that positive development can be attributed to the introduction of a series of bold economic reforms and new incentives as well as continuous improvement of government delivery system (MITI, 2010). Moreover, the World Bank Doing Business Report for 2011 ranked Malaysia as 21st position out of 183 countries in terms of ease of doing business. This improvement in raking from 23rd position 2010 further signaled the rigorous infrastructure and institutional strengthening as a result of public and private sector contribution in improving the overall business environment (The World Bank, 2011).

2.0   LITERATURE REVIEW

2.1   FDI in Malaysia

Malaysia is one of Japan's most important economic partners, and vice versa. The bilateral relationship has been both solid and stable, with close personal ties between both countries at official and private sector levels. Bilateral trade has significantly lengthened during the past decades. Referring to Malaysia Economic figures of 2009, Japan was the third largest export destination of Malaysia (at 71.79 billion Ringgit Malaysia, accounting for 10.8% of total exports) and the largest source of import (at 14.2 billion Ringgit Malaysia, accounting for 12.5% of total imports) for the year 2008. Furthermore, Table 1 shows the FDI statistics for the three main countries in Malaysia. Japan indicates the highest composition ratio (31.8) amongst the three countries. In Malaysia, the FDI for manufacturing (735 firms) and non-manufacturing (686 firms) had a small gap with 49 different companies in the year 2009 (Report and Statistics, 2010).

Currently, the impact of FDI on the economy and technology of the host country has caught the attention of international researchers. The reason for developing countries, such as Malaysia, attraction to FDI was to bring technology overspill effects through demonstration, imitation, reverse engineering, individual contact, diffusion of management skills, and the exploitation of the international market. This can shrink the gap in higher technology within developed countries, to upgrade industrial technology acceleration, and to raise technology indentations during the course of development (Chen & Chen, 2009).

Table 1. Foreign Direct Investment Statistics in Malaysia

Country	Composition ratio 2009	2006 Amount (Million RM)	2007 Amount (Million RM)	2008 Amount (Million RM)	2009 Amount (Million RM)
Japan	31.8	4412	6523	5595	7041
China	24.7	1885	2952	119	5478
United States	10.6	2477	3020	8669	2345
Total (Inc. Others)		20228	33426	46099	22145

Source: JETRO (2010)

Even though the background is as such, we only have a little knowledge and a few relevant empirical researches on foreign companies in Malaysia. When Malaysia makes it much easier for foreign companies to enter the country, and also when foreign companies respond to that in an encouraging manner, it is strategically important and useful to know more about them. While it is essential to develop more alternative models, theories, and frameworks, it is worth having more empirical research, in order to understand how the system functions in the market.

2.2   Subsidiaries Performance

Early studies concerning the performance of Japanese subsidiaries indicate that they recorded superior performance in developed countries but mixed results in developing countries. This is due to reasons such as strategy of transfer prices of intra-firm transactions, manipulation of the asset base of subsidiaries by MNCs which effect the rate of return on capital, host government tax and other policies, and etc. (Dunning & Lundan, 2008). More recent studies have examined the strategy to enhance the performance of foreign owned firms such in Korea, Pakistan and Malaysia (Lee & Rugman, 2012). While other studies attempted to establish whether there is any relationship between the degree of multinationality of firms and their overall performance.

Grant, Jammine, & Thomas (1988) used both categorical and Herfindahl index of product and international diversification on 304 UK MNEs and found that profitability in the domestic market contribute to foreign expansion in 1972-1984 periods, which in turn contribute positively to firm profitability. By contrast, Tallman & Li, (1996) using return on sales (ROS) as measure of performance and affiliate sales as proportion of global sales, and the number of foreign countries in which US MNEs were present offered strong evidence of positive performance effect of product diversification but limited effect from international diversification.

In the case of Japanese MNEs in early 1990s, Delios & Beamish, (2001) found that while their geographic scope was positively related to performance. While Geringer, Tallman, & Olsen (2000) study on performance of Japanese MNEs between 1977 and 1993 used the ratio of foreign sales to global sales (Overseas sales ratio) found that the

profitability of the MNEs was negatively correlated with the degree of international diversification, although the latter effect was not consistent over time. Reviews of the international diversification literature reveal a wide distribution of conclusions that favour a positive relationship between the degree of multinationality of firms and their financial performance, those that favour a negative one and those which are inconclusive. Part of the explanation for such difference could be to do with problems in the measurement of their multinationality or performance or indeed both.

