

School of Management

**The Determinants of Western Australia's Foreign Investment in
China**

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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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ABSTRACT

The growing economic importance of China with its major economic power in the East Asia region has become a popular host destination for receiving foreign investment from Hong Kong, Korea, and Taiwan. With China's growth and development, this nation has over time become one of Australia's main trading partners. As new investment opportunities have emerged, Australian companies, especially from Western Australia have shown interest in the Chinese marketplace. Despite the popular consensus that Australian companies are increasingly investing in China, to date relevant literature examining this notion is limited. Specifically, studies of elements that motivate or deter owners / managers of Australian companies, especially from Western Australia to invest in China are restricted. Consequently, the purpose of this study was to investigate the likely relationships between four independent constructs (1. market size, 2. labour cost, 3. infrastructure, and 4. business ethics) in China and the intensity of foreign investment from Western Australia, and to evaluate if and how these relationships are mediated by personality attributes (i.e., gender), organisational properties (i.e., size), and networking.

To empirically investigate the determining factor for undertaking investment in China, this study employed both quantitative and qualitative approaches. The use of the quantitative method positivist approach is deemed as a suitable, partial approach, which assists in determining the statistical relationships between the investigated variables. Moreover, a qualitative approach was used in a complementing context to understand the quantitative results. Given the dynamic business environment in China, the use of a qualitative approach has potential for gaining a more comprehensive understanding of quantitative findings as well as providing rich information for further interpretations.

This study was conducted with 43 respondents of Western Australian companies. A salient feature of the study companies is that they either have capabilities to invest or are already investing in mainland China (People's Republic of China, in this study identified as China). The targeted companies are involved in manufacturing and services industries, such as mining, education, banking, and telecommunication. Although collecting primary data appeared to be a challenge, the data were robust for

statistical analysis. In addition, the data were from decision makers of the study companies, which further indicate the richness of the sample.

The findings of this study revealed that China's large market size plays a positive role in attracting investments from WA to China. Similarly, the adequate level of infrastructure and the level of familiarity of business ethics in China tend to somewhat encourage WA investors to conduct business in China. In contrast, China's cheap labour cost was not the primary driver that motivates WA companies to invest in China. In relation to the mediating effects of personality attributes (e.g., gender), organisational properties (i.e., size), and networking the study findings revealed that networking plays a significant mediating role in the investment decision. However, due to the relatively small sample size, personality attributes and organisational properties were established to provide insufficient analytical rigor in the decision to invest in China by WA companies.

The implications for this study may offer insightful information to enrich the understanding of the determinants of Australian foreign investment in general, and in the Chinese marketplace in particular. In addition, by empirically investigating the perceptions of the decision makers of WA companies in relation to their investment decisions in China, the findings of this research may assist foreign companies to undertake better planning of their investment decisions. More specifically, this study may offer additional insight to those companies that are operating or planning to invest in the Chinese marketplace. For example, this study may be particularly useful for international managers or owners, as it may provide some fruitful information to assist a better understanding of the issues that relate to business ethics with Chinese operations. In addition, the phenomenon of *guanxi* in China has been considered as a major determinant for facilitating business engagement in the Chinese marketplace. It may, therefore, be argued that the phenomenon of *guanxi* in assisting business operations in China has become increasingly important, and international managers or owners may need to gain a deeper understanding of this phenomenon.

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Chapter One

RESEARCH PROBLEM

1.1 Introduction

The emerging dominance of the Chinese economy is inciting a plethora of world market stakeholders, including Australia, to engage in financial investments in China. Since 2001, China's foreign investment growth has been continuously increasing, particularly as a popular host destination for its Asian neighbours Hong Kong, Korea and Taiwan (Ho, 2004). Furthermore, according to Prasad and Wei (2005), the gross foreign investment in China increased to almost \$61 billion in 2004, while the United Nations Conference on Trade and Development (*UNCTAD*, 2006, p.3) reports that China has received a total of \$72.4 billion of inwards FDI in 2005. With China's growth and development, that nation has been considered as an important marketplace for both complex and advanced products and services (Demir & Soderman, 2007). Over time, China has become one of Australia's main trading partners (*Australian Government Senate*, 2005); in fact, in March 2007, China overtook Japan and became Australia's largest trading partner (*ABC News*, 2007). Historically, Australia's off shore investment focus was the United Kingdom (UK), the United States of America (USA) and New Zealand, but with the increasing economic development in East Asia, Australian companies have over time shifted their investment direction, particularly to Indonesia, Malaysia, Singapore, China and Vietnam (Marsh, 1996). Indeed, as new investment opportunities have emerged, Australian companies have shown interest in the emerging Chinese market (Fittock & Edwards, 1998), and today, there is increasing business potential between the two countries (*Australian Government*, 2007).

Despite the popular consensus that Australian companies are increasingly investing in the Chinese marketplace, to date relevant literature promoting this notion is limited. In fact, most of the existing research (Bryan, 1989; Edington, 1990; Sim & Teoh, 1994; Yang, et al., 2000) on this dimension focuses on the understanding of the determinants of inwards FDI to Australia. In addition, much of the research on the determinants of China's FDI inflows has been based on USA and Japanese investment in the Chinese marketplace (Beamish, 1993; Pan, 1994). Sim and Teoh (1994) argue that less emphasis has been paid to the study of Australia's off shore

investment. Fittock and Edwards (1998) also support this view, and suggest that Australian direct investment overseas has received less attention. While exploring the determinants of Australian direct investment in the Chinese marketplace, and particularly what elements motivate or deter owners / managers of Australian companies from undertaking FDI in China, Fittock and Edwards (1998) conclude that research in this area is restricted. In view of this knowledge gap, one of the objectives of this study is to provide more understanding of the determinants of Australian foreign investment, especially from Western Australia (WA) to the Chinese marketplace.

Although researchers have investigated China's country characteristics, such as labour cost, in attracting foreign investment to the Chinese marketplace, to date relevant literature that examines the drivers and influencing factors of Australian foreign investment is narrow. In fact, a number of researchers (Chen, 1996; Head & Ries, 1996; Broadman & Sun, 1997; Dees, 1998; Cheng & Kwan, 2000; Coughlin & Segev, 2000; Fung, et al., 2000; Zhao & Zhu, 2000; Wei & Liu, 2001; Belderbos & Carree, 2002; Ng & Tuan, 2003) have undertaken to investigate the relationship between labour cost in China and its inwards FDI. While this notion has been widely explored, little is known about other drivers for engaging in the Chinese marketplace by Australian firms. Indeed, with the growing economic importance of China and its major economic power in the East Asia region (*Australian Government*, 2004), an investigation on the determinants of Australian foreign investment in China would complement and deepen owners' or managers' understanding of the Chinese market in particular. Furthermore, a comprehensive understanding on the determinants of Australian foreign investment in the Chinese marketplace may provide additional information to Australian companies that would assist them to undertake better planning of their investment decisions. In addition, considering China's emerging influence across East Asia and its remarkable economic development, there is merit to be gained by having a more comprehensive appreciation of the determinants of Australia's investment in China. Hence, the present study stems from the need to empirically examine driving factors that motivate WA companies to undertake foreign investment in the Chinese marketplace.

The main objective of this study is to explore the relativity of a set of constructs of Australia's direct investment, especially from WA, in the Chinese marketplace. Specifically, the intention is to delineate the relationships between four independent constructs (1. market size, 2. labour cost, 3. infrastructure, and 4. business ethics) and the intensity of Australia foreign investment. The second stream of the study focus is to evaluate if and how these relationships are mediated by personality attributes (i.e., gender), organisational properties (i.e., size) and networking.

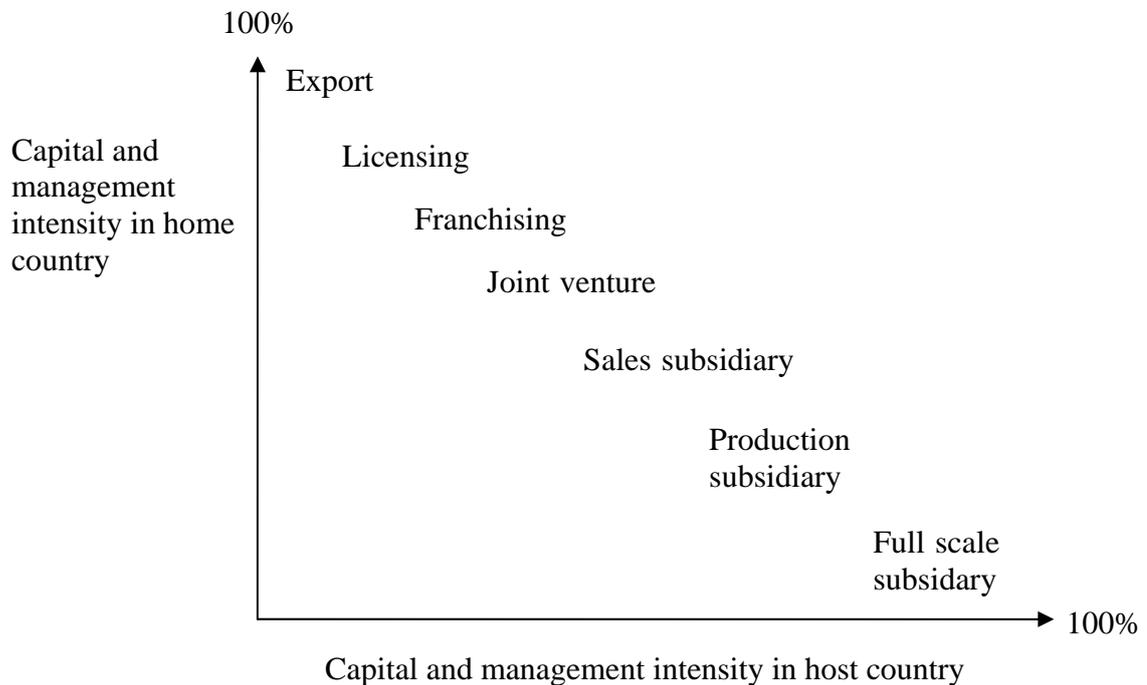
1.2 Stage Model of Internationalisation

The internationalisation process, as proposed by Johanson and Wiedersheim-Paul (1975), consists of four stages. These stages are: 1. irregular export activities, 2. export via independent representatives, 3. establishment of an overseas sales subsidiary, and 4. foreign production. The model contends that these four stages are linked and that a firm can enhance international business engagements by advancing from the first stage to the fourth stage. With the intensity of international trade more elaborate explanatory frameworks of the internationalisation process have been developed.

