

ESTABLISHED FOREIGN SUBSIDIARY ATTITUDES TO THE ENVIRONMENT: AN AUSTRALIAN PERSPECTIVE

Paul Kalfadellis, Judy Gray & Susan Freeman

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Abstract

This article identifies the environmental factors that impact on established foreign subsidiaries operating in Australia. A survey of 356 foreign Multinational Enterprise (MNE) subsidiaries from North America, Europe and Japan operating in Australia revealed that infrastructure, agglomeration, investment location image, government support, input costs, government costs, safe environment and market size were the critical factors that impact on subsidiary attitudes to the environment in which they operate. Attitudes to the Australian environment revealed that the foreign MNE subsidiaries consider Australia to have a safe environment for investment. However MNEs subsidiaries had a negative attitude towards government costs and the degree of post investment government support being received. Discernable differences were evident in these attitudes among Japanese subsidiaries and those subsidiaries involved in manufacturing. The key considerations for Australian governments is to highlight the safe environment Australia offers, alleviate high taxes and bureaucratic hurdles for conducting business, and provide more government support post the initial investment.

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INTRODUCTION

The increasing flow of investment monies in the world economy has resulted in a twelve-fold growth between 1982 and 2001 of world-wide Foreign Direct Investment (FDI) inflows from USD59bn to USD735bn (UNCTAD, 2002). The growth of FDI has provided challenges for national and regional governments in trying to attract and cement some of those investment inflows into their territories. Benefits to locations such as employment, capital formation, knowledge and skill transfer, and the formation of specialized industry clusters (Loving, 2003) are argued to accrue to the location which not only seeks to attract but develop the foreign Multinational Enterprise (MNE) subsidiary in its domain. This paper aims to understand and identify the environmental factors that are likely to impact upon foreign subsidiary development in Australia. Subsidiary development refers to the process through which MNE subsidiaries enhance their resources and capabilities and in doing so add increasing levels of value to the MNC as a whole (Birkinshaw & Hood, 1998a)

The motives for international production and the existence of the MNE are underpinned by three factors that are brought together in Dunning's Eclectic Paradigm (Dunning, 1980, 1988). The ability of the MNE to exploit firm specific assets (e.g. knowledge, patents, and technology) (Hymer, 1976) when operating internationally provides it with an advantage over local competitors. The MNE locates operations in foreign markets that offer some advantage making it profitable to produce or manufacture there, when compared to exporting the product to that market (Dunning, 1993). Location advantages which have been shown through empirical testing to impact on the initial decision of MNEs to locate in a specific place include availability of resource endowments, proximity to clients, market size, market growth, wage costs, other production costs, transportation costs, political stability, cultural and social factors, host government regulations and taxation policy, agglomeration economies, and developed infrastructure among others (Dunning, 1993). The MNE also seeks to reduce transaction costs by internalizing the operations of the market (Buckley & Casson, 1976) through the establishment of worldwide multi-plant subsidiary operations (Casson, 1982). Subsidiary operations and operating costs are thus intrinsically linked to spatial considerations in the functioning on the MNE.

The worldwide growth of dynamic local environments has resulted in locations facing a diminishing ability to influence MNEs which today have many options available to choose from in terms of sites to locate operations (Raines, 2003). Competition for mobile investment has resulted in national and regional governments becoming engaged in "location tournaments" outbidding each other in trying to attract MNEs to establish 'greenfield' operations within their region, but also just as importantly seeking to retain those investments in their domain. Australia in this regard is no exception. Australian ministers (Costello, 2001) and government web sites (*Invest Australia*, 2005) both at the national and sub-national state level extol the virtues of Australia (including the various States) as a destination for FDI. State governments in Australia have often sought to outbid each other in order to attract foreign MNEs to set up operations in their state and have also sought to take action to prevent MNE subsidiaries from leaving their domain.

This study focuses on Australia which has traditionally opened its economy to foreign capital encouraging MNEs to locate their operations within its shores. Australia's economic development into an industrialized nation can be largely attributed to the inflow of foreign capital (Thorburn, Langdale, & Houghton, 2002). The reliance on foreign investment in Australia underpinned the development of rural, mining, housing and manufacturing industries and foreign capital borrowings supplied the finance for the public infrastructure of the colonies prior to federation (Arndt, 1977; Kasper, 1998). Australia continues to attract foreign direct investment. In 2002 Australia recorded FDI inflows of USD14 billion, the highest level on record since the early 1990s (Golub, 2003).

Although there have been some studies on the determinants of inward FDI into Australia e.g. from America (Brash, 1966), from Japan (Nicholas, Purcell, Whitwell, & Kimberley, 1996), and empirical analysis of secondary investment data (Tcha, 2001; Yang, Groenewold, & Tcha, 2000), there is a lack of studies that address the issue of environmental determinants of location post the initial attraction of the FDI decision into Australia. It is this paucity in the research literature that this study seeks to redress.

RESEARCH ON FOREIGN SUBSIDIARIES

Headquarters –Subsidiary Relationship

Research on foreign subsidiary operations can be delineated along three lines of investigation (Birkinshaw & Hood, 1998a). The initial research in the early 1980s sought an understanding of the headquarter-subsidiary relationship. The dominant view of this relationship at the time saw the MNE as a hierarchical organization, controlled from central headquarters with subsidiaries acting as an instruments of the centre and whose roles were limited to local sales and manufacturing (Birkinshaw & Hood, 1998a). This relationship is underpinned by transaction cost theory whereby headquarters maintains control by internalizing worldwide operations. Issues of central control and formalization (Gates & Egelhoff, 1986; Hedlund, 1981), and control and co-ordination (Brandt & Hulbert, 1976; Cray, 1984) reflect upon this dyadic relationship between headquarters and subsidiary.

