

## **STRATEGIC MOTIVATIONS OF AUSTRALIAN AND NEW ZEALAND MANUFACTURING FOREIGN DIRECT INVESTMENTS IN INTERNATIONAL MARKETS**

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### **ABSTRACT**

*We empirically investigate how different location-specific variables and strategic motives influenced Australian and New Zealand (ANZ) firms' ownership strategy choices in foreign markets between 1998 and 2008. This study is the first to analyse how strategic motives and ownership-specific, location-specific, and internalisation variables have influenced the ownership structure choices of ANZ firms in foreign markets. The results indicate that large market potential and low levels of cultural distance increase the probability that ANZ manufacturing firms will undertake wholly owned subsidiary (WOS) ownership structures and market-seeking (MS) and/or efficiency-seeking (ES) foreign direct investment (FDI). Low exchange rate fluctuation increases the probability that ANZ manufacturing firms will undertake WOS-type risk reduction-seeking (RRS) FDI.*

**Keywords:** Foreign direct investment (FDI), ownership strategies, wholly-owned subsidiary (WOS), joint ventures (JV), Australia, New Zealand.

### **INTRODUCTION**

In the last two decades, foreign direct investment (FDI) has emerged as a driving force of globalisation. The interest in specific host countries has been stimulated by both the increase of international FDI flows and their significance as a critical aspect of economic growth and employment creation in emerging economies. In the last few years, there has been such tremendous growth in foreign direct investment that it has exceeded both world output and world trade. China is currently the largest recipient of FDI, and in 2004, it surpassed the U.S. as the favourite destination for FDI (Baharumshah & Almasaied, 2009). This growth has occurred for several reasons, including the global transition and development of free market economies, the growth of international financial markets, the proliferation of regional integration between nations, and the substantial

developments in communications and technology that facilitate the management of far-reaching businesses.

The purpose of this study is to empirically investigate how different location-specific variables and strategic motives influenced Australian and New Zealand (ANZ) manufacturing firms' ownership structure and strategic FDI choices between 1998 and 2008. Dunning (1993, p. 56) and Ekstrom (1998, p. 90) separate the strategic motives of ANZ firms' FDI choices into the following categories: market-seeking (MS), efficiency-seeking (ES), and risk reduction-seeking (RRS). Despite the increased interest in FDI, few studies (e.g., Vyas, 2000; Kang, 2010) have empirically analysed firms' strategic FDI choices. Furthermore, previous studies analysing firms' strategic motives have unfortunately remained primarily anecdotal. The empirical analysis of strategic motives using location-specific variables both advances our understanding of the behaviour of particular ANZ firms and enriches our knowledge of FDI in general. The present study contributes to international business research in three ways.

First, few studies on FDI (Chandrapalart, 1999) empirically analyse influential location-specific variables and firms' strategic motives as a means of better understanding the ownership choices of investing firms. Second, studies analysing (see e.g., Bell, 1996; Larimo, 2000; Ruiz & Pozo, 2008; Kitonakis & Kontis, 2008) FDI behaviour primarily focus on U.S. and European firm investment. Moreover, few studies (e.g., Akoorie & Enderwick, 1992; Sharma & Bandara, 2010) analyse the FDI behaviour of ANZ firms in foreign markets. Such research is crucial if ANZ firm managers are to engage in rational decision making.

Third, this study focuses on firms based in ANZ, relatively small industrialised countries where domestic market conditions differ from those in countries like the U.S. and Japan that have been the focus of previous research. Moreover, studies on the determinants of FDI rarely combine ownership, location and internalisation (OLI) advantages with strategic motivations of ANZ firms in international markets. Finally, to our knowledge, this study is first to examine ownership structure choices of ANZ manufacturing firms in international markets.

The remainder of the paper is organised as follows. The next section first reviews the previous literature on location-specific variables and strategic motives of investing firms in international markets, then presents our hypotheses. Then, the methodology and the characteristics of the sample are follows. Next, we report our empirical results. Lastly, we summarise and conclude the paper.

## LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES

The economic theory of the multinational enterprise (MNE) revolves around two main aspects of international production: the ownership of assets used in overseas production and the location of ownership activities. Some scholars (see e.g., Rugman, 1987) have analysed the motives for international production using the transaction cost paradigm. In a similar vein, the motives for the location of FDI have been traced to cost minimisation, implying that a company will choose the least expensive location for its production activities abroad. Thus, host country theories are integrated with economic theories of the MNE, with location decisions constantly interacting with internalisation decisions to explain international production (Buckley, 1988). Similarly, Dunning (1993) includes location-specific variables in an eclectic paradigm of international production, consisting of ownership-specific and internalisation variables acting independently (Tatoglu & Glaister, 1998).

Location-specific variables can be broadly classified as two types. First, Ricardian type endowments comprise natural resources, labour and proximity to markets. Second, a range of environmental variables acts as a function of the political, economic, legal and infrastructure factors of a host country. Both types of variables play a crucial role in a firm's decision to enter a host country (Kobrin, 1976). The sub-themes regarding host country location factors include the following: market size economic growth, labour supply, raw materials, political environment, legal environment and host government policies (Agarwal, 1994; Davidson & McFetridge, 1985).

Although the literature indicates that there is widespread interest in multinational firms' rationales for choosing a particular host country, relatively few studies (see e.g., Kang, 2010) have examined how these location-specific variables and strategic motives vary with the nature of the investment. Building on the existing literature, this study seeks to illuminate the host country and strategic factors influencing ANZ firms' choices to invest in foreign markets (see Figure 1).

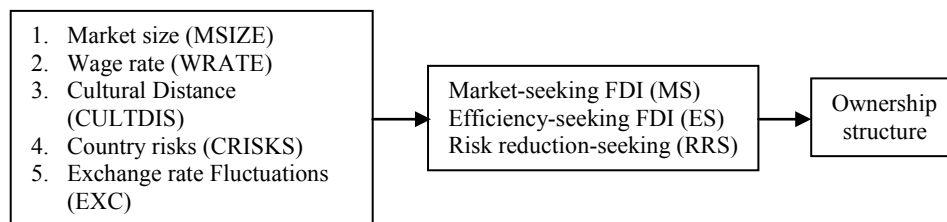


Figure 1. Framework of the present study

### **Market Size**

Foreign firms generally invest in countries with large market sizes to capitalise on ownership-specific assets. Foreign firms also expect to gain valuable skills and large economies of scale by acquiring intangible assets like market knowledge and expertise (Kang, 2010). Therefore, the larger the size of the market of the host country, the more important a factor it is in attracting higher levels of FDI. Similarly, previous studies (e.g., Schneider & Frey, 1985; Wheeler & Mody, 1992; Loree & Guisinger, 1995; Chakraborti, 2001; Campos & Kinoshita, 2003) have found that market size, as measured by GNP, can significantly attract FDI inflows. Rapid economic growth expands the domestic market and investment opportunities for multinational firms. More precisely, wholly owned subsidiaries (WOSs) in large markets provide firms greater long-term profitability compared with JV subsidiaries because WOSs provide better opportunities to achieve scale economies and lower marginal costs of production. We therefore expect ANZ firms to choose WOS and to undertake both MS and ES FDI in countries with high levels of market growth. Thus,

H<sub>1</sub>: The larger the size of the market in the host country, the greater the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that country.