An elaborate model to explain international business activity has been advanced by Meissner and Gerber (1980). In their framework, it is argued that a firm can enter the international business area through a low commitment channel such as exporting. Over time, as knowledge and experience are accumulated, firms gradually extend their market presence by moving towards 'high-commitment' modes such as joint ventures and wholly owned subsidiary, eventually attaining the state of a full scale subsidiary, which has widely been accepted as FDI. The notion presented by Meissner and Gerber (1980) is shown as Figure 1.1 and shows the various likely stages that a firm might entertain along the continuum from low commitment to a state of highest commitment. Moreover, according to Borghoff (2005), the basic structure of the internationalisation process can be viewed as a progressive logic.

Figure 1.1

Degrees of Internationalisation (Adapted from: Meissner & Gerber, 1980: 224)



Despite the comprehensiveness of the Meissner and Gerber (1980) multi stage model it has recently attracted criticism. A number of commentators (Burt, 1992; Barnir & Smith, 2002) have advanced the importance of networking to facilitate contemporary international business, yet this principle is not endorsed in theoretical models. Moreover, evidence is accumulating (Knight & Cavusgil, 1996; Madsen & Servais, 1997; Crick & Jones, 2000) that a firm does not have to commence at the initial low commitment stage of exporting, but can ‘jump in’ at a stage along the continuum of the Meissner and Gerber model. Traditionally, however, many small and medium sized enterprises (SMEs) closely follow the stages shown in Figure 1.1 (Roberts, 1991; Axinn & Matthyssens, 2002; Reason & Mughan, 2002; Bell, Crick & Young, 2004), as do a number of multinational Chinese firms (Du, 2003). Collectively, the conventional wisdom is that entry modes can be distinguished by the level of international involvement in terms of capital and management intensity (Borghoff, 2005), as illustrated in Figure 1.1.

A number of scholars (Johanson & Vahlne, 1977; Chetty & Campbell-Hunt, 2003) claim that the entry mode choice is linked with the degree of international business involvement or commitment for each firm within a foreign country. International

commitment is associated with the choice of entry modes. More specifically, it is an increase in international commitment and investment that is linked with entry mode choices. In addition, foreign investment can be viewed as a capital investment or in a wider content an investment of resources and energy in a foreign location. Many studies have addressed the notion of international business engagement by focusing on the financial side of investment, which has been traditionally captured as FDI. As foreign investment does occur at any stage of the entry mode, this study intends to consider foreign investment along the total spectrum of internationalisation.

1.3 Focus of the Literature

The focus on the literature for this study is divided into three parts. First, consideration has been given to the aspect of foreign direct investment by examining the implications and importance of FDI for a country's economic development. Second, the development of foreign direct investment in China is documented. Third, the determinants of foreign investment are examined with a purpose of narrowing down the determinants of foreign investment in the Chinese marketplace. The aspect of FDI is presented first.

1.3.1 Foreign Direct Investment

Research has revealed that FDI is an important factor, not only for economic growth in developed countries, but also significantly relevant for developing countries (Voyer & Beamish, 2004). This view is supported by Wafo (1998), who explains the importance of FDI as a critical tool in fostering employment and growth in industrialised nations. In reality FDI can be seen as a major form of international capital transfer that has grown dramatically over the past decades. Wang (2004) also indicates that with the growing internationalisation of production, worldwide FDI flows have grown considerably, in particular contributing to the economic development of developing countries, among others, China. In addition, FDI may have multiple effects on a host country economy, including aspects of production, employment, income, prices, exports, imports, balance of payments, economic growth, and general welfare of the receiving economy (Maniam & Chatterjee, 1998). Because of the significant implications of FDI for economic development in boosting employment, output and productivity (Driffield, 2001; Driffield & Girma, 2003;

Driffield & Munday, 2000; *UNCTAD*, 2005), foreign governments tend to attract different kinds of FDI to the marketplace.

While the importance of FDI for a host country's economic development has been acknowledged, the implications of FDI have also been widely examined. For instance, in a report from the OECD (2002: p.5), it was stated that "FDI may improve environmental...responsible corporate policies.". Furthermore, the suggestion is made that FDI may have an overall effect on the macro-economic growth of developing countries. In other studies the implications of FDI for emerging economies has also been contended. For example, Kumar (2007: p.8) argues "FDI appears to help... and human capital.". Moreover, empirically, the effects of FDI on economic growth indicate that FDI may be seen as an essential vehicle for technology transfer, and as such contributes to the host country's economic growth (Borensztein, et al., 1998). Given the significant implications that FDI has on the economic growth of the host country, nations have tried to attract FDI, among these, China. According to Chen, et al. (1995), FDI inflows to the Chinese marketplace have contributed to the economic development of the country. Li (2005: p.4) further states that "The influences of FDI inflows on capital formation, labour training, upgrading of industrial structure, technology transfer and spillovers, international trade have significantly accelerated the transition of China's economy from the planned economy to the market economy, and also increasingly integrated the Chinese economy into the world economy.".

1.3.2 Foreign Direct Investment in China

The historical development of China's economy has had an impact on the level of inwards FDI to the country. In 1978, China underwent economic reforms with the purpose of opening the Chinese economy to both international trade and overseas investment (Hou, 2002). Since 1979 the Chinese economic system has experienced a gradual transformation from a centrally planned system towards a market based economic system (Jiang, 2005). During this initial period of economic reform the country did not receive large inward FDI, partly due to poor infrastructure (*OECD*, 2000). It may be argued that infrastructure plays a role in the attraction of foreign investment to China. During the period of 1979 to 1983, China's actual FDI inflows were USA \$1.755 billion (Li, 2005). However, there was a dramatic change as

special economic zones (SEZ) were developed in China. These SEZs were established with the purpose of creating an environment conducive to foreign investor operations as well as facilitating export and import activities (Tan, 1999).

The SEZs expanded to fourteen cities between 1983 and 1991, and contributed to a steady growth of FDI inflows into China. During the period of 1984 to 1988 FDI inflows in China reached USA \$10.301 billion (Li, 2005). Since 1989, total FDI inflows in China increased steadily and amounted to USA \$11.245 billion by 1991 (Li, 2005). In 1992, the economic reform was accelerated and the country ‘opened’ up further, resulting in unprecedented FDI inflows (Fung, et al., 2002; Ho, 2004). Between 1992 and 1999, China received a total of USA \$282 billion inwards FDI (Li, 2005), and from 2000 to 2004, the total FDI inflows in China reached USA \$254 billion (Li, 2005). According to Ali and Guo (2005), China has been the largest FDI recipient among developing countries since 1992, and now is the third largest foreign capital recipient in the world after the UK and the USA (*UNCTAD*, 2006). This dramatic FDI growth continued with China’s unique advantages, such as market size, and has turned in an extremely attractive location for foreign investment (Zhang, 2001a). As a potential marketplace China has attracted a large number of foreign companies from the USA, Europe, Japan as well as neighbouring countries, such as Taiwan (Zhang, 2001a).

The rapid economic growth of the Chinese economy complemented by significant amounts of inward FDI has drawn a considerable amount of attention. As a result, efforts seeking to examine the determinants of FDI in China have increased dramatically since the reforms in the late 1970s and early 1980s (Zhang, et al., 2004). A more elaborate discussion of the existing literature concerning the determinants of inwards FDI is provided in the following section.

1.3.3 The Determinants of FDI

Researchers examining the determinants of FDI begin with the microeconomic perspective (Daniels & Radebaugh, 1998) and the location advantage perspective (Bende-Nabende, et al., 2000) of the host country. From the conventional microeconomic perspective, Daniels and Radebaugh (1998) note that companies conduct business in an overseas market as they are seeking to reduce the operational

cost, acquire resources, minimise risk associated with competition and explore new markets. From the location advantage viewpoint, Bende-Nabende, et al.(2000) argue that the determinants of FDI inflows are driven by cost related factors, such as improvement in the investment environment, attributes related to macroeconomics and a host country's development strategy. In addition, Na and Lightfoot (2006) suggest that a host nation with cheaper labour cost, transport cost, lower country risk, potential market growing opportunities, relatively better infrastructure and better educated and skilled work force tends to attract more inward FDI.

In efforts of gaining a comprehensive understanding of the determinants of FDI researchers (Coughlin, et al., 1991; Wang & Swain, 1995; Tseng & Zebregs, 2002) have evaluated the effect of market size. Ali and Guo (2005) contend that a country specific advantage, such as the size of the market, is likely to attract foreign business, particularly in the Chinese context. Others have examined the determinants of infrastructure (Cheng & Stough, 2006) and labour cost (Bevan & Estrin, 2004) on a host country's FDI inflows. For example, Cheng and Stough (2006) demonstrate that Chinese provinces with superior infrastructure capabilities tend to attract Japanese investors. While exploring the determinants of infrastructure on a host country's inwards FDI, Bevan and Estrin (2004) conclude that unit labour cost play a significant role in attracting FDI from Western countries to the transition economies of Central and Eastern Europe (CEE). Researchers who examine the determining factors of FDI to a host country indicate that market size, infrastructure, labour cost and business ethics may be identified as core factors, and these aspects are delineated in the following sections.