Several suggestions have been made to improve the simple foreign to domestic sales, assets or employment ratio, by incorporating some measure of the degree of spread across countries, and the distribution of assets in those countries (Sullivan, 1994). Goerzen & Beamish (2003) suggested that the relationship between economic performance and geographical asset diffusion was positive while the diversity of host countries was negatively related to performance. Furthermore, Hennart (2007) identified four common explanations employed by the authors to justify a multinationality-performance relationship known as financial diversification, the exploitation of scale economies, greater flexibility and enhanced opportunities for learning. In each case, he argues that a persuasive case for the superiority of the financial performance of MNEs remains lacking.

From past studies above, various methods were used to measure the firm's performance including financial data, categorical data, Herfindahl index and other indicators. In this research, we are more interested to look into data from firm's financial statement. Additionally, financial statements represent the most reliable and most accessible source of information about the Japanese MNCs and their subsidiaries. It is also important to note that the effect of others factors into firm's performance such as entry mode, domestic variables and international experience can be different. Therefore, we include all these factors to find the relationship with the firm's performance.

Thus, here were the hypothesis for this research:
 i. **Hypothesis 1:** In the case of developing countries, joint venture entry mode performs better than wholly owned subsidiary.
 ii. **Hypothesis 2**: The higher the MNCs financial performance, the better the subsidiary's performance.
 iii. **Hypothesis 3:** The greater a MNC's international experience in the host country, the higher subsidiary performance.

3.0   METHODOLOGY

This study examines the relationship between entry mode, domestic variables, the international experience of Japanese companies, and the attained performance of their subsidiaries. The data for entry mode and the subsidiary's performance was derived from Tokyo Keizai Inc., Japan Overseas Investments, listed by countries (Toyo Keizai Inc, 2005-2009) with approximately 270 cases. The classification of entry modes is based on the percentage of share ownership of the major shareholders, as reported in this database. Furthermore, the subsidiary's performance data was derived from the self-assessed performance, as surveyed by Toyo Keizai Inc., by asking the top Japanese managers in each subsidiary to assess their performance in terms of financial profitability, using a three-point scale i.e., gain, break-even, or loss.

Performance data for the parent MNCs was obtained from two Japanese databases, using the year 2005 as the based year. The performance data was derived from the Nikkei Zaimu Database (Nikkei Inc., 2005) and eol DB Tower online services (financial report). The eol DB Tower online services provide annual financial analysis data of approximately 12,500 companies in nie Asian regions including Japan as a one-stop service. Our list of the foreign subsidiaries for the sample of Japanese firms was drawn from Kaigai Shinshutsu Kigyou Souran (Japanese Overseas Investment). Toyo Keizai Inc also compiles this information by conducting an annual mail and telephone survey of major listed and non-listed Japanese firms. Therefore, we use subsidiaries data collected by this database.

Malaysia, as a single geographical area, was chosen for the purpose of this analysis. This selection was made based on the large number of MNCs subsidiaries available and the diplomatic relationships between Japan and Malaysia that were established since in 1957. The data consists of manufacturing firms and services firms. Based on establishment and enterprises census analysis conducted by (Ito & Fukao, 2001), they found that determinants of Japan's inward FDI penetration are very different for manufacturing sector and the service sector. Therefore, we divided the sample for this research into two categories knows as manufacturing and non manufacturing/service firms.

The data analysis used the subsidiary's performance as a dependent variable and other different characteristics of the parent company and subsidiaries, as proxies for the independent variables. A logistic regression model was applied in this research and suggested focus on performance amongst the selected MNCs subsidiaries.

4.0 FINDINGS AND DISCUSSION

4.1 A Descriptive comparison of the Samples

In comparing some of the descriptive statistics of the sample from Malaysia, some facts are worthy of mention. Malaysia, with 735 manufacturing subsidiaries and 686 non-manufacturing subsidiaries, is well balanced with a nearly equal percentage. The main activities of manufacturing subsidiaries, is machinery and transport equipment at RM38.38 billion, whilst manufacturing goods at RM14.03 billion. According to (Cespedes & Hoshino, 2001), Japanese companies establish subsidiary's in developing countries, to carry out their production activities, to sell their products, and to offer after sales services. In terms of entry mode for Japan MNCs subsidiary's into Malaysia, more than 55% were joint-venture ownerships, while the rest were wholly owned.

