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CHOICE OWNERSHIP MODE AND ENTRY STRATEGY: THE CASE OF AUSTRALIAN INVESTORS IN THE UK

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ABSTRACT
This preliminary research challenges the preconceived notion that resistance is an impediment to change by producing evidence identifying inconsistencies with theory and highlighting the lack of consideration about its constructive role within organisations.

As a result there is a need to accurately measure the nature of resistance within the organization and a questionnaire was developed to identify the type of resistance that existed within a particular environment. The paper will include the results of the testing instrument for the measurement of resistance at a particular manufacturing company in Australia.

CHOICE OF LOCATION AND MODE: THE CASE OF AUSTRALIAN INVESTORS IN THE UK

1. INTRODUCTION

Two central decisions must be made by any firm which is seeking to enter foreign markets: what markets should be entered and how should it service each market. In servicing a foreign market, a manufacturer may choose between three main entry modes: exporting, licensing to a local firm and establishing a local production facility. Where firms choose to establish a local production facility they must decide whether to establish a new business or to acquire an existing one, and also, whether to pursue the venture alone or with a joint-venture partner. This paper seeks to analyse these decision processes for Australian manufacturing firms located in the UK.

Australian multinational corporation (MNC) activity is a relatively recent activity. While small numbers of Australian firms have been prominent abroad for many years, large scale investment is a relatively recent phenomenon. In fact, ninety per cent of Australia's foreign assets has been accumulated since then, with the largest share, nearly one third, being located in the UK (ABS Catalogue 5305). Relatively little academic attention, either in Australia or abroad, has been given to the strategic decision making of these MNCs. This paper seeks to address this shortcoming and, in particular, is concerned to analyse the location and mode choices of Australia's manufacturing MNCs in the UK. Section 2 will survey the relevant theoretical literature on these topics and develop hypotheses to be tested by reference to survey data supplied in section 3. Section 4 analyses the data and section 5 offers some conclusions.

2. Literature Review

The academic literature dealing with modal choice can be loosely categorised into three streams: economic (demand and cost); risk; and behavioural motivation. Each of these will be discussed.

Buckley and Casson (1981) theorised that the choice of entry mode will be determined by the demand and cost characteristics of each mode. In their model the interaction of the variable and fixed costs associated with exporting and foreign production determine which of these two modes is chosen. The additional fixed costs involved in increasing home production to cater for exports are likely to be small. However, variable costs, including transportation costs and tariffs, will be high. Foreign production, by contrast, involves much larger fixed costs as it requires the acquisition of new production and distribution assets abroad. Variable costs, however, will be lower than for exporting because transportation and tariff costs are avoided. In these circumstances the most profitable mode will be determined by the level of demand. A low level of demand will not justify the fixed costs of foreign direct investment (FDI), thus exporting will be optimal for small markets. Larger markets may justify the fixed costs required for FDI, the variable cost per unit being lowest in this mode. Interestingly, Buckley and Casson projected that firms will change entry mode over time if the foreign market grows. Firms will begin by exporting and switch to licensing and FDI as market size increases.

Subsequent work (Buckley, 1983) gave greater prominence to transaction costs in the choice of mode. Transaction costs are incurred in both establishing buyer and seller relationships and in negotiating and enforcing each transaction. The former costs are fixed in nature whereas the latter are variable. In these circumstances, if the frequency of transactions is below a critical level the combined profit of the buyer and seller is maximised by having the two firms separately owned, with transactions taking place in external markets. At higher frequencies the weight of variable costs calls for internalisation of the market.

Buckley and Casson's (1981) model and Buckley's (1983) extension of it were highly useful for consolidating the economic dimension of modal choice. However, subsequent literature, to be discussed below, has emphasised the role of risk assessment and global strategy in the choice and timing of modal changes. Further, Buckley and Casson assumed that sales growth is autonomous of modal choice. Subsequent studies (eg. Calof and Beamish, 1995) have shown that different modes have different sales potential.

Contractor (1990) extended and improved on Buckley and Casson's model by incorporating more potential modes and by considering the administrative, transaction and internalisation costs as well as the direct costs of each mode. He concluded that net cash flow is maximised with a foreign production facility where transaction costs are high and internalisation costs are modest. If the market is working efficiently and internalisation costs are significant then the exporting mode is preferable.

Brouthers (1995) argued that in selecting the appropriate entry mode firms have to determine the level of resource commitment they are willing to make and the level of risk they can sustain. Exporting is a low cost, low risk means of entering foreign markets and can be down scaled quickly. However, it denies the firm marketing control and thus offers less sales and profit. The foreign production mode, especially a sole-venture, by contrast, is a high investment and consequently high risk alternative but provides a high degree of control to the investing firm.