### **Wage Rate**

Among the supply side concerns that can attract FDI, low wage rates in the host country can attract labour-intensive and efficiency-seeking FDI (Noorbakhsh, Paloni, & Youssef, 2001). Considering the importance of wage rates, Habib and Zurawicki (2002) claim that countries like China and India with greater levels of labour resources are attractive FDI locations. Similarly, Wei and Liu (2001) argue that low wage rates in China remain a key location factor for firms investing in China. Previous studies (e.g., Summary, R. & Summary, L., 1995; London & Ross, 1995) of FDI indicate that labour cost differential has been a significant determinant of FDI. Therefore, it is expected that ANZ firms will choose WOS in order to undertake MS and ES FDI in countries where wage rates are low. Hence:

H<sub>2</sub>: The higher the wage rate is in a host country, the lower the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that country.

### **Cultural Distance**

If low levels of cultural distance separate the home and host country, then it will be easier for the foreign firm to invest abroad and information about new products will be disseminated more efficiently (Habib & Zurawicki, 2002; Kang, 2010). Similarly, Chung (1991) reports that cultural similarity allows a foreign firm to be risk averse in foreign markets. Cazorra (2008) has found a positive statistical relationship between common language and FDI. Therefore, executives might find culturally distant countries less attractive when considering market and demand structure. Consequently, we expect ANZ firms to choose WOS ownership structures to facilitate MS and ES FDI in a culturally similar target country. Hence:

H<sub>3</sub>: The larger the cultural distance between a target country and an ANZ firm's home country, the lower the probability is that WOSs of ANZ firms will undertake MS and/or ES FDI in the target country.

### **Country Risks**

Country risks present a negative investment climate. Some researchers (e.g., Schneider & Fray, 1985; Kang, 2010) argue that countries with risky investment climates have fewer FDI inflows. Similarly, Loree and Guisinger (1995) report that political stability is associated with U.S. FDI. Likewise, Nigh (1985) has found that political instability is a strong FDI deterrent, and Pan (2003) has explored the extent to which the host country's credit rating is negatively associated with FDI. Brouthers (2002) reports that firms prefer JVs when investing in countries characterised by high investment risks. We therefore expect that ANZ firms will choose WOS ownership structures and undertake RRS FDI in economically and politically stable foreign countries. Hence:

H<sub>4</sub>: The lower the level of risk is in a target country, the greater the probability that WOSs of ANZ firms will undertake RRS FDI in that country.

### **Exchange Rate Fluctuations**

Exchange rate fluctuations are commonly linked with the risks, uncertainty about future benefits and costs of investment projects and with the flexibility of investment timing. These links may drive investors to adopt a "wait and see" attitude in making their FDI decisions. Previous studies (see, e.g., Urata & Kawai, 2000; Benassy-Quere, Fontagne, & Lahreche, 2001; Ruiz & Pozo, 2008) have indicated that exchange rate fluctuations deter initial investments in

developing countries. Amuedo-Dorantes & Pozo (2001) found that the 1976–1998 United States exchange rate fluctuations reduced FDI inflows. Barrell, Gottschalk & Hall (2004) claim that the euro zone and the United Kingdom's increased exchange rate uncertainty have had a negative impact on FDI. We therefore expect ANZ firms to choose WOS ownership structures to undertake MS and ES FDI in target foreign countries with relatively low levels of exchange rate volatility. Hence:

H<sub>5</sub>: The higher the rate of exchange rate fluctuation is in a host country, the lower the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that country.

## **METHODOLOGY, SAMPLE AND OPERATIONALISATION OF VARIABLES**

### **Methodology**

Because of the nature of the dependent and independent variables, we use a binomial logit model in this analysis. In the binomial logistic model, the probability of certain types of ownership structure choices and the types of strategic motives can be inferred from the reviewed variables. The regression coefficient estimates the impact of independent variables on the probability that a WOS pursues MS, ES and/or RRS FDI. A positive coefficient indicates that an increase in the value of the variable is correlated with an increase in the probability of a WOS making the specified type of investment. Similarly, a negative coefficient indicates a higher probability of a JV making the specified type of investment. The model is represented by the equation

$$P(Y^i = 1) = 1 / (1 + \exp(-a - X^i B)),$$

where  $Y^i$  is the vector of dependent variable,  $X^i$  is the vector of the independent variable for the observation  $i$ ,  $a$  is an intercept parameter and  $B$  is the vector of the regression parameters (Ameniya, 1981). The expected results are presented in Table 1.