4.2 Testing for the relationship between entry mode and a firm's performance

In this research, classification of performance was measured by three categories 'gain', 'breakeven', and 'loss'; instead of 'high' and 'low' performance. Two tests were employed to determine if a statistically significant relationship existed between ownership and performance. Those tests were 1) Pearson Chi-Square and 2) Levene's test. Levene's test is similar to a *t*-test, which is used to see whether variances differ in different groups. Therefore, if the Levene's test is significant at $p \leq 0.05$, confidence can

be gained in the hypothesis that the variances are significantly different and that the assumption of homogeneity of variances has been violated. For this data, Levene's test is non-significant (because $p = 0.073$, which is greater than 0.05) and researchers have to reject the null hypothesis, assume that the variances are roughly equal, and the assumption is tenable.

Table 2 shows the results for the performance (mean and percentages) and entry mode classification. Based on these findings, the two-tailed value of p is 0.246, which is greater than 0.05. Therefore, this does not indicate a significant value and we must conclude that there was no significant difference between the means of ownership and the Japanese subsidiary's performance. In other words, entry mode does not have any impact on MNCs subsidiary performance. Hence, the first hypothesis that stated, "MNCs subsidiary's entering through wholly owned investments are more likely to perform better than those entering through joint venture" is rejected.

Table 2. Performance Breakdown by Entry Mode

Ownership	Performance			Performance Mean	No. of cases
	1 **Loss**	**2** **Breakeven**	**3** **Gain**		
Wholly	4.2%	7.7%	31.8%	2.63	114
Joint Venture	2.7%	12.2%	41.4%	2.69	147
Totals	6.9%	19.9%	73.2%		261
Test				**Significance**	
Pearson Chi-Square				0.246	
Levene's Test				0.073	

This result is similar to (Mansour & Hoshino, 2001) but contradictory to several past researches (Oswald & Jahera, 1991; Woodcock, Beamish, & Makino, 1994; Nitsch, Beamish, & Makino, 1996). It also shows that there was no consistent association between entry mode and financial performance.

4.3 Binary Logistic Regression

Logistic regression is a multiple regression, but with an outcome variable that is a categorical variable, and predictor variables that are continuous or categorical (Field, 2009). In logistic regression there are two types of regression known as 1) Binary logistic regression, used to predict the membership of only two categorical outcomes. 2) Multinomial logistic regression, used to predict membership of more than two categories. Therefore, in this research, both methods were used to analyse the Japanese subsidiary's performance, based on the Japanese manager's assessment of his or her subsidiary's financial performance.

Binary logistic regression was applied for each of the independent variables, in order to determine the significance of their effect on subsidiary performance and to test if the sign of their correlation followed the hypothesis outcome. According to Makino and Delios (1996), a positive sign for a regression coefficient indicates that the variable increases the likelihood of higher performance, while a negative sign indicates an increase in the likelihood of lower performance. The hypothesized signs and the results

of the binary logistic regression are shown in Table 3. The main findings are discussed below.

In the case of Malaysia, the domestic variables measured by financial data, show that the parent's net sales per employees and parent's net profit ratio, has a positive sign, and is significant for the years 2005 to 2009. This provides support for hypothesis 2, which stated that the higher the MNCs financial performance, the better the subsidiary's performance. This result is consistent to the findings by Mansour & Hoshino (2001) and Isobe (1998). It seems that, the large size of the investor is a significant predictor of good performance, when the other variables are taken into account.

We used unknown parameter (*B*) and standard error (*SE*) from our analysis to support our findings. Besides, the parent's overseas sales (*B = - 3.993, SE= 1.754)* and R&D per operating value (*B = - 1.784, SE= 0.634)* indicates a negative value and significant result *with* p at less than .05. The negative value in this finding indicates that an increase in the parent's overseas sales and R&D by one standard deviation may reduce the subsidiary performance. Thus, it support the general knowledge that the objectives of the parent company is also affected the subsidiary's performance which was also mentioned by Ajami et al., (2006). Therefore, when parent company decided to increased their overseas sales, this decision may benefits the MNCs in the aggregate but reduces the subsidiary's performance.