A number of theories, mainly inspired by Johanson, Wiedersheim-Paul and Vahlne, and dubbed the Uppsala Model, explain modal choice on the basis of a firm's experience in international markets. This model posits that internationalisation occurs in stages, commencing with irregular export activity (Cavusgil, 1984, Johanson and Vahlne, 1990, Johanson and Wiedersheim-Paul, 1975). Businesses move from irregular exporting, through exporting via an independent agent, the use of a sales subsidiary to, eventually, full production in foreign markets. Progression through the stages is driven by experiential knowledge accumulation. Each stage calls for more commitment to international markets but enables firms to gain in knowledge, skill and confidence in foreign markets. Because the knowledge relates to the existing mode of operation, firms tend to move gradually, adopting new modes which make most use of past experience.

There are three exceptions to this incremental process (Andersen 1993, Johanson and Vahlne 1990). Firstly, large firms can take bigger internationalisation steps. Secondly, when market conditions are stable, knowledge can be gained in ways other than through experience. Thirdly, experience in similar markets may allow a firm to generalise this experience. These exceptions allow firms to jump stages.

The Uppsala Model and the literature it spawned have been criticised for failing to explain how or why internationalisation starts and for emphasising the characteristics of firms in each stage but giving insufficient attention to the causes of modal change. Critics have argued that the model does not fully explain multi-step mode changes, or disinvestment, and is highly deterministic in nature (Anderson, 1993; Calof and Beamish, 1995). Calof and Beamish found that 48 per cent of mode changes failed to follow this single step, incremental pattern. Their study concluded that modal choice could be attributed to perceptions of potential sales volume in the foreign market, belief that each mode could generate a certain sales volume and belief regarding the costs of each mode. Managerial and other resource capacity and strategic considerations could mediate mode choice.

The next issue to explore is that of locational choice. Various strands of theory, based on risk assessment, global strategy, demand factors and 'psychic distance' are present in the literature. Each will be discussed in turn.

The risk context is important in locational choice. By establishing foreign operations, companies make a longer term commitment which cannot be easily withdrawn. FDI creates sunk costs, establishing a physical and personal link in the foreign country which remain even if the original market conditions which attracted the firm cease to apply (Buckley and Casson, 1981). Risks are likely to be higher than indirect exporting due to the assumption of responsibility for decision making (Agarwal and Ramaswami 1992; Hill, Hwang and Kim, 1990). Hence, firms may not be willing to commit resources to high risk countries, preferring entry through exporting (Agarwal and Ramaswami, 1992). Not surprisingly, survey research (for example Buckley, Newbould and Thurwell, 1988) points to the importance of political stability and low country risk in locational choice.

Another strand of the literature on FDI emphasises the global strategic focus of MNCs (see Kim and Hwang, 1992; Kogut, 1985). Rather than interpreting the locational choice for any one subsidiary in isolation, this strand looks to the role of the subsidiary within the interdependent network of subsidiaries belonging to the MNC. For example, a subsidiary may be established to act as a competitive scanning post in an otherwise unprofitable market or to check the cash flow of a potential global competitor (Kim and Hwang, 1992). Consequently, an analysis of entry mode must include consideration of global strategic variables.

Firms interested in expanding sales are likely to favour markets with greater market potential. The size and growth of markets have been found to be an important determinant of foreign investment (Terpstra and Yu, 1988). Consequently, governments can influence locational decisions by altering the demand conditions within their jurisdictions through taxation, industry regulation or the supply of infrastructure (Boddewyn and Brewer, 1994; Losch 1954). Specific trade policies including tariffs, quotas and non-tariff barriers such as voluntary export restraints, could therefore have a strong influence on FDI. Companies may be induced to invest and produce in a protected market rather than supply it via exports (Bureau of Industry Economics, 1993, p.93).

Finally, the Uppsala Model has a second strand which asserts that the locational pattern of FDI is determined by 'psychic distance', defined as the costs of acquiring and internalising relevant information about business conditions in other countries, the perception of risk and uncertainty involved in foreign operations, and the resources required to gain access to foreign networks (Johanson and Vahlne, 1977). The model asserts that the costs involved in overcoming psychic distance decline over time as a function of the experience gained by the firm. Firms are thus usually expected to enter familiar, probably neighbouring markets first because of their historical familiarity, and then to fan out into progressively more remote territory.

However, Forsgren (1989) has argued that the psychic distance theory is only valid in the early stages of internationalisation when lack of market knowledge and market resources are constraining forces. These cease to be as important when the firm has activities in a lot of countries. A study by Nordstrom (1991), for example, found that, while psychic distance played a role, market potential was the most important explanatory factor in locational choice. Nevertheless, the Uppsala Model's staging and psychic distance constructs retain wide acceptance (see Anderson, 1993, Calof and Beamish, 1995) and are the basis of the paper's hypotheses:

H1. Psychic distance explains the locational choice of Australian investment in the UK.

H2. Australian FDI in the UK is the result of a staged entry process.