1.3.3.1 Market Size

Studies on the determinants of FDI intensity have been extensive in the last few decades, particularly in view of the relationship between a host country's market size and the level of inwards FDI (Na & Lightfoot, 2006). Coughlin, et al. (1991) used per capita income as a measure of market size and indicated a positive and significant relationship between FDI inflows to the USA and the market size. In addition, some studies employ Gross Domestic Product (GDP) or Gross National Product (GNP) as a measure of market size. For instance, Lunn (1980), Scaperlanda and Balough (1983), and Culem (1988) demonstrate that FDI decisions are positively

related to the lagged GDP and rate of growth. In addition, Moore (1993), Bajo-Rubia and Sosvilla-Rivero (1994), and Wang and Swain (1995) conclude that the market size is a significant determinant of inwards FDI. Within the Chinese context, Tan (1997) indicates that market size has a statistically significant positive impact on the level of FDI inflow to China. Moreover, Liu, et al. (1997), and Tseng and Zebregs (2002) demonstrate that market size plays an important role in attracting foreign investment from the USA and Europe to the Chinese marketplace. Based on literature, it is reasonable to forecast that market size will be positively related to FDI intensity.

1.3.3.2 Infrastructure

In addressing the determinants of FDI inflows, studies have not only paid attention to the effect of the market size, but have also shown interest concerning the infrastructure of the host country. For example, Porter (1990), Coughlin, et al. (1991), OECD (2000), and Tseng and Zebregs (2002) suggest that host country infrastructure plays a critical role in attracting foreign investment. In studying the determinants of FDI from the USA, Loree and Guisinger (1995) indicate that both infrastructure of telecommunication and transportation have a positive impact on FDI flows. Similarly, Coughlin, et al. (1991) pointed out that transportation infrastructure is positively related to the location choice of FDI in the USA. Hence, it could be argued that foreign investors prefer to conduct FDI in host country with relatively better infrastructure (Zhao & Zhu, 2000). In studying the determinants of infrastructure on FDI inflows to China, Na and Lightfoot (2006) demonstrate that a host nation with relatively better infrastructure tends to attract more inward FDI. Moreover, Kinoshita and Campos (2002) explain that an essential and adequate condition for overseas investors to undertake FDI is the availability of infrastructure. According to Head and Ries (1996), and Cheng and Kwan (2000), those Chinese provinces with better and developed infrastructure have attracted more FDI. It can be assumed that the level of infrastructure within a host nation may have an impact on a company's location choice of undertaking FDI (OECD, 2000). From these conditions, it is forecasted that infrastructure will be associated with FDI intensity.

1.3.3.3 Labour Cost

While some studies have examined the infrastructure of a host country as a determinant of FDI inflows, others (Friedman, et al., 1992; Mody & Srinivasan, 1998; Belderbos & Carree, 2002) emphasise the effect of labour cost on a firm's FDI decision. Fung, et al. (2000) point out that foreign investors would prefer to undertake FDI in countries where labour cost are relatively low. Nevertheless, the relationship between labour cost and FDI remains ambiguous as some studies propose that higher wage rates would deter FDI inflows (Saunders, 1982; Schneider & Frey, 1985; Culem, 1988, Coughlin, et al., 1991; Friedman, et al., 1992; Mody & Srinivasan, 1998; Love & Lage-Hidalgo, 2000). In addition, Maki and Meredith (1986), who focused on USA manufacturing FDI in Canada suggest that the difference in unit labour cost may lead to a positive relationship in FDI inflows from the USA to Canada. However, others have failed to find a relationship between labour cost and FDI inflows. Kravis and Lipsey (1982), and Owen (1982), for instance noted that a host country's relative unit labour cost has a non significant effect on inward FDI. Similarly, Ondrich and Wasylenko (1993) did not find a statistically significant relationship between inward FDI and labour cost. In addition, studies emphasising the determinant of labour cost on inwards FDI in the Chinese context have also caught the attention of researchers.

Geographic Dimension as Triggers of Foreign Investment

Although earlier studies (Wei, et al., 1999; Cassidy, 2002) have tried to reconcile the controversial findings regarding the relationship between the effects of labour cost on FDI inflow, the determinants of labour cost on FDI inflows to China cannot be generalised. Differences could exist between determinants of inwards FDI and labour cost in China across source countries (Dees, 1998). Shi (1996) demonstrates that 'cheap' labour in the Chinese market is the main determinant for Hong Kong and Taiwanese investors. Investors from the USA and Europe, however, show a preference for labour productivity (Zhao & Zhu, 2000). Fittock and Edwards (1998) indicate that cheaper labour cost in China was not the primary reason for Australian companies to invest in the country. It could be argued, nevertheless, that the determinants of labour cost on FDI inflows to China appear to be diverse among countries and industries. As a result, and due to conflicting findings in the literature, there is merit to identify the determining factors for Australian investment in China,

especially in terms of the effects of labour cost on Australian investment decisions in the Chinese market place.

Interestingly, the concerns on the determinants of labour cost on the location choices of FDI in China appear to be equivocal. Some claim that high labour cost will deter companies to undertake FDI in China (Cheng & Kwan, 2000; Coughlin & Segev, 2000; Fung, et al., 2000; Wei & Liu, 2001; Belderbos & Carree, 2002), while others hold a view that there is a non significant relationship between the inflows of FDI and labour cost (Chen, 1996; Head & Ries, 1996; Broadman & Sun, 1997). Interestingly, some studies have revealed a positive relationship between labour cost and FDI attraction (Zhao & Zhu, 2000). These findings indicate that the determinants of FDI inflows in China appear to be different as the motivations for engaging in FDI may be diverse (Brouthers, et al., 1996). Hence, addressing the determinants of Australia's FDI with a specific focus of WA in China by considering the effect of labour cost is indeed part of the scope of the present study.

Reasons for the Conflicting Findings

In an attempt to clarify the conflicting findings on the determinants of labour cost on China's inwards FDI, Fung, et al. (2000) propose that the contradictory results may be attributable to two reasons. The first reason is that the level of wages may reflect labour productivity or quality of human resources. High labour cost in a host country may attract more FDI if a foreign investor believes there is an advantage of employing superior labour, which in turn may enhance productivity. The second reason is that cost reduction in production, operational cost, and transportation or other independent variables, such as the exchange rate are perceived to be more important than labour cost. To reconcile the ambiguous findings, Cassidy (2002), and earlier Wei, et al. (1999) introduce effective wages (average wages divided by labour productivities) to control for different labour productivities. The results of these assessments suggest that foreign investors tend to conduct business in Chinese provinces where effective wage rates are relatively lower.

Although, there have been many studies that have assessed the determinants of FDI such as market size and infrastructure, the findings regarding the effect of labour cost on host country FDI inflows have been equivocal (Chen, 1996; Head & Ries, 1996;

Broadman & Sun, 1997, Cheng & Kwan, 2000; Coughlin & Segev, 2000; Fung, et al., 2000; Zhao & Zhu, 2000, Wei & Liu, 2001; Belderbos & Carree, 2002). It seems as if the central issue of what motivates a firm to undertake foreign investment in China is unclear. Also, according to Ho (2004), the determinants of foreign investment in the Chinese context tend to focus only on individual provinces. An empirical study conducted by Ng and Tuan (2003) mainly examined the locational distribution of FDI in Guangdong province rather than China as a whole. It could be argued that the focus of a particular country, such as the determinants of Australia's FDI inflows to China as a whole is needed. Further research could be focused directly at understanding the drivers of Australia direct investment in China. A salient conclusion that might be drawn from the literature is that labour cost will be inversely related to FDI intensity.

1.3.3.4 Business Ethics

The influence of business ethics to promote FDI in a foreign country such as China appears to have been ignored by researchers (Wei, 1999). In fact, most of the existing research (Fitzpatrick, 1983; Hong, et al., 1999; Minor, 2003; Click, 2005) focuses on the understanding of the impact of a host country's political environment on FDI inflows. For example, Minor (2003) points out that political risk, such as shifts in government policies, economic instability and a lack of infrastructure or endemic corruption may have an impact on an organisation's global operations. Click (2005) further explains that political risk, such as political instability in a host country may increase uncertainty in the economic environment, and this in turn may influence production and reduce inward capital investment. Brand and Slater (2003) argue that business ethics have gained importance in conducting business in China, which needs a comprehensive understanding. According to Wei (1999), businesses considering FDI in the Chinese marketplace should pay attention to issues that relate to business ethics such as bribery and other non ethical behaviours. It is suggested that, in order to enhance the understanding of the determinants of inwards FDI, a focus on managerial aspects regarding the perceived importance of business ethics in the context of Australian FDI decisions is crucial and valuable. Hence, this study intends to empirically investigate the determinants of Australian direct investment in the Chinese marketplace, and particularly what elements motivate or discourage owners / managers of WA companies from undertaking FDI in China. Based on

existing literature, it is reasonable to estimate that business ethics will be associated with FDI intensity.

1.4 Methodology

The methodology for this study is divided into five parts. First, based on relevant literature, the proposed conceptual model is put forward. Second, the study site and subjects are determined. Third, the procedures for undertaking this study are documented. Fourth, instruments for evaluating the study constructs are considered. Fifth, analysis of the collected data is presented. A more elaborate examination of the conceptual model is delineated next.