Table 3. Binary Logistic Regression

Independent Variables	Manufacturing		Service	
Included	**Model 1**	**Model 2**	**Model 1**	**Model 2**
Constant	12.799[a] (11.976)[b]	14.791 (12.896)	-1.312 (1.856)	-18.630 (5033.843)
1. **Parent Overseas Sales**	-3.993** (1.754)	-4.038** (1.749)		
2. **Parent Net Sales/Employee**	0.023** (0.010)	0.023** (0.010)		
3. **Parent Net Profit Ratio**	0.920** (0.345)	0.980** (0.384)		
4. **Parent ROE**	-0.107 (0.059)	-0.119 (0.069)	0.055 (0.080)	0.051 (0.112)
5. **Parent Depreciation Expenditure/ Net Sales**	1.255 (0.739)	1.214 (0.702)		
6. **Parent R&D per operating value**	-1.784** (0.634)	-1.751** (0.587)		
7. **Subsidiary Age**	0.611** (0.194)	0.587** (0.203)	0.292** (0.140)	0.211 (0.139)
8. **Parent Solvency Ratio**	0.091 (0.057)	0.074 (0.056)		
9. **Parent Age**	-0.327 (0.309)	-0.339 (0.335)		
10. **Parent Growth Revenue Average**	-0.0044 (0.127)	0.013 (0.142)		
11.**Entry Mode (Wholly owned)**		-0.473 (1.282)		17.782 (5033.843)

Model Indices				
Number of cases	179	179	91	91
Log likelihood	26.631	25.832	19.327	16.735
Classification result	98.4%	98.4%	97.8%	97.8%
Chi-square	69.822**	65.642**	7.047**	9.639**

*significant at the 5% level
a: parameter (*B*)
b: standard error (*SE*)
Note: The blank table indicate that these variables are not included in the analyses

Our results shows that the degree of international experience, measured by subsidiary age, has a positive and significant effect on performance for years 2005 to 2009 (*B =0.611, SE= 0.194)*. Moreover, Mansour & Hoshino (2001) in their research on Japanese investement in Europe with 98 samples of companies found that the subsidiary's age results are both robust and consistent. This also follows the configuration findings of Ramaswamy (1993) and accoding to Freeman, Carroll, & Hannan, (1983) in their research on age variation in organizational death rates found that, there is indeed a liability of newness death rates at early ages are much higer than those at later years. Therefore, we can conclude that there was a positive correlation between age and performance and therefore, support for the third hypothesis.

4.4 Multinomial Logistic Regression

We performed two sets of data analyses which are binary logistic regression and multinomial logistic regression The first test used binary logistic regression, where the dependent variable (performance) was grouped into two categories ('gain' and 'loss'). Instead of two categories, we also ran multinomial logistic regression for performance, based on three groups ('loss', 'break-even' and 'gain').

Table 4 and Table 5 show the multinomial logistic regression for manufacturing and service sector, instead of the binary logistic regression. The dependent variables in multinomial logistic regression work in the same way as the categorical independent variables do. In this research, one of the categories of dependent variables is taken as a reference category and a comparison is made between the remaining categories and the reference.

For this analysis, 'loss' was assigned as the reference category and a comparison was made between 'gain' and 'loss' and 'breakeven' and 'loss'. The coefficients of these independent variables were interpreted as the contribution of the specific independent variable, to gain an outcome instead of a loss in the first case, or of a breakeven situation instead of loss in the second case. A positive sign shows a positive contribution to performance, while a negative sign shows the opposite.

Table 4 includes the same variables that were used in the binary logistic regression. For the coefficient of the domestic variables and international experience, parent company profitability ratio, R&D per operating value and subsidiary age results were both robust and interesting. Multinomial logistic regression is capable of providing detailed

information, by observing the influence of each independent variable on subsidiary performance. Previous analysis using binary logistics shows that 'subsidiary age' has a positive impact on subsidiary performance. Multinomial logistic regression shows that 'subsidiary age' has a positive influence, by generating a 'gain' instead of a 'loss performance'. Therefore, for manufacturing sector, the statistical analysis shows that, by increase one unit in subsidiary age, the multinomial log-odds of prefer to getting gain or breakeven performance would be expected to increase by 0.304 units for gain and 0.268 units for breakeven performance. This statistical result has support the OLI paradigm which ownership advantages' such as MNCs experience measured by subsidiary age variable give the ability to the parent company to develop product differentiation in host country (Dunning, 2000).