Having chosen to establish a business entity in a particular foreign market, the firm must decide whether to acquire an existing business or to purchase a greenfield site with the intention of establishing a new business. Once again, a range of theories focussing, respectively, on market knowledge, transaction costs, resource commitment and the nature of product demand, offer alternative approaches to understanding the decision making involved. The behavioural approach emphasises the decision maker's knowledge of particular markets and the perceptions, beliefs, opinions and attitudes born out of this knowledge (Erramilli and Rao, 1990). This theory suggests a positive relationship between the decision maker's knowledge of foreign markets and the firm's resource commitments. The more familiar the market, the more likely a firm will rely on its own resources to establish and operate the subsidiary. Firms with knowledge deficiencies, however, may try to acquire knowledge by teaming up with individuals and organisations that possess such knowledge. This means that they will show a greater tendency to license, to acquire operating firms and to joint-venture.

Davidson (1982) found empirical support for the behavioural model in his study of US multinationals. In the main, firms chose licensing and joint-ventures to very little extent, preferring wholly owned subsidiaries instead. However, the usage of joint-ventures and licenses rose dramatically for entries into countries that were less similar to the US. Kogut and Singh (1988) also found that cultural distance between the US and the host country increased the probability of choosing a joint-venture over an acquisition or a greenfield, wholly-owned subsidiary.

Transaction cost theory suggests that a comparison of the efficiency of the market with that of the firm's own hierarchy will influence the decision to acquire existing businesses (Caves, 1982). Is it more efficient to hire new managers to operate a greenfield site or to acquire an existing business with managers in place? Administrative costs depend, in part, on the level of the firm's knowledge of how to run a business abroad. The greater the uncertainty, for example in first-time investments, the more firms are likely to enter via an acquisition as local management understand the local market environment (Caves, 1982). More experienced international firms are assumed to place a higher value on profitability and will bear greater uncertainty by pursuing greenfield investments.

Caves (1982) points out that to start a subsidiary by acquisition a firm must buy shares paying a price such that an ordinary investor would get a normal rate of return. If, instead, a firm starts a new venture it avoids paying the going-concern value for an established enterprise. Consequently, there must be some other advantage that makes the foreign firm willing to acquire other firms. The answer relates to risk. The firm is prepared to sacrifice a certain amount of profitability to in order to reduce risk by acquiring a firm with an operating local management which know the market (Anderson and Gatignon, 1986).

According to Hennart and Park (1993), the nature of the firm's assets, particularly those that supply its competitive advantage, will determine whether acquisition or greenfield investment is the more appropriate. Firm-specific assets may be of two types: they may consist of superior organisational ability or technical expertise that can be separated from the organisation or they may be deeply embedded in the firm's labour force. In the second case, the advantages may be so tightly bound to the foreign investor's organisation that they cannot be combined with an acquired unit and must instead be exploited by recreating the parent's business on foreign soil. In other words, if the investor wants to install its own management practices from the start, a likely case where the investment is based on a desire to exploit knowledge within the hierarchy, acquisition seems a less suitable method than starting a new venture (Forsgren, 1989).

The greater the degree of ownership in the entry mode the larger the resource commitment. In joint-ventures for example, the resource commitment is shared between firms (Woodcock et al, 1994). Firms that use the acquisition entry mode are procuring a new set of resources while firms using the new venture mode are relying on their historic and previously developed set of resources. The difference between the acquisition and joint-venture modes is that firms in a joint-venture share and provide access to some of their internal resources while in the sole-venture mode no such access is provided. A firm will use the joint-venture mode to rectify a resource deficiency only if it is willing to provide access to such resources and can find a willing and suitable partner (Hill, Hwang and Kim, 1990).

Given the resource commitments required for market entry, firms are likely to employ entry modes requiring significant resource commitments only if the host market is large enough to support such commitment. Root (1987) argued that entry modes such as indirect exporting and licensing are favoured in markets characterised by low sales potential. Likewise, Hill et al (1990) propose that MNCs will prefer to avoid heavy commitments in embryonic and declining markets.

Wilson (1980) suggested that firms in industries which rely on local marketing know-how, such as consumer goods, might have more incentive to purchase established companies for expansion, rather than taking the slower, more difficult path of building its own market share. Companies possessing distinctive technological resources or marketing skills and a willingness to invest in the development of new markets are more likely to start a greenfield venture. Companies entering a country at the early stages of a product's life in that market will rarely find any suitable firm to take over, whilst late into a market and possessing no distinctive resources will prefer to enter by means of a takeover (Buckley and Mathew, 1980; Stopford, 1977).