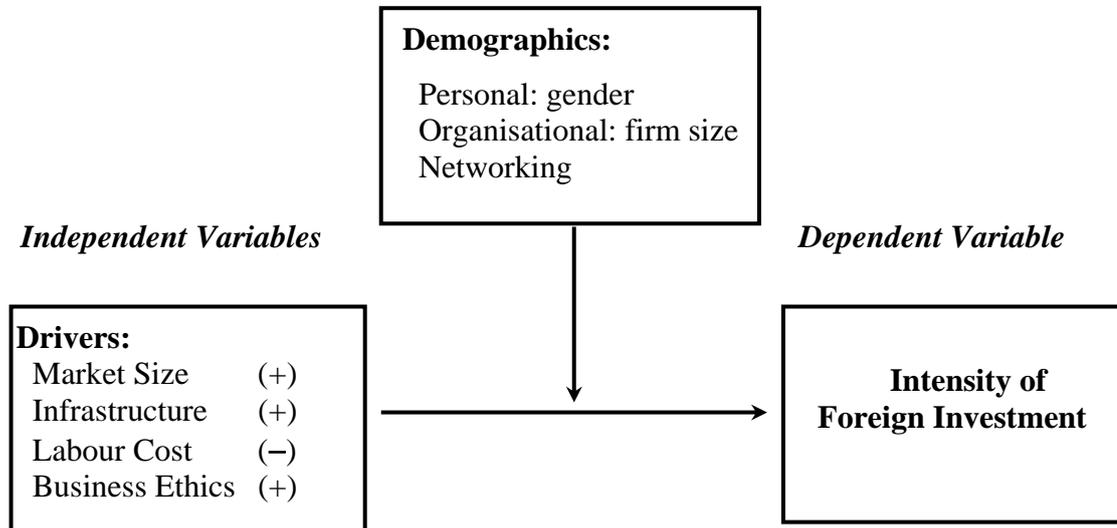
1.4.1 Conceptual Model

A conceptual model was developed after a comprehensive review and understanding of relevant literature. This theoretical framework, shown as Figure 1.2, consists of a set of independent variables, one dependent variable and mediating variables. The independent variable acts as a driver of WA's foreign investment in China. The dependent variable is the intensity of foreign investment. The study conceptual model also contains a mediating constraint as the demographics of the respondents and their operational context. Figure 1.2 depicts that there are four sub variables (i.e., market size, infrastructure, labour cost, and business ethics) of the driver construct. It is further forecasted that there will be positive associations between market size, infrastructure, business ethics and intensity of foreign investment, while there will be an inverse relationship between labour cost and intensity of foreign investment.

Figure 1.2

The Study Conceptual Model

Mediating Variables



1.4.2 Study Site and Subjects

Data will be captured through Western Australian companies. A prominent feature of the targeted study subjects is that they either have capabilities to, or are already operating in mainland China. Respondents are owners and/or managers of the companies. There are two main reasons for choosing owners or senior managers as respondents. One of them was based on the belief that people in executive positions are sensitive to international investment projects and knowledgeable informants (Chandprapalart, 2000). In addition, according to Ndleda and Toit (2001), managers or owners are considered as the most cognisant and information rich individuals that also play a significant role in making FDI decisions (Hollensen, 2004).

1.4.3 Procedure

A four step study design was used. Firstly, a pluralist approach (i.e., a blend of quantitative and qualitative procedures) was adopted. Underpinning the quantitative dimension is a survey tool that was developed as a questionnaire. This questionnaire was generated to evaluate a conceptual model that is conceived from the relevant literature (see chapter 3.3 procedure section). The qualitative dimension of the study design complements this data collection method. Secondly, a pilot study was

conducted prior to the main administration of the questionnaire. The feedback gained in the pilot study was used to refine the questionnaire. Thirdly, the refined survey questionnaires were delivered to selected companies in WA with an explanatory letter. This letter is used to introduce the researcher, explain the purpose of the study, indicate ethical considerations confirm voluntary participation, and preservation of anonymity. Finally, personal interviews were undertaken after the survey data was captured (a detailed discussion was presented in chapter 3, see 3.3). These qualitative interviews have a potential to better understand the quantitative data generated.

1.4.4 Measures

The research instrument is designed to measure independent variables and the dependent variable. The four independent variables are: 1. market size, 2. infrastructure, 3. labour cost, and 4. business ethics (see Figure 1.2). All four constructs are measured with seven point Likert scales, which were adapted from earlier relevant instruments. For example, labour cost is measured with five items adapted from Huang (2002). In addition, seven items were adapted from Armstrong (1992) to measure the business ethics construct (see 3.4.1 in more details). The dependent variable; intensity of foreign investment, is evaluated with 16 items adapted from Hansson and Hedin (2007).

The demographics dimension of the conceptual model (see Figure 1.2) are examined from two perspectives: personal and organisational. From a personal perspective, gender is assessed to determine mediating effects, if any, of the variables on investment decisions. In addition, from an organisational perspective, the size of a company is assessed as having an important role in making FDI decisions (Hollensen, 2004). According to Reuber and Fischer (1997), Rowden (2001), and Kirby and Kaiser (2003), small and medium sized enterprises are less likely to be involved in FDI due to a lack of financial resources, knowledge, experience and capability compared to large multinational companies.

1.4.5 Analysis

The data captured with the questionnaire and personal interviews are examined with a variety of statistical tools. The quantitative data is assessed first. For example, exploratory factor analysis employing the Varimax option will be used to evaluate

the internal validity. Reliability assessments are conducted in order to determine the robustness of the study data. In addition, the hypothesised relationships of the conceptual model are initially inspected with correlational analysis and then are more comprehensively evaluated by regression assessment. Qualitative data is content analysed, for instance frequency of unique word usage is obtained. Also, latent 'messages' are ascertained by clustering themes in responses. These data are tabulated and reported. By empirically investigating the determinants of WA investment in China this study intends to make both theoretical and empirical contributions to the existing literature. Justification of the present study will be documented in the following section.

1.5 Justification

The justification for undertaking the present study can be founded on theoretical and empirical grounds. From a theoretical viewpoint, this research intends to provide additional information that may assist a clear understanding of the determinants of Australian investment in general and in the Chinese marketplace in particular. Moreover, from an empirical perspective, the information obtained from this study may help international managers or business owners to conduct better planning of their future investment decisions. Such a finding of the present study may offer some fundamental background for future research. The following section will describe the theoretical and the empirical implications of this study more elaborately.

1.5.1 Theoretical

It is anticipated that this research could make a theoretical contribution in three different ways. Firstly, based on existing theories and models, this study aims at determining how well parts of the models or theories explain the determinants of WA investment in the Chinese marketplace. For instance, based on Dunning's (1988) location advantage theory, this study will investigate the perceived relationships between labour cost in China and its FDI inflows.

Secondly, this study seeks to gain a more comprehensive appreciation of the credibility of Western assumptions in explaining FDI in a non Western economy. Although a lot of effort has been put into the understanding of the determinants of

FDI, to date available knowledge on this area is largely Western based (Bagchi-Sen & Wheeler, 1989; Coughlin, et al., 1991; Friedman, et al., 1992). Accordingly, theories, concepts or assumptions, such as eclectic paradigm that Dunning (1988) proposed have been developed in Western environments. This study intends to make a contribution by testing these Western assumptions with a sample of respondents who are investing or planning to invest in an Asian environment or are already operating in the Chinese marketplace.

Thirdly, this research may provide valuable information for private, government, for-profit and even not-for-profit organisations to gain a more indepth understanding of a non Western business environment. For example, in a narrower focus, this study may be particularly useful for international managers or owners, as it may offer useful insights to advance understandings on issues that are related to conducting business ethically in the Chinese marketplace. On a broader scale, the findings of the study may be important for policy makers in China, as it may provide additional information for developing better strategies to attract investment (Ma & Delios, 2007).

1.5.2 Empirical

Apart from the theoretical contributions, there are three empirical implications for the present study. Firstly, this research may contribute to the existing body of knowledge in the form of testing the measuring techniques that have been formulated and tested in Western countries. This study intends to contribute by empirically evaluating the credibility of Western based instruments with data from non Western or quasi Western respondents.

Secondly, this research is intended to determine how well Western management strategies and approaches have been translated into practice in a non Western business environment. Peng (2002) acknowledges current and future differences in strategies between Western and non Western business environments. It could be argued that implementation of the Western based strategies and approaches in a non Western environment may be different. McDonald and Kan (1997) further note that cultural settings are different among countries, businesses, ethical practices and

cultures. Hence, an indepth and comprehensive understanding of the diverse range of management practices in a non Western business environment is essential.

Thirdly, the present study intends to investigate managerial perspectives on the determinants of WA investment in China. A large amount of existing studies rely on secondary data and provincial level data (Coughlin & Segev, 2000; Fung, et al., 2000; Zhang, 2001b; Shan, 2002;). However, according to Reason and Mughan (2002: p.123), “The internationalisation process is by and large determined by the international outlook of the decision-maker.”. This research aims at providing additional insights by examining managerial viewpoints on the determinants of WA company investment decisions in China. It does not only consider the drivers for investing in mainland China, it also takes into account the potential influencing factors that may prevent WA companies from investing in mainland China.

1.6 Ethics

This study did not proceed until it had been given approval by Human Research Ethics Committee. The ethical approval number is Mbr-10-2007. This study is at all times guided by the guidelines provided by the Committee. Ethical considerations for conducting this study are clearly explained in the letter accompanying the questionnaire to respondents as well as during conducting personal interviews with managers or owners. The secondary use of the letter is to introduce the researcher and explain the purpose of the study. Other ethical issues, such as voluntary participation, and permission to tape record gained before interviews and confidentiality for conducting this research are confirmed in the attached letter (see Appendix One).