Table 1  
*Variables, expected signs and results*

Variables	Symbols	Expected sign	Expected results
Market size	MSIZE	+	WOS MS and ES FDI
Wage rate	WRATE	+	WOS MS and ES FDI
Cultural distance	CULTDIS	–	WOS MS and ES FDI
Country risks	CRISK	+	WOS RRS FDI
Exchange rate fluctuations	EXC	–	WOS RRS FDI

**Operationalisation of Measures**

*Dependent variable*

To indicate ownership, we constructed a dummy variable, which assumes the value one if the firm owned 95% or more of subsidiary's equity and zero if it owned between 10: 94% of a subsidiary's equity. We chose this 95% cut-off point both because firms commonly have de facto decisionmaking authority when the share of ownership is slightly under 100% and because 95% cut-off points have been used in several other studies (e.g., in Anderson & Gatignon, 1986; Hennart, 1991).

*Control variables*

**Market-seeking FDI (MS)** is denoted by dummy variables, with a value of one indicating MS FDI and a value of zero indicating non-MS FDI. FDI is classified as MS if it is undertaken to sustain or protect existing markets or to exploit or promote new markets.

**Efficiency-seeking FDI (ES)** is denoted by dummy variables, with a value of one indicating ES FDI and a value of zero indicating non-ES FDI. FDI is classified as ES if it is undertaken to rationalise the structure of established production units in such a way that a firm can gain from the common governance of interrelated activities in different locations.

**Risk reduction-seeking FDI (RRS)** is denoted by dummy variables, with a value of one indicating RRS FDI and a value of zero indicating non-RRS FDI. FDI is classified as RRS if it represents internal hedging activities intended to reduce the firm's risk.

### *Independent variables*

**Market size (MSIZE)** is measured by the annual growth rate of GDP during the years of investment. Figures from the host countries were taken from the World Bank's global development data. The expected sign of the coefficient is positive.

**Wage rate (WRATE)** is measured by the average wage rates in the manufacturing sector during the years of investment in the host country. Figures for the host countries were taken from statistics provided by the International Labour Organisation. The expected sign of the coefficient is negative.

**Cultural distance (CULTDIS)** between the host country and Australia or New Zealand along four dimensions (power distance, uncertainty avoidance, individualism and masculinity/femininity) was computed as a composite index in the manner suggested by Kogut & Singh (1988) (see Appendix). These cultural dimensions were identified by Hofstede (1980). Cultural distance was computed using the following formula:

$$CD_j = \frac{1}{4} \sum_{i=1}^4 \frac{\{(I_{ij} - I_{iu})^2 / V_i\}}{4}$$

where  $I_{ij}$  represents the index of cultural dimension  $i$  and country  $j$ ,  $V_i$  represents the variance for the index of the dimension  $i$ ; subscript  $u$  indicates Australia or New Zealand.  $CD_j$  represents the cultural distance of the  $j$ th country from Australia or New Zealand. The expected sign of the coefficient is negative.

**Country risks (CRISK)** are measured using the risk indexes for the host countries during the year of investment. The country risk indexes were taken from statistics published in Euromoney magazine. The higher the risk, the lower is the index value. The expected sign of the coefficient is positive.

**Exchange rate fluctuations (EXC)** were measured by the real effective exchange rate index (2000 = 100) in the year preceding investment. Alternatively, the percentage change in exchange rate fluctuation can also be used as a measure for exchange rate fluctuations. Figures for the host countries were taken from the World Bank's global development data. The expected sign of the coefficient is negative.