Another point related to the statistical significance of the variables. Whilst in the binary analysis, five independent variables are significant; in the multinomial analysis, we found only four variables are significant ('parent net profit ratio', 'parent R&D per operating value', 'parent overseas sales' and 'subsidiary age'). In multinomial logistic regression, the results show in details the performance of each significant variable. In Table 3 and Table 4, the parent overseas sales variable indicates negative value and significant result. However, in Table 4, the result reveal reveal that this negative significant value is related to breakeven to loss performance which means that increase on parent overseas sales may increase the chances for subsidiary to get loss performance than breakeven performance. Moreover, the other two from three significant variables (parent net profit ratio and subsidiary age) show that these variables have influence by generating a 'gain' performance instead of 'loss' performance. The third significant variable, which is the parent R&D per operating value have contrary result because holding a negative sign. It mean that, the multinomial log-odds of getting 'gain' performance to 'loss' performance would expected to decrease when this variable increase by one unit. However, neither binary analysis nor multinomial analysis has enough evidence to explain the significance between 'entry mode' and 'subsidiary performance.'

Table 4. Multinomial Logistic Regression for Manufacturing

	Model 1				Model 2			
	Gain/Loss		Breakeven/Loss		Gain/Loss		Breakeven/Loss	
Intercept	6.689	(9.004)	0.521	(9.743)	4.595	(9.101)	-1.867	(9.978)
Parent overseas Sales	-1.656	(0.879)	-2.214**	(0.923)	-2.389	(1.297)	-3.041**	(1.342)
Parent Net Sales/ Employees	0.008	(0.005)	0.008	(0.005)	0.008	(0.005)	0.007	(0.005)
Parent Net Profit Ratio	0.420**	(0.157)	-0.015	(0.212)	0.426**	(0.169)	0.026	(0.224)
Parent ROE	-0.043	(0.037)	0.092	(0.075)	-0.048	(0.04)	0.078	(0.079)
Parent Depreciation Expenditure/ Net Sales	0.389	(0.409)	0.747	(0.422)	0.552	(0.462)	0.874	(0.476)
Parent R&D per operating value	-0.659**	(0.296)	0.477	(0.305)	-0.781**	(0.355)	-0.671	(0.375)
Subsidiary Age	0.304**	(0.094)	0.268**	(0.099)	0.351**	(0.130)	0.268	(0.138)

Parent Solvency Ratio	0.024	(0.034)	0.023	(0.034)	0.028	(0.034)	0.028	(0.034)
Parent Age	-0.155	(0.219)	0.012	(0.236)	-0.064	(0.248)	0.162	(0.269)
Parent Growth Revenue Average	0.114	(0.100)	-0.019	(0.106)	0.083	(0.102)	-0.043	(0.112)
Entry Mode **Wholly**					1.118	(1.106)	0.111	(1.212)
Joint venture					0		0	

Note: ** significant at the 5% level.
: The blank table indicate that this variable is not included in the analyses

Table 5. Multinomial Logistic Regression for Services

	Intercept	Parent ROE	Subsidiary Age	Entry Mode	
				Wholly	**Joint venture**
Model 1 Gain/Loss	-0.211 (1.558)	0.028 (0.054)	0.166 (0.100)		
Breakeven/Loss	-0.783 (1.622)	0.017 (0.055)	0.145 (0.102)		
Model 2 Gain/Loss	1.076 (2.065)	0.019 (0.063)	0.131 (0.100)	-1.183 (1.275)	0
Breakeven/Loss	0.264 (2.130)	0.010 (0.064)	0.114 (0.102)	-0.840 (1.320)	0

Note: ** significant at the 5% level.
: The blank table indicate that this variable is not included in the analyses

5.0   CONCLUSION

This study extended ideas based on an evolutionary perspective on MNCs to develop unique approach to the study of the performance of Japanese subsidiaries in host country. We evaluated the data using binary and multinomial logistic regression to examine the relationship between parent financial data against subsidiary performances in host country.

The subsidiary's performance, as dependent variable, was measured using three categories ('gain', 'breakeven', and 'loss'). While, ten different characteristics of the parent and subsidiary companies were used as proxies for independent variables. A binary logistic regression model and multinomial logistic regression model were applied in this research. As a preliminary step to the application of the logistic regression, we used correlation analysis to identify any correlations amongst the independent variables that could threaten the stability of the logistic model. For using binary logistic regression, five out of ten of the independent variables were significant with subsidiary performance, while only four significant variables were found in multinomial logistic regression in the case of Malaysia. The five significant variables were 'parent's overseas sales', 'parent R&D per operating value', 'parent net sales per employees'

'parent net profit ratio' and 'subsidiary age', with a p value less than 0.05 and associated with subsidiary performance.