1.7 Summary

Chapter one has summarised the context and background that relate to this study. In short, there is a need to have a more comprehensive understanding of the determinants of WA investment in China, in particular, from managerial perspectives. The focus of the literature for the present study was examined, including the importance and implications of FDI to the economic development of a host country, as well as the historical development and the determinants of FDI inflows to the

Chinese marketplace. This chapter has also highlighted the methodology for conducting this study. In addition, the justification for the study in regard to both theoretical and empirical contributions was delineated. Finally, gaining approval from Human Research Ethics Committee before preceding this study was reported. Chapter two synthesises existing literature that relates to this research.

Chapter Two

LITERATURE REVIEW

2.1 Introduction

The purpose of this chapter, which is presented in five sections, is to consider the relevant literature of potential drivers of foreign investment, in particular those in a Chinese business context. In the first section, theoretical perspectives in the form of theories of foreign investment, which relate to the study, will be summarised. In the second section, explanations of the nature of the independent variables, the dependent variable, and the mediating variables, is presented. In the third section of this chapter, the hypothesised relationships between the independent variables and the dependent variable (intensity of foreign investment) as established by related literature, will be outlined, and the hypothesised relationships mediated by demographic properties such as personal attributes and organisational characteristics will be examined. The core of the fourth section is a conceptual framework that was derived and developed from reviewing and integrating the relevant literature. An overview of the chapter is presented in the final section. A key component of this fifth section is to provide a link to the next chapter and to list the hypotheses in a tabular format. An important component of the first section is to consider the theories that relate to this study.

2.2 Theoretical Perspectives

A number of theoretical perspectives have been consulted in an attempt to understand and explain the determinants of foreign investment. The core relevant theories include the market imperfections theory (Hymer, 1970), internalisation theory (Rugman, 1980) and the eclectic paradigm (Dunning, 1988). A brief description of each theory follows. The market imperfection theory will be presented first.

2.2.1 Market Imperfection Theory

The market imperfection theory indicates that firms are continuously seeking market opportunities, and that the motivation for undertaking investment overseas stems from strategic decisions as firms want to capitalise on capabilities which are not available to, or developed by rivals in a foreign market (Hymer, 1970; Morgan &

Katsikeas, 1997). In addition, several capabilities or advantages can be derived from "... superior technology, differentiated products, brand popularity or lower cost due to economies of scale." (Venkatachalam, 2000: p.29). The market imperfection theory can also be viewed as an expansion into international markets, driven by the possession of competitive advantages to compensate for risks of investing overseas (Hymer, 1970). Furthermore, Morgan and Katsikeas (1997) suggest that imperfect competition, a dimension found in industrial organisation theory presented by Porter (1985) over a decade earlier, determines that firms achieve different kinds of competitive advantages, each to varying levels of application. Nonetheless, the market imperfection theory fails to explain why foreign production is the most attractive way of exploiting a firm's advantages (Morgan & Katsikeas, 1997). Over time, Rugman (1980) has addressed the limitations of the market imperfection theory through the development of the internalisation theory.

2.2.2 Internalisation Theory

The internalisation theory, proposed by Rugman (1980), suggests that the motivation for firms to expand, or create their own internal markets in a foreign country, is to keep the transaction cost at a lower level within the firm. For instance, a firm may undertake FDI by owning and operating a manufacturing facility in overseas markets instead of using licensing or supply agreements with local business entities. By doing so, market transaction cost associated with negotiating, monitoring and enforcing local entities can be avoided (Ekeledo & Sivakumar, 2001). In other words, firms entering foreign markets act on the likelihood of minimising cost of exploiting specific advantages, such as labour cost, and the potential to maximise their profits in a larger market. Although internalisation theory explains why firms choose FDI as a mode for entering a foreign market, it fails to state why firms may wish to get involved in value added activities outside their home boundaries (Dunning, 2000). Indeed, Dunning (2000) developed an eclectic paradigm of FDI in order to overcome the limitations of the internalisation theory.

2.2.3 The Eclectic Paradigm

The eclectic paradigm theory generally provides a framework for considering the motives of foreign entry and predicting under what kinds of circumstances firms are likely to engage in FDI. According to Dunning (1988), the eclectic paradigm

emphasises three components. These are 1) ownership advantage, 2) location advantage, and 3) internalisation advantage. Ownership advantage refers to a firm's exclusive possession of certain tangible and intangible assets. For instance, tangible assets may lie in the access to markets or natural resources not available to competitors, while intangible assets may arise from technology, patents, trademarks, and management skills (Dunning, 1988). The second component of the eclectic paradigm, that is location advantage, determines that firms may gain advantages from a host country's low cost labour and availability of raw materials or less strict government policies. According to Shenkar and Luo (2004), the location advantage also refers to factor endowments derived from host countries, including market structure, government policies, and the political, legal, and cultural environments (Shenkar & Luo, 2004). The third component of the eclectic paradigm, internalisation advantage, refers to the capability of firms to exploit competitive advantages through internalising activities within the organisations rather than in the marketplace. The basic assumption of the eclectic paradigm is that firms will undertake FDI when all three conditions are satisfied, simultaneously (Dunning, 1993). The discussion of this study will be based upon these three FDI theories. Indeed, a concise view of the potential drivers of foreign investment will be documented through the chapter. In the following section, a description of the study variables will be given.

2.3 Constructs

In this section, a detailed discussion of the study constructs will be presented in sequence. This study employs three main types of constructs. These three sets of constructs are 1) the independent variables, 2) the dependent variable, and 3) the mediating variables. The independent variables contain four factors: market size, infrastructure, labour cost, and business ethics. The dependent variable is the intensity of foreign investment. In addition, this study also employs a mediating constraint, being the personal and organisational demographics of respondents' gender, firm size, and network. The three groups of study constructs were identified from reviewing and integrating the relevant literature in order to generate a conceptual framework for evaluation.

2.3.1 Independent Variables

In a research context, an independent variable is a variable whose value does not depend on any other variables (Field, 2005). According to Saunders, et al. (2007: p.599), an independent variable is "... a variable that causes changes to a dependent variable or variables.". In addition, independent variables are those whose values are controlled or identified by the researcher to determine changes or relationships to the dependent variable (Wikipedia, 2008). In most instances, independent variables have a connection with the dependent variable. This study pivots around the intensity of foreign investment and sets out to determine factors that influence and determine the investment decision (independent variable). According to Dunning (1993), and Na and Lightfoot (2006), a number of factors, including market size, potential market growing opportunities, cheaper labour cost, political stability, superior infrastructure and host government trade and tax regulations appear to play a role in a company's investment decision.

For the purpose of this study, four constructs are identified as independent variables. These constructs are 1) market size, 2) labour cost, 3) infrastructure, and 4) business ethics. These four constructs are distilled from existing research and have been widely studied and examined by researchers (Liu, et al., 1997; Fittock & Edwards, 1998; Cheng & Kwan, 2000; Zhao & Zhu, 2000; Wei & Liu, 2001; Belderbos & Carree, 2002; Tseng & Zebregs; 2002) in the Chinese business context. The findings of these studies indicate that these constructs are essential factors for overseas investors to conduct business in the Chinese marketplace. Hence, a key purpose of this study will be to investigate whether these four independent variables have an impact on a company's foreign investment decision, especially from a WA perspective. In this section, each independent variable will be outlined in sequence, beginning with market size.

2.3.1.1 Market Size

Market size represents a foreign country's potential demand and growth for products. Traditionally, foreign investors intend to access and explore potential business opportunities within a foreign market (Tarzi, 2005). In addressing the determinants of foreign investment, the OECD (2002) stated that foreign companies are interested

in exploring larger economies of scale and spillover effects in an overseas market. The spillover effects indicate that a firm may benefit from indirect or unexpected gains, such as skilled labour turnovers in an overseas market (Cheung & Lin, 2004). According to Venkatachalam (2000), foreign investors also aim at exploiting the benefits of economies of scale in a foreign market. A foreign market with more opportunities in terms of economies of scale may be reflected as an attractive market for investment (Ali & Guo, 2005). Zhang (2001c) suggests that China's large market size has offered potential opportunities for market orientated investors from Hong Kong, Taiwan and other developing Asian economies to benefit from economies of scale and gain access to resources. More specifically, foreign investors may potentially benefit from "... greater availability of capital resources and intangible assets such as technical knowledge and marketing expertise that can be used to establish foreign production to meet consumer demand in a target country." (Kimino, et al., 2007: p.450). Hence, it is reasonable to assume that market size is an important factor for undertaking foreign investment decisions in the Chinese marketplace.

The size of the market has been determined in different ways and by several factors, such as population, GDP, growth of GDP, consumption per capita, GNP and GNP per capita (Veugelers, 1991; Ali & Guo, 2005). These constructs can act as indicators of market attractiveness. Venkatachalam (2000) has suggested a larger market size offers growing opportunities for some companies to further expand and diversify within the domestic market. Kwack (1972), Ahmed (1979), Agarwal (1980), as well as Huang (2002) have suggested that a host country's attractiveness, such as market size is reflected by GDP, which reflects the economic growth of the country and has potential to attract foreign investors. Thus, the significance of market size is one independent variable which this study aims to examine in a foreign investment context.