### **Sample**

Our empirical section is based on primary and secondary data from 136 instances of ANZ firms' FDI in various countries from 1998 to 2008. We emphasized the



time period between 1998 and 2008 because ANZ firms increased their manufacturing investments in foreign countries during this period. These 136 instances of FDI include 66 cases of WOS FDI and 70 cases of JV FDI.

The sample is based on information drawn from 2009 World Bank data, company annual reports of firms, information taken from business journals, survey information and other information received through direct contact by the authors with ANZ firms. During our survey, the respondents were asked to identify one or two of their main reasons for investing in South and Southeast Asian countries and for employing the MS, ES and RRS types of FDI mentioned above. In few cases did investors identify all three motives as their main reasons for investment. The 136 instances of investment include 77 MS, 78 ES and 32 RRS types of FDI, for a total of 187 types of FDI, a figure that outstrips the number of instances of investment because approximately one-half of the investments utilised more than one type of FDI.

Table 2  
*Variables, measures and data sources*

Constructs	Measures	Data sources
Ownership structure of ANZ firms' FDI (DV)	Wholly owned subsidiary Joint venture	Direct contact with managers
Strategic motives (CV)	Market-seeking Efficiency-seeking Risk-reduction seeking	Direct contact with managers
Market size (IV)	Percent growth in Gross Domestic Product (GDP) (%)	World Bank
Wage rate (IV)	Per hour average wage rate	World Bank
Exchange rate fluctuation (IV)	Percentage of exchange rate fluctuations (%)	World Bank
Country risk (IV)	Country risk index	Euromoney magazine
Exchange rate fluctuation (IV)	Percentage of exchange rate fluctuations (%)	World Bank

*Note:* **DV** = Dependent variable, **CV** = Control variable, **IV** = Independent variable

The most common target countries were the U.S. and China, with 47 (35%) and 24 (18%) instances of FDI, respectively. On average, firms undertook FDI six times, with one firm investing in a foreign country 26 times. Firm size in the samples varied substantially, with firms possessing assets from NZ\$6 million to NZ\$11,112 million. Among the firms in the sample, some had already accumulated FDI-related experience, and in most cases, firms had invested abroad on at least five previous occasions. Approximately three-fourths of the investing firms had no previous manufacturing experience in the target country, whereas one-fourth of the cases had between one and four previous units in the target countries. The majority of FDI occurred in Asian countries, and of this majority FDI, the primary destinations were Southeast Asian countries.

Regarding cultural distance, the closest countries were Australia and Argentina, with a cultural distance of 0.14, and the countries farthest apart were Malaysia and New Zealand, with a cultural distance of 4.95 (see Appendix).

### THE EMPIRICAL RESULTS

The results of binomial logistic regression in the basic model are presented in Table 3. The estimated coefficient represents the probability of choosing WOS and undertaking MS, ES and/or RRS FDI; further, a positive coefficient indicates that WOSs are chosen and a certain type of FDI is undertaken, whereas a negative coefficient signifies the opposite. The model has satisfactory power with chi-squares of 26.233 and 9 DF ( $p = 0.002$ ) for ownership, 93.063 with 9 DF ( $p = 0.000$ ) for instances of MS FDI, 142.388 with 9 DF ( $p = 0.000$ ) for instances of ES FDI and 141.716 with 9 DF ( $p = 0.000$ ) for instances of RRS FDI.

Table 3  
*Parameter estimation of binomial logit models*

	Expected Sign	WOS	ES	MS	RRS
<b>CONSTANT</b>		0.861 (0.756)	35.049 (0.038)	-2.446 (0.474)	-4.636 (0.654)
<b>MSIZE</b>	+	0.368 (0.002***)	-0.070 (0.7841)	1.062 (0.000****)	NR
<b>WRATE</b>	-	-0.077 (0.128)	-0.566 (0.041**)	-0.013 (0.831)	NR
<b>CULTDIS</b>	-	-1.126 (0.003***)	-0.592 (0.248)	-0.922 (0.019**)	NR
<b>CRISK</b>	+	0.011 (0.753)	NR	NR	0.718 (0.026**)
<b>EXC</b>	-	-0.040 (0.053*)	NR	NR	-2.192 (0.01***)