The relationship between ownership and a firm's performance was an important issue and has been an on-going discussion in corporate finance literature since the classic work of Berle & Means (1932). They suggested an inverse relationship between the divergence of ownership and firm performance. Previous researches, using various methodologies, have focused on the relationship between ownership and firm's performance with mixed findings. A study conducted by Oswald & Jahera, (1991); Holthausen & Larcker (1996) found a positive relationship between ownership and performance. Their findings showed that entry mode has a significant relationship with firm performance (Oswald & Jahera, 1991). In this paper, we used both binary and multinomial logistic regression to test the relationship between entry mode and firm's performance. However, none of the results revealed a statistically significant relationship between these two variables. Our insignificant findings may due to single country data with limited number of subsidiaries and this finding have a similar result to (Mansour & Hoshino, 2001; Cespedes & Hoshino, 2001). Therefore, these findings rejected the first hypothesis.

As suggested by Riedl & Srinivasan (2007), we used financial statement data as a mechanism to assist them in better identifying and understanding the firm's performance. Therefore, in this research the result shows that parent financial performance, such as parent net sales/employees ratio and parent net profit ratio, have a positive effect on subsidiary performance in line with Mansour & Hoshino, (2001); Konopaske, Werner, & Neupert, (2002). Moreover, in this paper we also consider the effect of international experience on performance. Subsidiary age was found to be positively significant to the subsidiary performance, confirming the findings of Mansour & Hoshino (2001); Ramaswamy (1993); Li (1995); Siripaisalpipat & Hoshino (2000); Freeman, Carroll, & Hannan (1983). Thus, these findings support both the second and the third hypotheses in this research.

Based on the research data from Toyo Keizai and eol Tower Database, we indicated that parent's performance and activities have significant influence towards their subsidiary's performance. This study also contributes to theoretical and practical implications of Malaysia FDI. These research findings have increased the understanding and exposure of the current situation regarding Japanese subsidiary performance in enhancing and remaining their investment in Malaysia. For theoretical and practical implications, this study contribute significantly to the development of a general FDI theory by using new variables for performance measurement in the case of Japanese subsidiaries in Malaysia from year 2005 until 2009. Furthermore, this research produces a theoretical framework that shows the significant relationship between parent and subsidiary's variables that influence the subsidiary performance. Parent's net sales per employee and parent's net profit ratio show positive value and significant towards the subsidiary performance at host country. Therefore, when parent company increased their net sales and net profit, it may have positive implication towards their subsidiaries performance.

On the other hand, Parent overseas sales and parent R&D per operating value variables have negative implication towards subsidiary performance. Parent companies have to give serious consideration when expending their overseas sales because it may affect the performance of their subsidiaries in the host countries. Therefore, the strong

competition among Japanese subsidiaries in foreign countries, especially in the Asia Pacific Region may influence the performance of Japanese subsidiaries in Malaysia.

This research also found that international experience measured by subsidiary age variable was significant for manufacturing and service sector in binary logistic regression analysis. This significant finding is consistent with ownership advantages in OLI paradigm by Dunning (2000) where international experiences give the ability to the parent company to develop product differentiation and at the same time improve subsidiary's host market competitiveness. Thus, the more the international experience the better subsidiary performance. Additionally, Warusawitharana(2012) found that average profitability changes systematically with firm's age. In early stage, firms realize substantial profitability increase, while mature firms face slow decline in profitability. Seems that the result show positive significant value, thus we can conclude that the Japanese subsidiaries in Malaysia was in the early stage and still obtain high performance.

Overall, this study has revealed important variables associated with Japanese subsidiaries performance to ensure the survival and growth of Japanese FDI in Malaysia. However, the study does have several limitations. Firstly, the data published by Toyo Keizai Inc. gave us the performance of every Japanese firm, based on the opinion of their top manager, and not based on their financial statements. Nevertheless, we cannot avoid this problem since this is the only available source of data. Secondly, the dependent variable in this research relied heavily on subsidiary performance. Normally, it is more desirable to include several indicators to measure the accuracy of business performance, such as sales growth. Hence, it would be interesting to combine actual financial data and a self-assessment questionnaire; completed by the MNCs subsidiary's in Malaysia and conduct some analyses. Future research should look into determining the critical financial factors that may contribute to sustain the Japanese Subsidiaries performance at the host country.

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