In summary, the advantages of a takeover are considered to be: access to immediate market share and a local reputation, access to production and distribution facilities, a sales organisation which is familiar with the product and its customers and management personnel who are experienced in the local environment. However, a takeover may not be preferred for the 'flying start' it offers if that start is in the wrong direction - the market may not be the one the company seeks; the local reputation may be poor; production facilities may be old or inappropriate; management may be unable to cope with the changes envisaged by the parent. Further, the greater cost of an acquisition introduces additional risk if the investment goes badly. A greenfield entry means the investing firm will have to provide all the resource inputs from the outset and start from such market share as may have been established by exports. The company achieves complete control and, therefore, an unfettered opportunity to introduce its desired methods which may be rejected by staff in a takeover. However, it is likely to be the slowest method of penetrating a new market and the foreign environment may introduce additional risks given that the firm's management will be unfamiliar with the new environment.

In relation to joint-ventures, Hennart (1991) argues that this entry mode is efficient when markets for intermediate goods held by each party are failing and it is more expensive to acquire or replicate assets yielding those goods than obtaining a right to their use through a joint-venture. Joint-ventures face the risk of loss where the partner firm seeks to maximise its gain at the expense of the venture. This can be expected to arise where the parent transfers poorly protected or ill-defined proprietary knowledge (Buckley and Casson, 1976). It may be difficult to price the knowledge or to protect its leakage beyond the joint-venture and thus there is incentive to pursue full ownership (Anderson and Gatignon, 1986). Similarly, where a company's image and reputation is a public good to all those sharing the trademark, a joint-venture partner may have strong incentives to free-ride on the reputation by debasing the quality of the products bearing the trademark. A firm exposing its critical resources to either imitation or transfer may provide its partnering firm with a competitive advantage in the future. If firms want to protect these resources and the perceived risks of having them transferred to the second firm are high they should avoid joint-ventures. On the other hand, a joint-venture arrangement can reduce risk by sharing the resource commitment required to pursue the investment (Agarwal and Ramaswami, 1992). Therefore, a focus on risk can lead to different mode decisions, depending on the nature of the risk concerned.

In summary, joint-ventures are more likely where the investor is unfamiliar with the market, where access to assets is achieved more economically through a joint-venture than through the market, where there is minimal risk of losing core corporate knowledge, where the resource commitment is large by comparison with the home business and where appropriate joint-venture partners are available. However, where there is difficulty pricing the inputs of each partner and therefore sharing the profit equitably, where there is a significant risk of the firm's core assets being dissipated or lost, where the firm has sufficient capacity to manage the new business alone or can economically acquire the necessary additional resources, the firm is more likely to enter the new market in a sole-venture capacity.

Hypothesis 3: **Firms will choose sole-ventures except where access to market share or knowledge is the priority and loss of core business knowledge is not a concern.**

Hypothesis 4: **Firms will choose greenfield (de novo) investments over acquisition except where rapid access to market share, productive capacity or knowledge is the priority.**

3. Research Methodology and Details of the Sample

This paper investigates Australian FDI abroad by analysing survey data (collected by interview) of Australian businesses in the UK. An important advantage of this methodology is that it provides direct measures of the factors that determine modal and locational choices. The UK was chosen for the study because it is the largest recipient of Australian FDI. Manufacturing companies were chosen simply to narrow the field of research. Separate surveys of service companies have since been carried out and will be reported in forthcoming publications. Research assisted by ABIE (Australian Business in Europe) identified 25 Australian owned manufacturers in Britain. Twenty of these agreed to participate in the survey, thereby supplying a highly representative sample of the total population. Senior managers of the sample companies, usually Chief Executive Officers, were interviewed. The interviews took an hour on average and allowed the interviewees to elaborate where appropriate. The survey questions were broad ranging, designed to gain an understanding of the corporate history of the subsidiary, and focussed on the central issues of concern to this paper. Content analysis of words, themes and omissions was performed.

The companies included in the survey were diverse in scale, with company size ranging from large (1400 employees) to very small (9 employees). The few Australian expatriates employed held executive, management or specialist positions, most commonly that of Chief Executive Officer. The businesses were involved in producing a diverse range of products including food and beverages, chemicals, building and construction items and household products. In general, these products had a large non-tradeable element arising from difficulties of transportation and a large service element in operations. Most of the businesses surveyed (60 per cent) had been established since 1980. For twelve firms, the British subsidiary was a greenfield site and eight were acquisitions. In all cases, Britain was the Australian firm's first European operation. Two subsidiaries, each having the same parent, were joint-ventures and eighteen were sole-ventures. Thirteen of the companies exported to Europe from the British subsidiary and eleven had established plants on the Continent, adopting the practice of Japanese MNCs of entering the Continental market from British bases.