Subsidiary Roles

The mid 1980s saw research develop further by moving away the focus away from the headquarter-subsidiary relationship to consider the role of the subsidiary in explaining MNE operations. The subsidiary was seen as encompassing different roles having multiple relationships with different players both inside and outside the firm (Birkinshaw & Hood, 1998a). The role of the subsidiary was researched in relation to the industry sector in which it operates (Jarillo & Martinez, 1990) the local business environment (Ghoshal & Noria, 1989) and the relationships with other subsidiaries in the MNC network (Gupta & Govindarajan, 1991). The subsidiary becomes the unit of analysis rather than its relationship with headquarters (Birkinshaw & Hood, 1998a). Moving away from MNE operations explained by hierarchical control this line of inquiry sought to explain MNE operations from a transnational, networks and heterarchical perspective (Birkinshaw & Hood, 1998a).

Among a number of studies which sought to provide a typology of subsidiary roles (Bartlett & Ghoshal, 1986; Ghoshal & Noria, 1989; Jarillo & Martinez, 1990), White and Poynter (1984) in research conducted into Canadian based subsidiaries established one of the first typologies that identified five subsidiary roles. These were *marketing satellites* (marketing a standard product at a local or national level, no product development), *miniature replicas* (production of parents products in local plant, possible adaptation of the product), *rationalized manufacturer* (certain products produced locally for global market development still with parent but some local development also), *product specialist* (development, production and marketing of limited range of products for global markets, characterized by self-sufficiency) and *strategic independent* (freedom and resources to develop new products and markets. Delany (1998) sought to extend the White and Poynter (1984) typology by suggesting subsidiaries had basic mandates – incorporating miniature replicas, marketing satellites and rationalized operators (as distinct from rationalized manufacturers – the difference being an incorporation of product development), an intermediate mandate or enhanced mandate (one does not have control of the entire value chain of a business unit but has activities in a number of parts of the value chain) and advanced mandates incorporating the strategic independents and the product specialist although the product specialist role does not need to have total autonomy (as per White and Poynter (1984)) but substantial autonomy for its range of products. What the typologies assume is the development of the subsidiary via the movement from one level to another through the addition of value added activities (Taggart, 1998). As such

they are not static and underpin the essence of the third line of inquiry according to Birkinshaw and Hood (1998a) that of subsidiary development

Subsidiary Development

Subsidiary development refers to the “process over time through which MNE subsidiaries enhance their resources and capabilities and in doing so add increasing levels of value to the MNC as a whole” (Birkinshaw & Hood, 1998a:2). Often the subsidiary is initially set up as a branch plant and then takes on more value adding activities such as manufacturing or research and development (R&D) (Birkinshaw & Hood, 1997).

According to Birkinshaw and Hood (1998a) subsidiary development is an important area of investigation and research in that it aids in understanding the growth and evolution of MNE from a centrally controlled organization to one built on networks of internationally dispersed value adding activities. It also helps not only in our understanding of the growth of the firm but also its impact on the local environments in which the subsidiary operates because it draws upon and contributes to the development of the economy of the host country.

MNE SUBSIDIARY AND THE ENVIRONMENT

Despite operations proceeding effectively in a location, higher real wages and input costs emerging in a location may mean that MNEs may seek to migrate operations to other locations that replicate the initial conditions found in the former location. However, such consequences are not inevitable if subsidiary operations can be embedded into the local economy, thus ‘sticking’ to the location (Pearce, 2001). According to Birkinshaw and Hood (1998b), after the initial investment decision has been made to locate in a specific place, MNE subsidiary development in a location develops as a result of three factors. *Head office assignment* whereby central worldwide headquarters determine along which trajectory the subsidiary will follow in the future; *subsidiary choice* whereby subsidiary management takes decisions which impact on the subsidiary’s evolution within a location. *Local environmental determinism* is where the role of the subsidiary will be dependent upon its functioning and interaction with the opportunities and constraints in the local market. Thus identifying the environmental factors that impact upon subsidiary development is inherently linked to environmental determinism. The environment can have a significant influence on the evolution and success of subsidiaries in specific locations (Benito, Groggaard, & Narula, 2003). Subsidiary development is in part driven by the dynamism of the local business environment in which business operates (Birkinshaw & Hood, 1998b). Despite this, Benito et al (2003:444) argue that there is a lack of research “relating subsidiary development to exogenous factors that are not firm, network and/or industry specific” in comparison to the well established research showing the development of subsidiaries through internal factors such as head office strategy, networks and subsidiary management (Benito et al., 2003).

Benito et al (2003) and Birkinshaw and Hood (1998b) argue that whether a subsidiary is likely to establish itself in a host location is dependent upon the quality of the location advantages offered by the location. They also point out that MNEs prefer to engage in repeat investment in locations where they have prior experience despite less than optimal results. MNEs that have invested in high value adding activities often find themselves ‘staying put’. Embedding with local institutions, suppliers, and customers, establishing links both formal and informal often means that firms are not keen to change and are content to maintain operations so long as they maintain competitiveness (Benito et al., 2003). Exiting a location often means suffering costs associated with exiting but also incurring start up costs in a new location which can be substantial (Narula, 2002). This then suggests that where a MNE is comfortable with the environment in which its subsidiaries operate, it may be content to stay and keep investing in the location rather than divesting its operations.

Studies carried out by Birkinshaw and Hood (1997) in Canada and Scotland found that local environmental characteristics factor into the decision to invest in or upgrade a subsidiary. Despite this potential influence of the local environment on subsidiary development, evidence of the relationship between the two is rather limited (Birkinshaw & Hood, 1998b).