Note: NR = Not Related  
\*\*\*\*  $p < 0.001$ , \*\*\*  $p < 0.01$ , \*\*  $p < 0.05$ , \*  $p < 0.1$

As noted in Table 3, the coefficient of MSIZE displays a positive sign and is statistically significant at the  $p < 0.01$  level for instances of WOS FDI. The coefficient of MSIZE also displays a positive sign and is highly statistically significant at the  $p < 0.001$  level for instances of MS FDI. However, MSIZE does not appear to be significant for instances of ES FDI. These results indicate that firms that invest in target countries with greater market potential expect market growth to produce higher long-term profits. Thus, greater market potential in the

target country is positively correlated with ANZ firms' choosing WOS and undertaking MS FDI in a target country. The results of previous studies (e.g., Chakraborti, 2001; Wei & Liu, 2001; Campos & Kinoshita, 2003; Kang, 2010) also indicate that a positive relationship exists between large market size and choosing WOSs.

WRATE does not appear significant to the choices of WOSs and MS FDI. The results indicate that wage rate levels in target countries do not influence ANZ firms' choice of WOS or JV types of FDI, nor do they affect the probability of undertaking MS FDI. Similarly, Campos and Kinoshita (2003) report a negative relationship between wage levels and FDI.

However, higher values of WRATE are correlated with higher probabilities of ANZ firms' undertaking ES FDI. The coefficient of WRATE displays a negative sign and is significant at the  $p < 0.05$  level for instances of ES FDI. The lower the wages in target countries are, the higher the probability that ANZ firms will undertake ES FDI in those countries. In the present study, although the annual wage rate has been used to measure labour costs, the wage rate does not account for labour skills. Skilled labour could improve production efficiency and thereby reduce labour costs.

The coefficient of CULTDIS displays a negative sign and is statistically significant at the  $p < 0.01$  level for instances of WOS FDI. It also displays a negative sign and is significant at the  $p < 0.05$  level for instances of MS FDI. However, CULTDIS does not appear to have a significant relationship with the choice of ES FDI. The results indicate that lower values of CULTDIS are correlated with higher probabilities of ANZ firms' choosing WOS and undertaking MS FDI in a target country. However, CULTDIS does not affect the probability of ANZ firms' undertaking ES FDI. These results are consistent with previous research (e.g., Habib & Zurawicki, 2002; Cazurra, 2008), indicating that investing firms prefer JV arrangements in culturally distant target countries.

CRISK does not appear to have a significant relationship with WOS choices. However, the coefficient of CRISK displays a positive sign and is significant at the  $p < 0.05$  level for instances of RRS FDI, indicating that lower risk levels are correlated with higher probabilities of ANZ firms undertaking RRS FDI. CRISK refers to uncertainty regarding the continuation of existing economic and political conditions (Agarwal & Ramaswami, 1992). Higher risk in a target country can affect capital safety, and the investing firm will likely limit its exposure to this type of risk. Previous research (e.g., Pan, 2003; Kang, 2010) indicates that firms prefer to invest in foreign countries with a relatively low risk levels.

Regarding its association with the choice of WOS, the coefficient of EXC displays a negative sign and is statistically significant at the  $p < 0.1$  level. The coefficient of EXC also has a negative sign and is significant at the  $p < 0.01$  level in its relationship with RRS FDI. Furthermore, exchange rate fluctuation in target countries affects the choice of WOS and RRS FDI. Small exchange rate fluctuations in target countries are positively correlated with the probability of ANZ firms' choosing WOS and undertaking RRS FDI in those countries. This finding is consistent with previous research (see e.g., Urata & Kawai, 2000; Amuedo-Dorantes & Pozo, 2001; Kiyota & Urata, 2004; Ruiz & Pozo, 2008), indicating that an increase in exchange rate uncertainty negatively impacts FDI.