Although market size has been measured by factors, such as secondary sources (e.g., GDP), this study intends to employ a primary source (e.g., questionnaire) to evaluate the importance of host market size in attracting foreign investment. A survey (questionnaire) of managers/owners in WA companies is to be undertaken. These managers or owners are usually the key informants who hold positions to identify the drivers, such as market size in a host country for conducting business overseas. In

addition, Huang (2002: p.118) further supports this view and indicates that, "... managerial perceptions are the only source of information on strategic motives of firms ...". Given the vital role that managers or owners play in decision making this study aims to examine and analyse managerial perceptions in a company's investment decisions.

2.3.1.2 Infrastructure

While some studies have examined market size of a host country as a determinant of investment inflows, other investigators (OECD, 2000; Panayides, et al., 2002; Shenkar & Luo, 2004) have emphasised the importance of infrastructure. According to Shenkar and Luo (2004), the major infrastructure variables can be divided into transportation (including highways, ports, airports, and railroads), telecommunications, and governmental efficiency. In addition, Panayides, et al. (2002) suggest that a host country with infrastructure in terms of transportation and communication services may become more competitive as these features provide greater opportunities for companies to develop networks with other regions and countries. In other words, country competitiveness is likely to be affected by basic infrastructure (e.g., transportation) and technological infrastructure (e.g., telecommunication).

The availability and level of infrastructure in a foreign country forms a key element of the external environment in which foreign businesses operate. Shenkar and Luo (2004) indicate that the supportive nature of infrastructures may influence production and operation in the local and international market. The OECD (2000: p.13) states that, "Higher levels of telecommunication services will save time and reduce the cost of communication and information gathering, thus facilitating business activities.". In addition, Belderbos and Carree (2002) claim that a superior transportation infrastructure may potentially minimise the cost associated with "... importing components and machinery and exporting or distributing output." (p. 9). Therefore, it is reasonable to suggest that the availability and facilitating nature of the infrastructure is considered as one of the conditions for undertaking investment in a foreign marketplace (Kinoshita & Campos, 2002; 2004).

In reviewing existing literature that relates to the determinants of foreign investment in China, a majority of studies have relied on secondary data within a limited time frame. From this angle, it may be argued that in regards to the measurement of infrastructure, such as transportation (based on highways, ports, airports, and railroads) the findings may be limited. To some extent, the findings regarding the importance of infrastructure to foreign operations and investment may only be applicable within a chosen time frame, because over time, more infrastructural investment is likely to take place as the country develops rapidly. In addition, according to Na and Lightfoot (2006), there is a highly uneven foreign investment allocation or distribution across regions and provinces in China. Some of these studies have focused on areas, such as the Guangdong province, with massive foreign investment inflows (Ho, 2004). However, other areas in China may have received limited attention, and as a result, the overall findings of the secondary data may not be reflective of China as whole. Hence, this study may contribute to a better understanding of the dynamic business environment in China. Moreover, because this study is based on primary data, it might provide additional insights not identified to date through studies using secondary data approaches.

2.3.1.3 Labour Cost

Researchers have not only considered the importance of infrastructure for foreign operations, but have also paid attention to the effects of labour cost. According to Bajo-Rubio and Sosvilla-Rivero (1994), and Summary and Summary (1995), the cost of labour, expressed as a wage rate, often represents a substantial proportion of foreign total production cost. The intention to undertake investment in an overseas market is often to minimise the cost of foreign production and to maximise profit (Shenkar & Luo, 2004). Besides, foreign companies (investors) are interested in taking advantage of less costly resources, such as cheaper labour, particularly in a labour intensive production environment (Kinoshita & Campos, 2003). Labour cost advantages often stems from differences in salaries and wages across countries or regions. From this perspective, it is reasonable to assume that a prevailing low wage rate in a foreign country may be considered as one of the most essential factors that influence decisions to invest in a foreign country (Shenkar & Luo, 2004).

It is suggested that the level of wages may also reflect labour productivity or the quality of human resources (Fung, et al., 2000). Some foreign companies may benefit from high labour cost in an overseas market, in the sense that there is an advantage of employing superior labour, which in turn may enhance productivity (Fung et al., 2000). For example, international investors engaged in capital intensive industries tend to show a preference for labour productivity in a foreign market (Zhao & Zhu, 2000). Overall, findings regarding the effects of labour cost on investment flows appear to be unbalanced. It could be argued that the importance of labour cost to foreign companies appear to be diverse among countries and industries. Hence, this study intends to further investigate effects of labour cost as an independent variable on investment decisions, especially on WA's foreign investment.

2.3.1.4 Business Ethics

While the importance of labour cost has been acknowledged, researchers, such as Lu (1997), Wei (1999), Spiller (2000), Bradburn (2001), Corrado and Hines (2001), Francies and Armstrong (2003), as well as Fok, et al. (2005) have shown interest in the concept of business ethics. Francies and Armstrong (2003: p.376) describe the concept of business ethics as "... moral philosophy, values and norms of behaviour that guide a corporation's behaviour within a society.". More specifically, business ethics is concerned with the study of principles and rules, including values systems, which guide foreign investors to conduct business ethically in a particular society (Bradburn, 2001).

Understanding the concept of business ethics is critical for international investors to efficiently operate in an overseas market. In addition, the implications of business ethics may also need to be addressed. Indeed, business ethics practices within a foreign country are likely to present challenges and risks for investors. The interpretation of corrupt practices and ethical behaviour in a host country may be different from an investor's home country, thus increasing the difficulties and/or threats of detecting such risks (Fox, et al., 2005). For example, Steidlmeier (1999) points out that gift giving in China can be viewed as an acceptable way of building and nurturing a relationship or network between parties, but to some extent, gift giving may be interpreted as an illegal resources transfer between parties in other countries. Hence, a better understanding of issues that relate to business ethics, such

as ethical problems and dilemmas may help some managers to gain appropriate knowledge, which in turn may improve ethical decision making (Bradburn, 2001). Furthermore, Corrado and Hines (2001) contend that understanding the concept of business ethics has become an increasingly important area for consideration, especially in undertaking foreign investment decisions and to become more involved in international business. This provides a rationale for understanding the impact of business ethics as an independent variable on decisions to invest in China by WA companies.

2.3.2 Dependent Variable

The study conceptual model contains one dependent variable which is influenced by the independent variables. In other words, a dependent variable can be seen as a variable that is observed to variations in response to the independent variables (Field, 2006). More specifically, the dependent variable is a variable that depends on or is influenced by changes in values of the independent variables. For example, the intensity of foreign investment from WA to China may increase as the level of infrastructure improves. In other words, the focus of this study is to investigate how the determinants (independent variables, including market size, infrastructure, labour cost and business ethics) influence the extent of WA's foreign investment in China. Simply put, these determinants may have an impact on the intensity of investment as the dependent variable. The increasing economic development in East Asia has contributed to a new investment focus and Australian companies have shown business interest in the emerging Chinese market (Fittock & Edwards, 1998). Hence, this study aims at exploring determining factors for WA's foreign investment. A brief discussion of the dependent variable, the intensity of foreign investment, follows.

2.3.2.1 Intensity of Foreign Investment

Foreign investment can be viewed as an investment made overseas either by setting up a new production capacity or by acquiring an already existing enterprise (Accolley, 2003). Moreover, Shenkar and Luo (2004) suggest that foreign investment occurs when a firm or an investor invests directly in production or other facilities in a foreign country. According to the International Monetary Fund (IMF) (2003: p.40), FDI can be defined as "... a cross-border investment in which a resident in one

economy (the direct investor) acquires a lasting interest in an enterprise in another economy (the direct investment enterprise).” In line with the IMF, (UNCTAD) (2005) stated that FDI is an investment involving a lasting interest by a home economy entity in an enterprise in a host economy.

While descriptions of foreign investment have been widely recognised, studies have also emphasised the explanation of the intensity of foreign investment (Johanson & Vahlne, 1977; Meissner & Gerber, 1980; Borghoff, 2005). Intensity of foreign investment can be explained by the degree of international business involvement or commitment for each firm in relation to the decisions to invest in a foreign country. The level or degree of international involvement of a firm is linked with entry mode choice. In other words, intensity of foreign investment represents an increase in international commitment, which is associated with choices of entry modes. For example, Meissner and Gerber (1980) argue that a firm can enter the international business area through a low commitment channel such as exporting. Over time, based on knowledge and experience development, ‘high-commitment’ modes such as joint ventures and wholly owned subsidiary could be employed by a firm as entry modes to a target market. Eventually, a full scale subsidiary or FDI could be attained. A firm’s continuum involvement in foreign investment indicates the intensity of foreign investment. Given the fact that the intensity of foreign investment may be affected by mediating factors such as firm size, this study also employs a cluster of mediating variables for examination. A more elaborate discussion of the mediating variables is provided in the following section.

2.3.3 Mediating Variables

The study conceptual framework employs a cluster of mediating variables. A mediating variable is a variable that would be accounted to have an impact on the relationships between the independent and the dependent variables (Muller & Judd, 2005). In other words, the nature of relationships between the independent and dependent variables may be influenced by mediating variables (Kenny, 2008). More specifically, the mediating variables may intensify, weaken, or reverse the relationships between the independent and the dependent variables. For this study, the mediating variables are derived from demographics of the respondents, more

particularly a personal dimension, organisational dimension and networking. In the following section, a more detailed explanation of the mediating variables is given.

2.3.3.1 Demographics

The demographic dimension can be divided into two parts. One is the personal attribute and the other is the organisational attribute. Within the domain of the personal attribute, the impact of gender will be evaluated, and within the domain of the organisational attribute, the size of the company will be assessed. Apart from the personal and organisational attributes of the demographic dimension, this study also takes into account the importance of networking as a mediating variable. In the following section, a more indepth discussion of the demographic dimensions, including gender, firm size and network will be presented.