In examining MNEs repeat investment within a location, Fuller and Phelps (2004) surveyed companies in the electronics-related sector in Wales and Ireland. They sought to determine the environmental factors that encouraged repeat investment among foreign MNEs. They found that traditional cost-based advantages relating to labor including proximity to market, grant assistance and tax incentives (with regard to Ireland) that were also associated with the initial investment location decision were also important in the decision to repeat investment.

These factors were considered more important than after-care services (the provision of post investment support by investment agencies) in attracting repeat investment into both Wales and Ireland. This is in contrast to agglomeration economies, transport and communication infrastructure and transport costs which were of less importance than after-care services in the repeat investment process of subsidiary establishments (Fuller & Phelps, 2004). However, Fuller and Phelps (2004) did note this issue required more in-depth analysis considering the qualitative nature of their inquiry.

Consequently, there is an important need to understand and to identify the key environmental factors that impact upon foreign subsidiary development in a location and to determine whether these factors are the same as those factors that attract the initial FDI to a location. Phelps and Fuller (2000) argue that the role of the multinational and its status within a region is closely related to the track record in winning repeat investment.

Despite a plethora of studies investigating the location advantages of the initial foreign direct investment (FDI) decision (Mudambi, 1995; Scaperlanda, Balough, & Lunn, 1983; Tatoglu & Glaister, 1998; Terpstra & Yu, 1988; Woodward, 1992), comparatively little attention in the literature on foreign direct investment has been given to the impact of the location on the subsidiary once it has been established (Birkinshaw & Hood, 1998b). Little is known about what environmental factors in a location influence subsidiary development and lead to repeat investment behavior (Fuller & Phelps, 2004).

Little attention in the literature on foreign direct investment has been paid on the impact of the environment on the subsidiary once it has been established in a location (Birkinshaw & Hood, 1998b). Pearce (2001:51) in a similar vein argues that, "...too much analysis and policy relating to inward investment focuses on short-term issues involving the attraction of new FDI. Not enough attention is paid to the subsequent medium and longer-term concerns of securing a sustained contribution to processes of industrialization and development from the operations established." In light of the preceding discussion this study seeks to address this deficiency by:

1. identifying the key environmental factors that impact upon the foreign subsidiaries that have already established operations in Australia by means of factor analysis
2. examining the attitudes of these foreign subsidiaries towards the environment in which they operate
3. determining whether there are any discernable differences in attitudes by foreign subsidiaries to the environment in which they operate in the context of their geographic origin, industry, size, years of operation and mode of entry into Australia.

METHODOLOGY

This study was of a large and geographically dispersed population of established foreign subsidiaries operating in Australia. It sought to identify the environmental factors that impact on their operations in Australia and determine their attitudes to the environment in which they operate through the use of a survey underpinned by a quantitative methodology. What follows in this section is an explanation of the sampling and data collection process, the administration of the questionnaire and a description of the characteristics of the sample.

Sampling and Data Collection

Participants in the study consisted of foreign MNEs subsidiaries from North America, Europe and Japan that have established subsidiary operations in Australia. The non-existence of a register of foreign MNEs in Australia both at the national and state level meant that the sample had to be compiled from a range of available and existing directories from the relevant foreign Chambers of Commerce which operate in Australia. The Chambers' directories provided a list of the known population of home country nationals that operate in Australia. These directories were the source of information regarding details of the companies, which included sector of operation, name of parent company, name and address of local subsidiary and the name and addresses of the CEO or Senior Executive of the MNE subsidiary to whom the questionnaire was directed. The foreign Chambers of Commerce directories provided the sampling frame for the survey. Questionnaires (inclusive of a covering letter and reply paid envelope) were distributed by post in March and April 2004 to 2200 foreign MNEs from North American, European and Japanese subsidiaries operating in Australia. Japanese firms were sent both an English and Japanese version of the questionnaire in an effort to increase the response rate. This was also complemented by follow up phone calls. Two hundred and thirty-six questionnaires were returned as 'unknown address' leaving 1964 eligible respondents. From these 356 questionnaires were returned resulting in an overall response rate of 18.1%. This was in line and slightly above the typical response rates to be found in studies that have been based on cross-national mail surveys of industrial populations. In a review of such studies Harzing (2000) found that response rates typically varied between 6 and 16 %. Non-response bias was checked by examining the firm attributes of the sample, viz. industry and location within Australia which showed no statistical differences between responding and non-responding companies.

Analysis of Data

The analysis of the data included exploratory factor analysis in order to identify the environmental factors that impact on foreign subsidiary operation in Australia. In order to examine the attitudes of these foreign subsidiaries towards the environment in which they operate means, standard deviations and inter-correlations among the composite measures of the environmental factors were analyzed. Further investigation into the environmental attitudes was developed by considering each environmental factor identified in the context of the geographic origin, the industry, the size, the age and the mode of entry of the subsidiary into Australia. For each characteristic of the sample being considered, the means standard deviations and statistical significance were measured using one way analysis of variance and post-hoc analysis was also carried out using Tukey's HSD test to determine whether there are any discernable differences among the sample characteristics.

Questionnaire

The questionnaire presented the survey participants with a list of 50 items derived from the literature and studies on locational determinants (Alford, Lussier, & Siebes, 1997; Castro & Buckley, 2000; Ng & Tuan, 2002; Tatoglu & Glaister, 1998). The fifty items were separated into two separate scales. The first scale consisted of 19 items that asked respondents their attitudes to national environmental factors. The participants were asked to respond to the following *...given the benefit of your experience in Australia please indicate the extent to which you disagree or*

agree with the following statement. The second scale consisted of 31 items that asked questions from the sub-national perspective. The participants were asked to respond to the following ...*to what extent do you disagree or agree with the following statements regarding your present city, regional or rural location.* The responses were assessed using a 5 point Likert scale with scores ranging for each scale from 1=strongly disagree to 5=strongly agree with 3 being the neutral midpoint.