Figure 1: Summary of Sample Characteristics

	Greenfield	Acquisition	J/V	Sole Venture
Sales (Pounds Sterling)				
< 3 million	4	1	1	4
3 - 25 million	6	3	1	8
> 25 million	2	4	-	6
Number of Employees*				
<20	3	1	1	3
20 - 99	5	1	1	5
>100	4	6	-	10
Type of Goods				
Producer Goods	8	5	1	11
Consumer Goods	4	3	1	7

4. Analysis of Survey Results

The primary motive for establishing the subsidiaries was to gain access to markets. Ninety five per cent (19) of the respondents reported that market growth was the primary motive. No firm mentioned cost factors as a motive, however access to technology was the key factor for one company. A number of companies reported that UK labour costs, low by European standards, had influenced their choice of region in the UK. Other secondary motives for choosing Britain included protection from tariffs (in earlier times), avoidance of Australia's trade cycle, access to raw materials and access to processing capacity for Australian production. Thus, risk based, strategic and internalisation factors were present. However, as McKinsey (1993, p.32) found: 'Being close to customers and realising a market opportunity are the two main reasons firms move offshore.'

Once the general motives for establishing overseas had been identified, the firms were asked why they had chosen the UK in particular. Respondents were able to give more than one explanation. This showed that they were attracted to the British market because of the familiarity of the language, culture, history, society and legal system. Other attractions were the high income, large population and limited geographic size of the market. Respondents were also attracted by the possibility of expanding into Continental Europe. Government incentives played no role in the decision to invest in the UK, though government grants affected the specific location of some firms. Thus both psychic distance and demand factors were central in explaining locational choice. Figure 2 supplies sample quotes from firms to exemplify the decision making involved.

Figure 2: Reasons for Choosing the UK Location: Sample Quotes by Category

Language, Cultural and Historical Factors (16)
It's easier dealing with people who speak English.
We selected the UK for its comfort factor.
The attraction was the language.

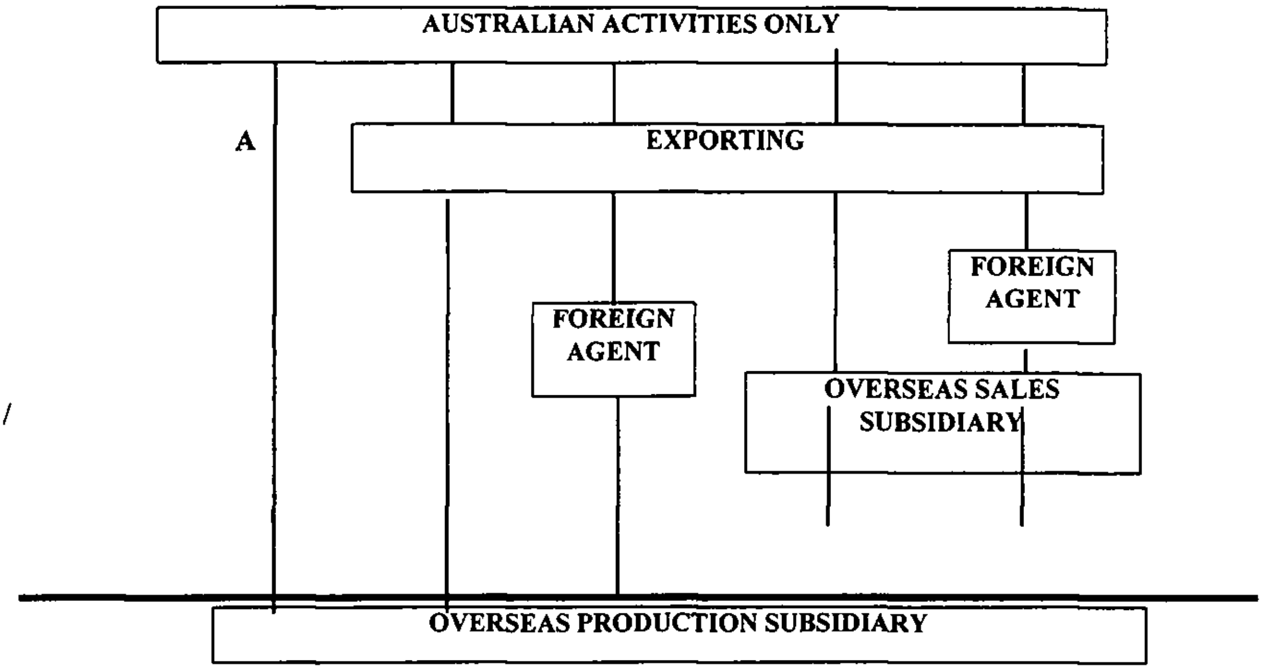
Institutional and Environmental Factors (16)
Historical links, similar legal system stable political situation.
Compared to the Continent, Britain's market is freer. It allows for new players.
Market Factors (12)
The English market is a manageable size. The US was too big.
The UK was a good base to expand into Europe.
The UK is an important market with a large population in a small country.
Availability and Cost of Labour (7)
There is good availability of labour here.
Labour is cheap compared to the Continent.
Chance (5)
The owner's daughter married an Englishman who came back to the UK to establish the business.
The purchase resulted from a takeover in Australia. It was an unintended asset initially.