Personal Attribute – Gender

It is generally accepted that personal attributes such as gender differences impact upon strategic management decision making (Sexton & Bowman-Upton, 1990; Chaganti & Parasuraman 1996; Carter, et al., 1997; Powell & Ansic, 1997; Thurik & Verheul, 2001). For instance, Sexton and Bowman-Upton (1990), and Thurik and Verheul (2001) have established that entrepreneurial strategic behaviour is likely to be affected by gender differences. More specifically, when making decisions in a risk environment, Johnson and Powell (1994) determined that men are less cautious, more aggressive and more difficult to persuade than women. Nevertheless, men are argued to be more confident, with better problem solving abilities.

Although existing studies have studied the importance of gender difference in decision making, the consensus regarding gender effects remains equivocal. Hollander (1992) and Eagly, et al. (1995) argue that both men and women are equally effective in leadership roles. Similarly, males and females are deemed to have equivalent levels of capabilities with respect to processing and reacting to information (Hyde, 1990; Powell, 1990; Stinerock, et al., 1991). In addition, Chaganti (1986), and Powell (1990) demonstrate that there is no significant difference in management decision making values or styles between males and females. Overall, the argument regarding the gender difference in strategic management decisions remains ambiguous. Hence, this study intends to examine the

gender effects on foreign investment decision making in order to gain a better insight of the impact, if any.

Organisational Attribute - Firm Size

The importance of firm characteristics, such as firm size, in relation to strategic behaviour has been widely examined (Erramilli & D'Souza, 1993; Coviello & McAuley, 1999; Rowden, 2001; Kirby & Kaiser, 2003). In this context, Erramilli and D'Souza (1993) suggest that small and medium sized enterprises (SMEs) are often characterised by limited resources, especially capital resources. Limited capital resources often translate as a critical element that differentiates strategic behaviour of an SME from that of multinational companies (500 or more employees) (MNCs). In addition, Buckley (1989), Lau (1992), Berra, et al. (1995), Havnes (1998) as well as Kirby and Kaiser (2003) point out that SMEs (less than 250 employees) appear to have a lack of financial resources, knowledge, experience and capability compared to MNCs. Due to these limitations, SMEs are less likely to undertake investment decisions than MNCs (Kirby & Kaiser, 2003). In addition, Westhead, et al. (2001; 2002) demonstrate that resource constraints may limit the SMEs' ability of becoming international.

In the context of internationalisation, firm size also plays a role in determining the internationalisation strategy and the choices of entry mode in investment decisions (Ekeledo & Sivakumar, 2004). In the selection of entry mode, Buckley and Casson (1976) indicate that large MNCs are more likely to undertake foreign investment through sole ownership of foreign enterprises as they are equipped to deal with high levels of cost and risk. While smaller firms generally suffer from a lack of resources, information networks and less specialisation of internal competencies, they are more likely to favour exporting as an entry form (Havnes, 1998). Besides, international expansion through exporting often associates with low investment cost and risk (Porter, 1990) thus, low intensity of investment. Overall, given the fact that firm size is likely to have an impact on foreign investment decisions, a thorough understanding of the mediating effect of firm size on decisions to invest in the Chinese marketplace is needed, which underpins the intention of this study (see 2.4.5 in the demographics section).

Networking

Networking has been considered as an important factor in facilitating a company's foreign operations (Coviello & Munro, 1995, 1997; Jaklic, 1998; Andersson & Wictor, 2003; Chetty, 2003; Borghoff, 2004). According to Borghoff (2004), networks may be viewed as a representation of social interaction among different parties with a common or mutual interest. Crick and Spence (2005) indicate that networking has a curial role in supporting a company's operation and development. Furthermore, Mitra (2000) states that some companies are better able to innovate when they are part of clusters because the networking process facilitates the management of externalities support and the development of new products, processes and services. A network approach or strategy allows some companies to potentially reduce risks, and combine flexibilities and specialisation to achieve longer term goals (Reason & Mughan, 2002). Moreover, Porter explains that companies and institutions could gain competitive advantages through interconnection (Czinkota, et al., 2005), while the presence of a network may influence opportunities, cost, and activities (BarNir & Smith, 2002).

The importance of networks in facilitating firms to become international has also been acknowledged. In fact, networks such as personal and business networks may enable firms to obtain scarce resources in a foreign market and develop experiential knowledge in order to expand internationally. Further, Huang (2002) suggests that networks may help foreign investors overcome competitive and resource disadvantages by cooperating with a local partner. Given the fact that networks are important for some companies in their rapid internationalisation strategies, merits to study the effects of networking may offer additional information to undertake better planning of investment decisions. Hence, this study aims to understand the concept of networking in terms of relationships or connections between parties. While each variable of the proposed conceptual model has been described, the following section presents the study hypotheses generated from the relevant literature.

2.4 Hypotheses

Based on an examination of relevant literature, this study forecasts four main hypotheses. It is predicted that market size, infrastructure, labour cost and business

ethics are likely to determine the intensity of investment. For example, as market size increases, the intensity of foreign investment is more likely to increase. In addition, as the level of infrastructure improves, the intensity of foreign investment is more likely to increase. Similarly, as the business ethical environment improves, the intensity of foreign investment is more likely to increase. A fourth prediction is that there will be an inverse association between labour cost and intensity of foreign investment. In the following section, a more detailed discussion of each hypothesis is provided and the hypothesised relationship between market size and intensity of investment is delineated first.

2.4.1 Market Size

Research has illustrated that the decision for selecting an overseas market for investment generally depends on market size and potential growth (Dunning, 1973; Agarwal, 1980; Coughlin, et al., 1991; Barrell & Pain, 1996; Braunerhjelm & Svensson, 1996; Milner & Pentecost, 1996; Liu, et al., 1997; Billington, 1999; Huang, 2002; Tseng & Zebregs, 2002; Bevan & Estrin, 2004; Na & Lightfoot, 2006). In studying the influence of host country characteristics on the location choices of Swedish multinationals (MNEs), Braunerhjelm and Svensson (1996) determined that market size has a positive impact on an overseas location choice. Similarly, Barrell and Pain (1996), and Billington (1999) demonstrate that the foreign investment decision of multinational firms from the USA is based on a host country's market size and growth rate. Bevan and Estrin (2004) established that host country characteristics, such as market size is an essential factor that attracts Western companies to invest in the transition economies of Central and Eastern Europe (CEE). Thus, it is reasonable to assume that the size of the market plays a critical role in the attraction of international investors. In other words, there is a positive relationship between market size and likelihood of investment.

The position of market size as a determinant for international investment has also been considered in the Chinese context (Liu, et al., 1997; Park, 1997; Qu & Green, 1997; Fittock & Edwards, 1998; Sun, 1998; Zhang & Yuk, 1998; Wu, 1999; Yan, 2000; Sun et al., 2002; Tseng & Zebregs, 2002). Liu, et al. (1997), and Tseng and Zebregs (2002) indicate that China's large market size plays an important role in attracting foreign investment from the USA and Europe. In examining the location

choices of Hong Kong manufacturing investment, Zhang and Yuk (1998) found that market orientated firms tend to be attracted by the large domestic Chinese market. Similarly, Bhawati and Sriivasan (1983), Kueh (1992), Tesai (1994), Lardy (1995), Wang and Swain (1995, 1997), Chen (1996), as well as Broadman and Sun (1997) suggest that the large market size is one of the driving factors that attract foreign investment to China. According to Yan (2000), the primary reason for foreign investment in China has been the prospect of gaining access to what is perceived as the potentially large Chinese market. Based on literature, it is reasonable to forecast that market size will be positively related to investment intensity.

H1: Market size is positively related to the intensity of foreign investment.

2.4.2 Infrastructure

In addressing the determinants of FDI inflows, studies have not only deemed the effect of the market size, but also shown interest concerning the infrastructure of the host country. Wang and Swain (1995, 1997), Fittock and Edwards (1998) as well as Bevan and Estrin (2004) emphasise the importance of infrastructure on a firm's decision to be involved in international business. In fact, Tseng and Zebregs (2002) point out that host country infrastructure is an essential factor for attracting foreign investment. While Caughlin et al. (1991) contend that investors from the USA are attracted by the level of transportation infrastructure within the country, Wheeler and Mody (1992), Loree and Guisinger (1995), as well as Mody and Srinivasan (1998) state that the amount of infrastructure, including the sophistication of telecommunications and transportation services is considered as one of the major drivers that motivates investment from the USA in East Asia. The investment location choice in an overseas market is based on the belief that an investor may prefer to invest in a country with relatively superior infrastructure (Zhao & Zhu, 2000).

The level of infrastructure has also been considered as an important determinant in the attraction of foreign investment to the Chinese marketplace (Bhagwati & Srinivasan, 1983; Cheng and Kwan, 2000; LuMinghong, 2000; Zhao & Zhu, 2000; Zhao, et al., 2002; Cheng & Stough, 2006; Na & Lightfoot, 2006). Bhagwati and Srinivasan (1983), LuMinghong (2000), as well as Zhao and Zhu (2000) explain that

an essential and adequate condition for overseas investors is the level of infrastructure of the target country. In fact, a well established transportation and telecommunication infrastructure has been considered as a key to determining factors of China's investment inflows (Qu & Green, 1997). At the provincial level, Head and Ries (1996), and Cheng and Kwan (2000) have demonstrated that those Chinese provinces with better and developed infrastructure have attracted more investment. Contrary to existing arguments, Coughlin and Segev (1999) did not find a statistically significant relationship between transportation infrastructure, measured by roadway per area, and investment inflows across provinces in China. Thus, findings regarding the impact of infrastructure on investment inflows remain equivocal. Overall, more studies have indicated that the level of infrastructure, including transportation, communication services, and information technology within China, is likely to have an impact on a company's foreign investment decision (OECD, 2000; Panayides, et al., 2002; Ho, 2004). From the available relevant literature, and on balance, it is forecasted that infrastructure will be positively associated with investment intensity.