Characteristics of the Sample

The sample comprised 356 foreign subsidiaries that operate in Australia. The geographic origin of the sample reflects a relatively equal spread among the Triad of economic powers: North American companies n=124 (34.8%), European n=120 (33.7%) and Japanese n=112 (31.5%). Industry categorization of the sample revealed that other than firms involved in primary industry which made up just over 10% of the sample the remaining firms were relatively equally split between firms in manufacturing, wholesale /retail and the services industries. The size of the subsidiaries based on the number of employees revealed that the majority of the foreign subsidiaries in the sample operating in Australia are small and medium sized enterprises (SMEs). The respective size of companies in the sample were 1-20 employees, 30.1%, 21-100 (37.9%), 101-200 (14.3), 201-500 (9%), and above 500 employees 8.7%. Their years of operation in Australia were varied with subsidiaries operating in Australia between 1-5 years accounting for 14.9% of the sample followed by 6-10 years (15.7%), 11-20 years (29.8%), 21-40 years (29.5%) and above 41 years 7.3%. More than half (57.9%) of the foreign subsidiaries in the sample were wholly owned foreign subsidiaries established through new ventures (greenfield investments), approximately 25% were takeovers through the acquisition of local firms and the remaining 16.3% of the sample identified themselves as a joint venture or a merger with an Australian Company. The location of the firms in the sample indicate that the overwhelming majority (86.2%) are located in the two largest state economies, NSW and Victoria and 87% of the respondents are situated in a city/metropolitan location, suggesting the strength of both Sydney and Melbourne in attracting the bulk of foreign direct investment.

RESULTS AND DISCUSSION

Factor Analysis

A principal components factor analysis with oblique (promax) rotation was conducted to examine the underlying relationships among 50 items in two scales. The combination of the two scales for the exploratory factor analysis was considered appropriate as locational determinants are not mutually exclusive in terms of national or sub-national factors and include a combination of both.

There were 15 factors (components) with eigenvalues greater than one. However further inspection of the scree plot supported an 11 factor solution. Ultimately only eight factors were considered appropriate after considering the loadings of the alpha scores and a logical interpretation of the factors. A cut off score of 0.4 was used to determine the items which loaded onto the factors. The factors explained 45.8 per cent of the observed variance. The eight factors may be summarized as follows; *infrastructure, agglomeration, investment location image, government support, input costs, government costs, safe environment and market size.*

In terms of internal consistency all the measure had an acceptable alpha score ranging from .79 for Agglomeration to .61 for Safe Environment. Nunnally (1978) suggested that in an exploratory study an alpha value of 0.6 is acceptable in determining the loaded factors. The factors their item loadings, pattern coefficients and their variances and alpha scores are indicated in Table 1.

Table 1: Loadings of Environmental Factors

	Infra-structure	Agglomeration	InvLoclma	Govt Supp	Input Costs	Govt Costs	Safe Enviro	Market Size
Dev local infra	.77							
Dev. transp. infra	.77							
Dev Comm Infra	.66							
High qual. lifestyle	.64							
Bus/Gov. Services	.56							
Reliable workforce	.42							
Co-op Atmosphere		.72						
Concentration of firms		.69						
Work formal/informal		.61						
Work with customers		.60						
Network of Links		.52						
Scientific Knowledge		.51						
Entrpre. Activity in loca.		.43						
Aus. +ve invest image			.85					
Eco enviro good to invest			.84					
Local enviro good to inv			.62					
Location +ve image			.53					
Aus. good for exports			.53					
State Inv Agency +ve				.77				
Inv Aust. +ve impact				.73				
State, high post supp				.68				
Fed. high post supp				.60				
FDI friendly policies				.43				
Unskilled lab expensive					.82			
Skilled lab expensive					.79			
Real Estate. expensive					.47			
Transport costs - high					.41			
Red tape federal						.70		
Red tape local						.69		
Fed tax too high						.67		
State tax too high						.51		
Aus safe to invest							.69	
Low terror threat							.62	
Stable political climate							.54	
Safe for families							.51	
Low growth in market								.79
Aus. market too small								.78
Eigenvalue (pre-rotation)	6.9	4.3	3.0	2.2	1.8	1.8	1.6	1.5
% of variance explained	13.7	8.5	6.1	4.2	3.6	3.5	3.2	3.0
Alpha	.75	.79	.76	.77	.67	.65	.61	.73

Note: Factor Loadings < .4 not shown

Relationships among the factors

A number of inter-correlations among the composite measures of environmental determinants were significant. The strongest correlation was between infrastructure and investment location image ($r=.42$, $p<.01$) suggesting a moderate positive correlation between the two constructs. This correlation suggests that a direct relationship exists between attitudes to infrastructure and attitudes to the investment location image of the location. Also a moderate positive correlation was evident between government support and agglomeration ($r=.41$, $p<.01$) indicating that positive attitude towards agglomeration is reflected in positive attitudes towards government support.

A number of factors correlated negatively. For example government support had a negative relationship with government costs ($r=-.29$, $p<.01$) suggesting that a positive attitude towards government support is inversely related with the levels of government costs. Also there was a negative correlation between investment location image and market size ($r=-.24$, $p<.01$) indicating that there exists a positive attitude towards the investment location image is inversely related to the size of the market in Australia.