Note: The numbers in brackets to the right of each category indicate the number of responses of that type.

Australian FDI in the UK's manufacturing is therefore consistent with the locational pattern of internationalisation that is described in the psychic distance literature. We can therefore affirm the first hypothesis. However, whereas Scandinavian companies ventured into neighbouring countries first and then into Europe and beyond, Australian firms have interpreted the psychic distance between home and the UK as being less than that separating Australia and Asia, despite Asia's geographical proximity. In every case, the UK based companies reported that Britain had been their parent company's first foreign operation in Europe and, frequently, their first anywhere.

However, the Uppsala Model's staging process was not found to be relevant for the majority of firms, leading us to reject the second hypothesis. The great majority (72 per cent) of the UK based companies had never sold goods in that market prior to establishing their subsidiaries. In these cases no 'staged entry' had taken place. The burden of transportation costs involved in exporting from Australia was the main reason that exporting had not been pursued. In some cases the goods were so bulky that their sales were restricted to a limited radius around their British plants. In other cases the limited shelf life of the product or the need for its customisation had precluded exporting as a means of entering the market. Figure 3 outlines the different routes a firm may take of entering a foreign market and indicates the prevalence of firms in the sample which had established production entities in the UK without a history of exporting to that market.

Figure 3: Routes to Investment in Production Facilities Overseas.



The Route to the Overseas Production Subsidiary

	Route	Firms
A.	Australian operations - OPS direct route	13
B.	Australian operations - Exporting - OPS	2
C.	Australian operations - Exporting - foreign agent - OPS	3
D.	Australian operations - Exporting - OSS - OPS	1
E.	Australian operations - Exporting - foreign agent - OSS - OPS	1
	TOTAL	20

The literature reports other examples of companies skipping the export stage. An Australian study of 228 examples of FDI found no prior presence in the host market in 39 per cent of cases (Bureau of Industry Economics, 1984). Similarly, a study of 43 UK firms in the US found 36 of them had established a manufacturing facility without first forming a sales subsidiary in the country (Newbould, Buckley and Thurwell, 1978). Millington and Bayliss (1990) found that staged internationalisation was the exception rather than the rule.

However, there was evidence that a minority of the UK subsidiaries had experienced various stages in their history. Four companies made the point that while they had originally exported to the UK, this strategy was no longer viable. Their comments indicated that the interaction of market conditions and exporting costs required that they change modes from export to local production. The result was an incremental extension of marketing similar to that described in the Uppsala Model.

However, rather than being knowledge or experience driven, the stages were defined by cost and revenue factors as described by Buckley and Mathew (1980), Buckley (1983) and Calof and Beamish (1995), together with strategic factors. This finding supports Anderson's (1993) contention that the existence of stages does not necessarily confirm the Uppsala Model's explanation for them. It also affirms the less deterministic approach to explaining stages phenomena adopted by Dalli (1994). Rather than being driven by knowledge acquisition in a mechanistic fashion, strategic choices are available to the internationalising firms. The best strategic decisions depend on many factors including cost, risk, experience, opportunity and the nature of the product.

The following description summarises the key characteristics of the staging and mode switching processes experienced by the seven firms which had progressed through stages. In the first stage these firms exported to the British market. The absence of similar products meant that they could command a premium price. At first, volumes were small and the selling prices was high. Economies of scale from expanding home production offset the costs of exporting. The second stage saw the products maturing. Sales increased in volume as the companies progressively moved beyond niche markets towards the mainstream. Local competitors, unburdened by transportation costs, entered the market, forcing the firms to lower their selling prices and accept reduced profit margins. Customers came to demand more service, both before and after sale. Reduced margins and increased exporting costs associated with the increased volume of sales caused the companies to consider local production. The third stage commenced when the burden of transportation costs and heightened customer demands convinced the company that it was appropriate to develop a production facility in the market.

While the international business literature gives little detailed attention to exporting costs, the survey found that they are very important in the decision to change modes, at least for Australian manufacturers in the UK. In addition to the direct costs of land transport to the port, transfers, shipping costs, insurance and foreign exchange risk, exporting costs include the opportunity cost of capital tied up in stock in transit. These costs increase with the volume of exports and with distance. A point is reached for many exporters when the fixed cost of building a local facility is less than the present value of the future cost of exporting. The smaller the cost of establishing a production facility and the greater the cost of exporting, the sooner the production facility becomes viable. In transaction cost terminology, the most efficient mode of servicing the foreign market changed over time as sales grew.

The survey showed that a similar analysis applied to the export of particular components and models. Six of the companies imported components or models despite having extensive local production facilities. They reported that the sales volume did not justify the additional investment required for local production but this would be reviewed if the volume of imports grew.