Our results (see Table 4) suggest that exchange rate fluctuations in a host country significantly influence FDI. Whitman (1984) has argued that extreme exchange rate volatility affects firms' pricing, sourcing, scheduling, and financing, thereby affecting firms' choices regarding where to invest abroad.

Table 4  
*Hypotheses and results of the present study*

Hypothesis	Results
H <sub>1</sub> : The larger the size of the market in a host country, the greater the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that country.	Supported
H <sub>2</sub> : The higher the wage rate in a host country, the lower the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that country.	Partially supported
H <sub>3</sub> : The larger the cultural distance between a target country and an ANZ firm's home country, the lower the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in the target country.	Supported
H <sub>4</sub> : The lower the level of risk is in a target foreign country, the greater the probability that WOSs of ANZ firms will undertake RRS FDI in that foreign country.	Supported
H <sub>5</sub> : The higher the rate of exchange rate fluctuation is in a host country, the lower the probability that WOSs of ANZ firms will undertake MS and/or ES FDI in that foreign country.	Supported

## CONCLUSIONS, IMPLICATIONS AND FUTURE DIRECTIONS

Our main goal is to empirically investigate how different location-specific variables and strategic motives influence the ownership structure choices of ANZ firms in foreign markets between 1998 and 2008. Dunning (1993, p. 56) has separated the strategic motives of FDI into three categories: MS, ES and RRS. Few studies (Vyas, 2000) on FDI empirically test location-specific influences in

conjunction with strategic motives to analyse the ownership strategy choices of foreign investors. Additionally, previous studies have focused on analysing the FDI and ownership strategy decisions of Western European and American firms. Few studies (see, e.g., Akoorie & Enderwick, 1992; Sharma & Bandara, 2010) have examined FDI in Australia or New Zealand, perhaps because of their economic size and geographic location. The present study attempts to fill this gap by analysing ANZ manufacturing companies.

Based on the literature review, strong market potential in the target country, low cultural distance between the home and the target countries and low wage rates in the target country appeared to be correlated with the higher probabilities of firms' choosing WOSs and engaging in MS and ES FDI. Similarly, low levels of exchange rate fluctuations in the target country appeared correlated with higher probabilities of firms' choosing WOS and engaging in RRS FDI.

Our empirical section is based on data from 136 instances of ANZ manufacturing firms undertaking FDI in 35 countries from 1998 to 2008. The 136 instances of FDI included 66 WOSs and 70 JVs, and the most common target countries for investments were the United States and China, with 47 (35%) and 24 (18%) respective instances of FDI. We used a binomial logit model, and the results indicate that four of our critical hypotheses were supported. Our results indicate that large market potential and small cultural distance increase the probability that ANZ manufacturing firms will undertake WOS-type MS and/or ES FDI. Low exchange rate fluctuation increases the probability that ANZ manufacturing firms will undertake WOS-type RRS FDI.

Furthermore, based on the eclectic paradigm, the whole sample location-specific variables and strategic motivations have influenced the ownership structure choices of ANZ firms in foreign markets. Individual strategic motivations should not be considered mutually exclusive. FDI projects may be simultaneously driven by various patterns of interaction between location-specific variables and strategic motives. Conceptually, however, distinguishing between different types of strategic motivations facilitates a better understanding of the strategic motives underlying different FDI decisions and the key location-specific variables influencing the different types of FDI projects.

More precisely, this study expands the eclectic paradigm by suggesting that ownership structure choices are not simply affected by location-specific variables and strategic motives. We argue that strategic motives apply and extend the location-specific variables, which allows each variable to be considered with reference to its strategic impact upon a firm's global strategic objectives instead of as an isolated relationship. We hope that this extended version of the eclectic model enriches collective knowledge of international production.