Table 2: Means, Standard Deviations and Correlations Among the Measures of Environmental Factors

Factor	M	SD	1	2	3	4	5	6	7	8
1 Infra	3.6	0.52	-							
2 Agglom	3.2	0.57	.35**	-						
3 InvLocIm	3.5	0.57	.42**	.21**	-					
4 GovtSupp	2.6	0.60	.15**	.41**	.30**	-				
5 InputCosts	3.3	0.62	-.04	.15**	-.18**	-.07	-			
6 GovtCosts	3.5	0.63	-.04	-.05	-.17**	-.29**	.17**	-		
7 SafeEnv	4.0	0.54	.29**	.01	.38**	.11*	-.25**	-.07	-	
8 Mkt Size	3.0	1.04	-.13*	-.14**	-.24**	-.13*	.16**	.12*	-.06	-

* $p < .05$ ** $p < .01$

(1) infrastructure; (2) agglomeration; (3) investment location image; (4) government support; (5) input costs; (6) government costs, (7) safe environment, (8) market size

An examination of the mean scores of the eight composite factors reveals that all but one of the factors (i.e. Government Support) was rated equal to or above the midpoint. The highest mean scores of the sample revealed that the foreign MNE subsidiaries consider Australia to have a Safe Environment ($M=4$) for investment. The foreign subsidiaries in the sample saw Australia in a positive light in terms of their continued operations. This was in marked contrast to the lowest mean score for the factor Government Support ($M=2.6$) suggesting that foreign MNEs subsidiaries had a negative attitude towards the degree of post investment support being received from government or government agencies in Australia. Other factors worth noting were positive attitudes by the respondents towards available infrastructure and the investment image of the location countered by negative attitudes towards input costs and government costs. An ambivalent attitude towards the size of the market in Australia as well as the impact of agglomeration economies was evident among the respondents. Given the relatively small size of the local market, in Australia these results are not unexpected.

ANALYSES OF THE ENVIRONMENTAL FACTORS BY SAMPLE CHARACTERISTICS

Environmental Factors and Geographic Origin

Table 3: One way Anova for Means of Environmental Factors and Geographic Origin (N=356)

Geog Region / Factor	North America (1) (n=124)	Europe (2) (n=120)	Japan (3) (n=112)	F	η^2	Sig. Diff Groups
Infrastructure	3.72 (0.51)	3.61 (0.48)	3.57 (0.56)	2.71	.02	
Agglomeration	3.20 (0.60)	3.18 (0.59)	3.29 (0.52)	1.15	.01	
Invest Loc Image	3.61 (0.60)	3.50 (0.52)	3.42 (0.58)	3.43*	.02	1-3
Gov't Support	2.54 (0.60)	2.53 (0.57)	2.81 (0.60)	8.39****	.05	1-3, 2-3
Input Costs	3.15 (0.64)	3.24 (0.62)	3.40 (0.56)	4.74**	.03	1-3
Govt. Costs	3.61 (0.64)	3.55 (0.64)	3.40 (0.59)	3.21*	.02	1-3
Safe Environment	4.09 (0.51)	4.08 (0.45)	3.71 (0.58)	20.25****	.10	1-3, 2-3
Market Size	3.03 (0.65)	2.88 (0.62)	3.10 (0.56)	1.25	.01	

$p < .05$ * $p < .01$ ** $p < .001$ ****

^aBrown Forsythe Robust test for equality of means\

Table 3 presents the calculation of the one way between group analysis of variance which investigates the impact of geographic origin on the eight environmental factors identified. Respondent subsidiaries were divided into three geographic regions (North America, Europe and Japan). The analysis revealed that there were two statistically significant differences at the $p < .05$ level in investment location image and government cost by geographic origin.

In analyzing investment location image by geographic region despite statistical significance being evident the actual difference in the mean scores between the different geographic groups was weak ($\eta^2 = .02$) explaining just 2% of the variance in the relationship. Respondent subsidiaries originating from North America reported significantly higher levels of investment location image than those respondents from Japan. Closer political and economic ties between the USA and Australia in light of the Free Trade Agreement between the two countries may account for the more positive general perception by American subsidiaries as to the overall investment image of Australia in comparison to their Japanese counterparts.

The other statistically significant difference at the $p < .05$ level was in government costs by geographic origin. The actual difference in the mean scores between the different industry groups was weak ($\eta^2 = .02$), explaining 2% of the variance in the relationship. Respondent subsidiaries originating from North America reported significantly higher levels of government costs than those respondents from Japan. There were statistically no significant differences between subsidiaries originating in Europe and those of North America and Japan for both the measures of investment location image and government costs.

There was a statistically significant difference at the $p < .01$ in input costs by geographic origin. Despite statistical significance being evident the actual difference in the mean scores between the different geographic groups was weak ($\eta^2 = .03$) explaining just 3% of the variance in the relationship. Respondent subsidiaries originating from Japan perceived input costs to be higher than those respondents from North America.

The analysis revealed that there were two statistically significant differences at the $p < .001$ level in government support and safe environment scores by geographic origin. In analyzing government support by geographic region Levene's test for equality of variance (Sig. = 0.987 Levene's Statistic = 0.013) was statistically significant indicating that the assumption of homogeneity of variance had been violated. Palant (2005) recommends a more stringent test be used. As a result the use of the Brown Forsythe statistic of equality of means revealed a statistically significant difference in the value for government support by geography. The statistically significant difference for government support by geographic region revealed difference in the mean scores between the different geographic groups which was medium ($\eta^2 = .05$) explaining 5% of the variance in the relationship. Respondent subsidiaries originating from Japan perceived higher government support than those subsidiaries originating from North America and Europe. These results may reflect the strong manufacturing and primary industry component of Japanese investment into Australia suggesting government support traditionally through subsidies and incentives to establish operations in Australia.