Buckley and Mathew's (1980) study of UK direct investors in Australia also showed the importance of sales volume, establishment costs and shipping costs in determining entry mode for some firms. In one case a firm decided to replace its export strategy with a licensing arrangement because of the high cost of shipping and stock holding. Similarly, the firms which exported and distributed goods in Australia judged that a local production facility was not justified because production levels would not make it viable. However, their research did not give as much emphasis to exporting costs as an active reason explaining why firms had decided to switch to local production as did the current research. Given the (presumably) common shipping costs facing exporters sending goods in either direction, this suggests differences in the nature of the goods might make exporting costs more significant for Australian firms than for their British equivalents.

Yetton, Swan and Davis' (1991) study sheds light on the seemingly unequal importance of exporting costs for firms at either end of Australia-UK trade and the lesser justification for UK firms to produce in the target market from a cost minimisation perspective. They found that the high level of foreign ownership in Australia's traded goods sector meant that domestically owned but internationally focussed firms tended to be concentrated in non-traded goods production. For these firms, exporting, by definition, was not a viable option.

It is interesting to note that the economics of exporting may partially explain Australian firms' preference to export to closer, regional markets in Asia, but to invest and produce locally in the distant European market (see ABS Catalogues 5305 and 5422). If exporters follow the path described, Australian investment in Asian markets will sensibly lag investment in more distant countries. The growing volume of exports to Asia may eventually justify more FDI for production facilities there. However, goods which are standardised, cheaply transported relative to value, free of import duties and which call for little producer-consumer interaction are more likely to be exported, even in the long term.

In regard to the choice of ownership structure as between sole-venture and joint-venture, the great majority of firms preferred wholly-owned subsidiaries. Figure 4 supplies a summary of the reasons why the firms had overwhelmingly preferred to avoid shared ownership arrangements. The central reason was the parent companies' preference to retain the independence of decision-making offered by a wholly owned subsidiary. Hypothesis number 3 was therefore affirmed by the research. The assets and capabilities which joint owners might have brought to the operations were generally considered to be insufficient to justify the associated loss of control. The 'corporate culture' of the firms might also be mentioned. These were successful, entrepreneurial firms which had great confidence in their own abilities. They needed nobody's help to 'take on the Brits'.

The two firms which were joint-ventures explained this arrangement by reference to a number of factors. One firm combined its Australian technology with the UK firm's existing market. The other gave access to complementary assets in financial resources on one side and markets on the other, both parties wishing to secure their interest but share the risk.

Figure 4: Reasons for Choosing Wholly-Owned Subsidiaries: Sample Quotes by Category

Control Factors (7)

We wanted to control our destiny.

We are a private company. The owner likes to keep control.

Ego - we wanted our name on the door.

Organisational Capacity (7)

We don't need input from others.

We had the technology and just needed to acquire distribution facilities.

A joint-venture was not considered necessary in the UK - the market was familiar.

Chance Factors (3)

It was an unintended purchase. It resulted from a takeover in Australia.

Profit Maximisation (1)

You get more profit if wholly owned. We didn't want to share it.

Lack of Suitable Partners (1)

In the old days there were no suitable partners. We started the industry here.

Note: The numbers in brackets to the right of each category indicate the number of responses of that type.

The strategy used by the firms was consistent with that described by Hill, Hwang and Kim (1990). Joint-venture was chosen to rectify a resource deficiency only where the firm was willing to give the partner access to its resources, to forgo a degree of control. One such deficiency might, potentially, have been a lack of familiarity with the local business environment, but the firms believed that the British market was sufficiently similar to the Australian environment for them to proceed without a partner. Interestingly, many firms reported a different strategy for their Continental operations. There, licensing arrangements or joint-ventures were in place to help address the different language and cultural environments. This suggests that the behavioural approach adopted by Erramilli and Rao (1990), Davidson (1982) and Kogut and Singh (1988) does apply but that the UK was judged to be sufficiently like Australia for the cultural dimension of FDI to be overlooked.

Interestingly, the scarcity of joint-ventures paralleled findings of Buckley and Matthew's (1980) investigation of UK joint-ventures in Australia. In that study all sampled firms were effectively wholly controlled by the UK parent. The research showed that the companies believed a wholly owned subsidiary would give them greater control, better feedback, higher profits, financial flexibility and would be easier to manage. Both the Buckley and Mathew (1980) research and the current work show that few companies engage in joint-ventures out of choice, irrespective of their size or experience. Companies prefer to be controllers of their own destiny wherever possible.