The extended version of the eclectic framework can also identify the possible trade-offs between diverse considerations and aid our understanding of the costs and benefits associated with selecting a particular ownership structure choice. These different factors and strategic motives suggest different alternatives for resolving these differences, which could involve trade-offs. We suggest that each ownership structure choice can be viewed in isolation and must be considered in relation to the overall strategic objectives of the firm. Finally, this framework identifies more explicit strategic issues facing managers of ANZ firms that might otherwise go unexamined.

For managers of ANZ firms, it is often difficult to achieve "optimisation" given the complexity of the real world, the uncertainty that exists regarding the future state of nature, and the bounded rationality of social choice. Thus, "satisfactory" rather than optimal solutions might be the most that one can expect. Nevertheless, assuming that global markets are reasonably competitive, in the long run competitive forces will eliminate those firms that make ownership structure choices inconsistent with value maximisation. Hence, it is critical that, when making ownership structure choices, managers of ANZ firms consider the relative weight of location-specific variables and strategic motives identified herein.

Finally, this study might also help host governments identify and prioritise these problems so as to solve them more efficiently. Hopefully, these findings help other governments to recognise and identify factors that might discourage FDI.

This study has a few limitations. First, most samples investigated in this study were listed companies. Listed companies may differ from private companies in size and other characteristics. Adding non-listed firms into our dataset could provide a better understanding of ANZ firms' FDI behaviour in international markets. Second, a lack of information about the absolute and relative sizes of FDI prevented us from including competition-related information. Additionally, future research should analyse later changes in ownership structures and the relationships between choice of ownership structure and subsidiaries' performance. Finally, because most of the investments by ANZ firms were JVs, both more detailed comparison between minority-owned, equal share, and majority-owned JVs and more detailed analysis of partner selection criteria should be conducted.

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**APPENDIX**  
**Cultural distance between host countries and Australia (AU) and New Zealand (NZ)**

	Distance	Individualism	Avoidance	Femininity	(AU)	(NZ)
AU	36	51	90	61		
NZ	22	49	79	58		
Argentina	49	46	86	56	0.14	0.45
Brazil	69	38	76	49	0.96	1.41
Chile	63	23	86	28	1.76	2.09
China	80	20	40	66	2.64	2.99
Colombia	67	13	80	64	1.22	1.72
Dominican Republic	45	13	39	68	1.75	1.59
Ecuador	78	8	67	63	2.05	2.57
France	68	71	86	43	1.10	1.65
Germany	35	67	65	66	0.38	0.37
Hong Kong	68	25	29	57	2.46	2.52
India	77	48	40	56	2.11	2.41
Indonesia	78	48	48	46	2.04	2.36
Ireland	28	70	35	68	1.48	1.11
Italy	50	76	75	70	0.54	0.88
Korea	60	18	85	39	1.24	1.56
Malaysia	104	26	36	50	4.44	4.95
Mexico	81	30	82	69	1.52	2.28
Netherlands	38	80	53	14	2.91	2.59
Peru	64	16	87	42	1.30	1.72
Philippines	94	32	64	44	2.77	3.40
Poland	68	60	93	64	0.68	1.39
Russia	95	50	90	40	2.56	3.44
Singapore	74	20	8	48	4.22	4.14
Spain	57	51	86	42	0.61	0.97
Sweden	31	71	29	5	4.57	3.87
Switzerland	34	68	58	70	0.62	0.55
Thailand	64	20	64	34	1.81	1.98
Trinidad and Tobago	81	76	12	73	4.16	4.42
U.K.	35	89	66	66	0.84	0.86
Uruguay	61	36	100	38	1.00	1.50
U.S.	40	91	46	62	1.45	1.37
Venezuela	81	12	76	73	2.07	2.77
Vietnam	77	20	54	46	2.17	2.49

Source: Hofstede (1980); Computed in the manner suggested by Kogut and Singh (1988), using a composite index based on the differences between Australia, New Zealand and host countries.