The other statistically significant difference at the $p < .001$ level was in safe environment scores by geographic origin. The actual difference in the mean scores between the different geographic groups was large ($\eta^2 = .10$), explaining 10% of the variance in the relationship. Respondent subsidiaries originating from North America and Europe perceived the environment in which they operate as being safer than those respondents from Japan. There were statistically no significant differences between subsidiaries originating in Europe and those of North America for both the measures of government support and safe environment. This may be explained by the general safe image of Australia as a destination for Americans and Europeans when compared with their own countries but less so for the Japanese.

Environmental Factors and Industry

Table 4: One way Anova for Means of Environmental Factor Scores and Industry (N=356)

Industry / Factor	Primary (1) (n=38)	Manufacturing (2) (n=98)	W'sale/Retail (3) (n=117)	Services (4) (n=103)	F	η^2	Sig. Diff Groups
Infrastructure	3.73 (0.63)	3.51 (0.56)	3.65 (0.48)	3.70 (0.47)	2.86*	.02	2-4
Agglomeration	3.33 (0.67)	3.04 (0.56)	3.13 (0.56)	3.45 (0.46)	10.79***	.09	1-2, 2-4, 3-4
InvestLoc Image	3.71 (0.44)	3.37 (0.60)	3.43 (0.58)	3.67 (0.53)	7.52***	.06	1-2, 1-3 2-4, 3-4
Gov't Support	2.63 (0.61)	2.57 (0.60)	2.55 (0.62)	2.75 (0.57)	2.22	.02	
Input Costs	3.18 (0.66)	3.18 (0.59)	3.30 (0.63)	3.30 (0.61)	1.13	.01	
Govt. Costs	3.40 (0.62)	3.54 (0.63)	3.61 (0.64)	3.45 (0.61)	1.76	.02	
Safe Environ	4.03 (0.56)	4.02 (0.51)	3.94 (0.58)	3.93 (0.53)	0.82	.01	
Market Size	2.76 (1.05)	3.41 (1.02)	3.01 (1.10)	2.70 (0.88)	9.00***	.07	2-1, 2-3, 2-4

p<.05* p<.01** p<.001***

Table 4 presents the calculation of the one way between group analysis of variance that investigates the impact of industry on the eight environmental factors identified. Respondent subsidiaries were divided into four industry groups (primary, manufacturing, wholesale and services). The analysis revealed that there was a statistically significant difference at the $p<.05$ level in infrastructure scores by Industry. Despite statistical significance being evident the actual difference in the mean scores between the different industry groups was quite small. The effect size of the relationship was relatively weak ($\eta^2=.02$) explaining just 2% of the variance in the relationship. Respondent subsidiaries in the services sector considered the existence of higher levels of infrastructure than those respondents in manufacturing.

The analysis revealed that there were three statistically significant differences at the $p<.001$ level in agglomeration, investment location image and market size by industry. There was a statistically significant difference at the $p<.001$ level in agglomeration by industry. The actual difference in the mean scores between the different industry groups was quite large ($\eta^2=.09$), explaining 9% of the variance in the relationship. Respondent subsidiaries in the services sector reported significantly higher levels of agglomeration than those respondents in manufacturing and wholesale and retail. Respondents in primary industry also reported significantly higher levels of agglomeration than respondents in manufacturing. These results might be accounted for by the nature of service industries resulting in greater agglomeration effects than is the case with manufacturing or wholesale/retail. The sharing of knowledge and know-how and their spillover effects may be more pronounced in the service industries. Studies have found agglomeration effects for service firms involved in high tech (Braunerhjelm & Svensson, 1996).

Statistical significant difference at the $p<.001$ level in investment location image by industry was also revealed by the ANOVA. The actual difference in the mean scores between the different industry groups was medium ($\eta^2=.06$), explaining 6% of the variance in the relationship. Respondent subsidiaries in both the primary and services industries perceived a more positive investment location image in Australia than those respondents in manufacturing and wholesale/retail. The small size of the Australian market and the dismantling of high tariffs that have traditionally benefited the manufacturing sector in Australia may help explain the less positive investment location image of Australia for manufacturing and wholesale and retail trade.

There was a statistically significant difference at the $p<.001$ level in market size by industry. The actual difference in the mean scores between the different industry groups was medium ($\eta^2=.07$), explaining 7% of the variance in the relationship. Respondent subsidiaries in the manufacturing

industries reported a significantly higher score for of market size than those respondents from all other industries. These results reflect the general perception for foreign manufacturers in Australia that the domestic market is too small to support a major manufacturing base. It may also be reflective of the primary and service sectors seeing their market as international and using Australia as a base for operations without being reliant on the domestic market.

Environmental Factors and Size of Subsidiary

Table 5: One way Anova for Means of Environmental Factors and Size (no. of employees) of the Subsidiary (N=356)

No. of Empl'ees / Factor	1-20 (1) (n=107)	21-100 (2) (n=135)	101-200 (3) (n=51)	210-500 (4) (n=32)	501+ (5) (n=31)	F	η^2	Sig. Diff Group
Infrastructure	3.71 (0.44)	3.51 (0.60)	3.73 (0.43)	3.72 (0.43)	3.72 (0.52)	3.50**	.04	1-2
Agglomeration	3.30 (0.59)	3.12 (0.56)	3.23 (0.44)	3.14 (0.59)	3.42 (0.64)	2.53*	.03	No grp diff
Invest Loc Image	3.59 (0.50)	3.42 (0.65)	3.56 (0.54)	3.60 (0.44)	3.54 (.60)	1.70	.01	
Gov't Support	2.70 (0.61)	2.52 (0.65)	2.73 (0.48)	2.65 (0.55)	2.61 (.60)	1.83	.02	
Input Costs	3.26 (0.58)	3.29 (0.62)	3.17 (0.56)	3.14 (0.62)	3.34 (0.82)	0.71	.00	
Govt Costs	3.54 (0.58)	3.50 (0.66)	3.38 (0.58)	3.64 (0.74)	3.69 (0.58)	1.53	.02	
Safe Environ	3.93 (0.53)	3.91 (0.57)	4.02 (0.50)	4.17 (0.53)	4.09 (0.53)	2.23	.03	
Market Size	2.98 (1.02)	3.04 (1.10)	3.19 (0.93)	2.80 (1.07)	2.82 (1.08)	1.01	.01	

$p < .05^*$ $p < .01^{**}$ $p < .001^{***}$

Note: No difference of means was detected between the groups in Agglomeration despite significance being detected at the .05 level.