Twelve firms had entered the UK market by establishing new businesses and eight had taken over existing firms (see Figure 1). The reasons the firms chose their particular entry modes are summarised in figures 5 and 6. The most important factor explaining the choice made by greenfield entrants was the lack of suitable firms to purchase, given the nature of their product or production process. Hypothesis 4 is therefore affirmed. Seeking to exploit innovative products or processes in a new market, existing firms had little to offer to justify the additional expense of a takeover (see Buckley and Mathew, 1980; Caves, 1982; Stopford, 1977). This 'life cycle' aspect was also apparent in one acquisition where the firm reported that as its industry was an 'old' one, dependent on raw materials which were all owned by pre-existing businesses, acquisitions were the norm. The major justification for choosing the acquisition mode among the firms which had adopted that path was to gain access to expertise or market share which would not otherwise be available. Wilson's (1980) view that consumer goods firms are more likely to prefer the acquisition mode was not borne out in the survey overall. However, there was a clear concentration of large firms among the acquisitions. Of the ten firms which employed more than 100 people at the time of the survey, six were acquisitions and respondents from these firms emphasised the importance of immediate market share and productive capacity in their decision making. They were 'big players' in the Australian setting and did not have the patience to 'start small' in the UK.

Figure 5: Reasons for Choosing to Acquire Existing Businesses: Sample Quotes by Category

Value of Business and its Assets as a Going Concern (3)

Existing markets, existing manufacturing facility, existing customer base.

We were buying into R and D. We wanted the technology.

We wanted a critical mass. We wanted to start large.

Life Cycle Factors (1)

Quarries are usually pre-owned in an old country like the UK.

Chance Factors (4)

The purchase was an unintended result of a takeover in Australia.

Note: The numbers in brackets to the right of each category indicate the number of responses of that type.

Figure 6: Reasons for Choosing a Greenfield Investment: Sample Quotes by Category

Lack of Suitable Businesses to Purchase (6)

There were no suitable businesses for sale. Our competitors had traditional processes.

There was no existing factory for our product. We needed an empty shell.

We were pioneers in the market place when we started. There wouldn't have been any companies to buy.

Unique Technology (4)

All the equipment was transferred from Australia.

We had a new technological process. Existing plants were unsuitable.

Cost Factors (3)

Taking over an existing company would have generated significant overheads.

Note: The numbers in brackets to the right of each category indicate the number of responses of that type

5. Conclusion

The prime motivation for establishing production facilities in the UK was the desire to access markets. A domestic population of 18 million people, comparable only to that of London or New York, offers Australian businesses limited scope for growth. The UK market is particularly attractive in its own right, having a high average income and a compact geographic area. In addition, the UK allows access to the Continental market.

The UK was the first European venture for all the companies surveyed in Britain. The factors which pulled the investment to Britain first, and not to the more centrally located European countries, were those emphasised by the 'psychic distance' model. Familiarity of language, custom, business practice and legal system minimised the risk of foreign investment. Subsequent investment by the longer established companies had gone to less familiar places on the Continent and in Asia as the 'psychic distance' of these regions has been reduced through exposure to international business.

Mode choice for Australian manufacturers in Britain was largely determined by economic factors. Heavy transportation costs meant that the great majority of the firms produced non-tradeable goods that required them to manufacture the goods in their target market. No prior experience of exporting had been possible. A staged entry had not been viable, requiring them to invest and produce in the market or forgo it. However, in a minority of cases, exporting had preceded local manufacture. Transportation costs and expanding sales volume had encouraged them to progressively replace their export strategy with local production in the UK. The bulky nature of many of the products required that they move into the UK very soon after entering the market.

This balancing of the incremental sales expected to flow from establishing a local production facility, such a facility's cost and the cost of transportation, all featured in the decision to manufacture locally. This finding is consistent with that of Calof and Beamish (1995, p.123): 'Executives indicated that mode choice could be attributed to their view of potential sales volume in the foreign market, belief that each mode could generate a certain sales volume and beliefs regarding the cost of each mode.' Transportation costs featured in the justification to swap from export mode to FDI by Australian firms operating in the UK. The impact of such costs has received insufficient attention in the literature on modal choice, especially in the case of remote countries and for bulky and short-life products.

A preference for independent control of the subsidiary led Australian firms to shun joint-venture as a desirable entry mode. The seemingly familiar environment that had attracted them to Britain, together with a well developed sense of confidence in their own managerial and technical competence, meant that firms saw no justification to establish a joint-venture. Clearly, firms had a predilection to avoid joint-venture. To take a different course would require that the potential partner bring considerable resources or capacities to the new business and these were not evident to the subsidiary.

The final element in the choice of entry mode, whether to establish a new business or acquire an existing one, depended on the nature of the businesses and their market aspirations. In all but one case, the firms believed that their Australian developed products and processes were appropriate and adequate to support the new venture. Britain was so familiar that the home operation could simply be cloned. Only where the firms wished to minimise their risk or to commence on a large scale, with market share and the productive capacity to serve it, did they acquire an existing business.

Finally, a word of caution: the internationalising of Australian industry is quickly evolving. There has been little research into this process by comparison with the quantum of research conducted into European and US international firms. This paper seeks to address the shortcoming. However, the sample was of manufacturing subsidiaries in the UK rather than Australian firms that have internationalised. Sales subsidiaries were excluded. The conclusions are therefore only suggestive in their applicability to the broader population.

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