Table 5 presents the calculation of the one way between group analysis of variance that investigates the impact of size of the subsidiary (as reflected in number of employees in the subsidiary) on the eight environmental factors identified. The analysis revealed that there was a statistically significant difference at the $p < .01$ level in infrastructure by size. Despite statistical significance being evident the actual difference in the mean scores between the different industry groups was quite small. The effect size of the relationship was relatively weak ($\eta^2 = .04$) explaining just 4% of the variance in the relationship. Respondents in small size subsidiaries (1-20 employees) perceived more positively the levels of infrastructure than those respondents in subsidiaries of 21-100 employees.

The analysis also revealed that there was a statistically significant difference at the $p < .05$ level in agglomeration by size of the subsidiary. Despite statistical significance being evident the actual difference in the mean scores between the different size groups was quite small. The effect size of the relationship was relatively weak ($\eta^2 = .03$) explaining just 3% of the variance in the relationship. Post-hoc analysis failed to indicate what the significant differences were between the groups.

Environmental Factors and Years of Operation

Table 6: One way Anova for Means of Environmental Factors and Years of Operation of Subsidiary in Australia (N=356)

Years / Factor	1-5 (1) (n=53)	6-10 (2) (n=56)	11-20 (3) (n=106)	21-40 (4) (n=105)	41+ (5) (n=26)	F	η^2	Sig. Diff Groups
Infrastructure	3.68 (0.60)	3.70 (0.44)	3.53(0.52)	3.64 (0.51)	3.91 (0.46)	3.12*	.04	3-5
Agglomeration	3.25 (0.62)	3.29 (0.55)	3.15 (0.60)	3.20 (0.54)	3.34 (0.58)	0.86	.01	
Invest Loc Image	3.60 (0.67)	3.57 (0.55)	3.49 (0.57)	3.46 (0.55)	3.54 (.53)	0.78	.01	
Gov't Support	2.47 (0.72)	2.63 (0.61)	2.66 (0.60)	2.61 (0.56)	2.75 (.55)	1.27	.02	
Input Costs	3.19 (0.62)	3.23 (0.65)	3.30 (0.64)	3.25 (0.60)	3.36 (0.58)	0.47	.01	
Govt. Costs	3.69 (0.65)	3.49 (0.59)	3.40 (0.56)	3.56 (0.69)	3.59 (0.69)	2.20	.03	
Safe Environment	3.86 (0.60)	4.00 (0.50)	3.96 (0.55)	3.97 (0.53)	4.15 (0.46)	1.29	.02	
Market Size	2.91 (1.09)	2.73 (1.05)	3.00 (0.95)	3.17 (1.07)	3.23 (1.13)	1.98	.00	

$p < .05^*$ $p < .01^{**}$ $p < .001^{***}$

Table 6 presents the calculation of the one way between group analysis of variance that investigates the impact of age of the subsidiary (years operating in Australia) on the eight environmental factors identified. The analysis revealed that there was a statistically significant difference at the $p < .05$ level in infrastructure scores by age of subsidiary. Despite statistical significance being evident the actual difference in the mean scores between the different industry groups was quite small. The effect size of the relationship was relatively weak ($\eta^2 = .04$) explaining just 4% of the variance in the relationship. The length of establishment and experience may be the reason why older subsidiaries in the sample (more than 41 years of operation) view infrastructure in the Australian environment more positively than the younger companies.

Environmental Factors and Mode of Entry

Table 7: One way Anova for Means of Environmental Factors and Mode of Entry (N=354)

Mode of Entry / Factor	Greenfield (1) (n=206)	Acquired (2) (n=90)	JV/Merger (3) (n=58)	F	η^2	Sig. Diff Groups
Infrastructure	3.68 (0.51)	3.60 (0.46)	3.58 (0.63)	1.19	.01	
Agglomeration	3.26 (0.57)	3.16 (0.57)	3.21 (0.58)	0.78	.00	
Invest Loc Image	3.49 (0.56)	3.49 (0.62)	3.67 (0.53)	2.39	.01	
Gov't Support	2.54 (0.60)	2.53 (0.60)	2.81 (0.65)	0.59	.00	
Input Costs	3.30 (0.63)	3.15 (0.62)	3.27 (0.55)	1.73	.01	
Govt Costs	3.55 (0.64)	3.50 (0.54)	3.45 (0.72)	0.60	.00	
Safe Environment	3.94 (0.56)	3.99 (0.50)	4.05 (0.54)	1.09	.00	
Market Size	3.00 (1.04)	2.99 (1.11)	2.97 (1.00)	0.02	.00	

$p < .05^*$ $p < .01^{**}$ $p < .001^{***}$

Table 7 presents the calculation of the one way between group analysis of variance which investigates the impact of mode of entry into Australia on the eight environmental factors identified. Respondent subsidiaries were divided into mode of entry groups (Greenfield investment, acquired

investment and joint venture merger). The analysis revealed that there was no statistically significant difference in the perceptions of environmental factors by mode of entry.

POLICY RECOMMENDATIONS AND CONCLUSION

This paper has identified eight environmental factors that impact upon established foreign subsidiary operations in the developed small market economy of Australia. Using data from 356 foreign subsidiaries operating in Australia from North America, Europe and Japan, this study identified the following factors: infrastructure, agglomeration, investment image, government support, input costs, government costs, safe environment and market size. The study then examined the attitudes of these foreign subsidiaries towards the environment in which they operate and sought to determine whether there were any discernable differences in attitudes by foreign subsidiaries to the environment in which they operate in the context of their geographic origin, industry, and years of operation in Australia.

Significant differences in attitude among subsidiaries can be summarized as follows.

- US and European subsidiaries considered Australia a safer environment than did the Japanese
- Japanese subsidiaries considered the government support received more favorably than the American or Europeans.
- More positive attitude to agglomeration effects and investment location image by primary and services sectors in comparison to manufacturing and wholesale/retail sectors.
- Market size was regarded favorably by only the manufacturing sector.
- A more favorable attitude to infrastructure was evident among the older subsidiaries (41+ years) in comparison to those operating in Australia for a shorter time period.

This study is important because it provides information to governments enabling the formulation of public policy initiatives. Such initiatives are aimed at encouraging the retention and the embedding of foreign subsidiaries within locations helping stimulate the overall economic welfare of the region.

The positive attitude towards the developed infrastructure in Australia suggests that governments need to keep investing in infrastructure programs in order to maintain and enable business to carry on operations. A well developed infrastructure in a location influences the attractiveness of that location to future foreign investment (Dunning, 1993). Investors find locations with an established transport and communication infrastructure which is reliable and efficient reduces the cost of operations, making it attractive for FDI (Cheng & Kwan, 2000). This then inherently continues to apply to locations that seek to maintain and increase repeat investment. This is timely in light of the present discussion in Australia about the lack of investment in future infrastructure capability.

Agglomeration economies suggest that countries and localities that attract companies to establish operations in their domain help attract other like-industry companies to follow, thus helping to develop a region economically (Hogenbirk & Narula, 2004). The results suggest that foreign subsidiaries in Australia did not consider the impact of agglomeration economies to be very significant. What was discernable however was the significant difference among industry groupings with the primary sector and service sector rating the impact of agglomeration economies more highly than the manufacturing or retail/wholesale sector. Consequently, governments in Australia may need to rethink their across the board drive in seeking to establish industrial clusters in certain locations through the provision of incentive programs and concentrate on the primary and services sectors which view more positively the benefits gained from agglomeration economies.

The subsidiaries in the sample reacted negatively to the imposition of taxes and charges imposed by governments. This is consistent with Yamada and Yamada's (1996) findings that lower corporate taxes were an important determinant of FDI by Japanese firms investing in the European Community. Also several researches have emphasized the importance of tax differences and their impact on the location of FDI (Bartik, 1985; Woodward, 1992). This aspect suggests that governments in Australia at both the Federal and State need to consider the reduction of costs of doing business in order to retain investment in their locations. Business in general sees taxes and charges as bureaucratic hurdles and impositions that need to be overcome if they are to continue business in a location.

The perception of a lack of government support suggests that governments and investment agencies in Australia need to play a more significant role in helping embed and encourage repeat investment in a location. Birkinshaw and Hood (1997) found an increasing importance in the role inward investment agencies whose brief extends beyond the attraction of greenfield investments to incorporate maintenance and encouragement of established subsidiaries to increase their investment in particular locations. This implies a greater need to consider granting more after care services to foreign MNE subsidiaries. The reaction by foreign subsidiaries in Australia in terms of after care services provided by government reaffirms the findings of Fuller and Phelps (2004) who found that after care services were considered important in encouraging repeat investment of subsidiary establishments.

The findings of the study also suggest that there are discernable differences that can be detected among those subsidiaries operating in Australia especially in the context of geographic origin and the industry sector. Japanese subsidiaries in the main stood out as having distinct differences in their attitude to the environmental factors identified (investment location image, government support, input costs, government costs, safe environment) when compared to their North American and European counterparts. Similar differences were also noted in subsidiaries in manufacturing when compared to other industries. The identification of such differences provides information to governments in Australia and the relevant investment agencies which can be used to target subsidiaries from specific countries (Japan) and specific industries (manufacturing) and seek to ameliorate their particular concerns in terms of the environment in which they operate.

Future research will seek to investigate whether differences in foreign subsidiary attitudes to the environment are discernable among the two main states in Australia. Further research should use multivariate techniques to examine whether the environmental factors identified lead to satisfaction with the particular location and predict repeat investment in this location. The current study also needs to be replicated to examine whether similar trends and factors are evident in other countries.

In conclusion, governments in developed economies like Australia need to identify the environmental factors impacting on foreign subsidiary operations in order to maintain and continue to reap the benefits of foreign companies operating in their midst. What this survey revealed was that in general foreign subsidiaries operating in Australia consider Australia a safe and attractive place to operate. Australian governments through their investment agencies need to exploit and highlight this positive perception of Australia. However negative perceptions of Australia as a place to operate business needs to be addressed. To do this, Australian governments both Federal and state need to keep taxes low and reduce bureaucratic hurdles for business, (thus seeking to redress the negative perception of governments cost of doing business) and help ameliorate other input costs such as labor costs through the continual deregulation of the Australian labor market. Australian governments through their investment agencies also need to continue to monitor and provide foreign subsidiaries with continued government support post the initial investment as has happened in foreign location such as Ireland (Fuller and Phelps 2004) in order to help redress the perception and feeling that government support is lacking post the initial investment.

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