H2: The level of infrastructure is positively related to the intensity of foreign investment.

2.4.3 Labour Cost

Researchers have also paid considerable attention to the effect of labour cost on the decision to undertake foreign investment (Friedman, et al., 1992; Summary & Summary, 1995; Belderbos & Carree, 2002; Ali & Guo, 2005). Braunerhjelm and Svensson (1996) have determined that the supply of skilled labour has the potential to influence Swedish MNEs overseas location choice. In general, it is argued that, other things being equal, foreign investors would prefer to undertake foreign investment in countries where labour cost are relatively low (Saunders, 1982; Schneider & Frey, 1985; Culem, 1988, Coughlin, et al., 1991; Mody & Srinivasan, 1998; Barrell & Pain, 1999; Fung, et al., 2000, Love & Lage-Hidalgo, 2000). Barrell and Pain (1999) suggest that foreign investors are more likely to be involved in international business where host countries are characterised by lower labour cost. Kimino, et al. (2007) supports this view and concludes that investors from Britain are attracted to destinations where labour cost are relatively lower than in their home

market. Despite this, the determinant of labour cost on a company's foreign investment decision appears to be equivocal as a number of researchers have failed to find a relationship between labour cost and FDI inflows. Kravis and Lipsey (1982), and Owen (1982) note that a host country's relative unit labour cost does not have a significant effect on inward FDI. Similarly, Ondrich and Wasylenko (1993) did not find a statistically significant relationship between inward FDI and labour cost.

In the Chinese business context, findings regarding the impact of labour cost on investment inflow remain contradictory. Literature demonstrates that cheaper labour cost in China is one of the key aspects for attracting inwards foreign investment (Chen, 1996; Broadman & Sun, 1997; Liu, et al., 1997; Cheng & Kwan, 2000; Coughlin & Segev, 2000; Zhang, 2000; Zhang & Yuk, 2000; Wei & Liu, 2001; Belderbos & Carree, 2002; Lieberthal & Lieberthal, 2003). Zhang and Yuk (1998) indicate that investors from Hong Kong are driven by cheap labour cost in China. In fact, Lieberthal and Lieberthal (2003) further indicate that inexpensive mainland labour cost encourage electronic apparatus and telecommunication manufacturers from both Hong Kong and Taiwan to invest in China. Huang (2002) also underlines that labour cost is one of the most significant elements affecting Taiwanese investors to undertake investment in China. In contradiction to these documented findings there is an argument that cheap labour cost may not have an impact on the overall decision of investing in China. Zhang (2000), for example, explains that the decision for investing in China by USA technology orientated MNEs is hardly affected by the cheap labour cost, as they have shown strong preferences to gain market access to the Chinese marketplace. In unison Fittock and Edwards (1998) have documented that cheaper labour cost in China are not the primary reason for Australian companies to invest in the Chinese marketplace. Results regarding the impact of labour cost on investment inflows to China appear to be controversial and diverse. Thus, a need for further studies to clarify the role of labour cost for different industries and countries has shown merits to widen the understanding of the determinants of investment flows. A salient conclusion to be drawn from the relevant literature is that, on balance, labour cost may be inversely related to investment intensity.

H3: Labour cost is inversely related to the intensity of foreign investment.

2.4.4 Business Ethics

Apart from the impact of labour cost to investment inflows, the emergence of business ethics as a practical issue has become a prominent business matter for consideration from various quarters (Sanyal, 2005). Bradburn (2001) implies that a comprehensive understanding of business ethics may help managers to better evaluate business activities, which in turn may improve a manager's decision making skills. Hence, it is argued that the reason for foreign companies to consider the need to gain a better appreciation of some forms of business ethics, such as the practice of payoffs, can be drawn from the grounds of business necessity (Carmichael, 1995). These business necessities may assist a company's operations or business activities in a foreign market.

The influence of business ethics on Chinese inward investment decision making has not been widely studied (Wei, 1999). Brand and Slater (2003) argue that the emerging field of business ethics requires a better understanding of the concept of business ethics in the Chinese context. In other words, foreign investors who are planning to invest or are already operating in the Chinese marketplace may need to fully consider issues that relate to business ethics such as bribery and other dubious ethical behaviours (Wei, 1999). According to Fieser (1998), there is a need to differentiate bribery from gift giving. Steidlmeier (1999: p.122) suggests that "Gift giving is one of the ways of nurturing such relationships and strengthening the trust, caring, reciprocity and commitment between the parties.", whereas bribery represents an illegal resource transfer between parties. The perceived importance of business ethics on foreign investment decisions has been regarded as an essential area for consideration by Wei (1999) and Bradburn (2001). Based on the discussion, it is reasonable to estimate that business ethics will be positively associated with investment intensity.

H4: The familiarity of business ethics is positively related to the intensity of foreign investment.

2.4.5 Demographics

The study conceptual framework has also employed a cluster of mediating variables. Some demographics of respondents are proposed as mediating variables, including a

personal dimension, organisational dimension and network. These mediating variables will be examined. From a personal perspective, demographics regarding gender will be assessed to determine the mediating effects of the variable on a company's foreign investment decisions. In addition and from an organisational perspective, the demographics firm size is claimed to play an important role in making foreign investment decisions. Similarly, a company's decision for undertaking investment in a foreign country may also be affected by networks or relationships. Consequently, it is argued that these mediating variables may influence the relationships between the independent and the dependent variables by intensifying, weakening, or reversing the connections. A more elaborate discussion on the forecasted hypotheses for this study is given in the following section.

2.4.5.1 Personal Attribute – Gender

Gender can be viewed as an important personal characteristic that may affect decision making (see 2.3.3). In fact, Cuba, et al. (1983), Hisrich and Brush (1987), Brush (1992), as well as Moore and Buttner (1997) have determined that men are less likely to encourage social and other networks in strategic decision making, but they are more likely to rely on individual systematic practices when making strategic decisions. Although some studies agree that gender differences may have a correspondence with different levels of decision making, others reports tend to argue that decision making activity is not significantly different between males and females.

Research regarding gender differences in decision making appears to be diverse. Some researchers (Chaganti & Parasuraman, 1996; Powell & Ansic, 1997) support gender similarities. Hudgens and Fatkin (1985), and Johnson and Powell (1994) demonstrate an equal success rate in decision making under conditions of risk between males and females. Similarly, Birley (1989), and Sexton and Bowman-Upton (1990) conclude that there is no significant difference between male and female entrepreneurs in decision making. The conflicting findings establish a merit to identify the implications of gender in decision making, especially in terms of the effects of gender on investment decisions. On balance it is estimated that male managers will mediate the four main hypotheses of the conceptual model substantially different to female respondents.

H5: Male managers are likely to have a more positive impact on the relationships between the independent and the dependent variables compared to female managers.

2.4.5.2 Organisational Attribute – Firm Size

A common notion found in literature is that the size of the firm (generally defined by number of employees) appears to play a role in the investment decision (Coviello & McAuley, 1999; Rowden, 2001; Kirby & Kaiser, 2003; Hollensen, 2004). For instance, Reuber and Fischer (1997) indicate that small Canadian software products firms are at a disadvantage in making decisions to develop and expand sales to international markets compared with MNCs. This is because the smaller firms may lack the capabilities of developing knowledge of foreign markets, general management skills and international selling abilities, which may potentially limit investment decisions of SMEs. In addition, Rowden (2001) argues that small firms seem to be characterised by high levels of risk aversion because of financial and staff limitations. These boundary conditions have a potential impact on the process of internationalisation, which in turn translate into additional challenges for small firms to make investment decisions. Due to these constraints, some SMEs are less likely to be involved in international business or to invest overseas compared to large MNCs (Hollensen, 2004).

Interestingly, the consensus about the impact of firm size on international investment remains equivocal. Overall, the size of the firm may not necessarily be a barrier for some small firms to become international (Bonaccorsi, 1992; Calof, 1994; Acs, et al., 1997; Gomes-Casseres, 1997). Some small firms may tap into their internal advantages, such as flexibility, to increase the possibility of becoming global (Coviello & McAuley, 1999). Flexibility in the shorter communication lines between an enterprise and its customers may help small firms to respond swifter and more effectively to customer enquiries (Hollensen, 2004). In addition, the fast changing environment and increasing development of information communication technologies (ICT) have an impact on the entry modes of a smaller firm and constantly change the global operational environment (Moen, et al., 2004; Loane, 2006).

Information communication technology (ICT) tools, such as Internet seem to shape the choice of internationalisation strategies for smaller enterprises. In other words, firm size may not affect a company's foreign investment decisions. Luchetti and Sterlacchini (2004) indicate that Internet is an efficient sales channel for smaller firms with limited resources, as it helps reduce transaction cost (Evans & Wurster, 1997). Drew (2003: p.81) concludes that the benefits of Internet include "... expanding the scope of marketing, wider and richer communications, reaching new markets, recasting the cost of operations and partnering with suppliers and other collaborators.". The strengths and availability of Internet technology has offered an alternative strategy for some smaller firms to become international. Given the fact that small firms may be able to minimise some barriers, such as limited capital resources it is reasonable to assume that company size may not significantly affect internationalisation. However, unbalanced findings in literature validate the question whether the size of the company has an impact on decision making. Yet conventional wisdom supports a contention that larger companies will have the capacity to influence relationships of the conceptual model.

H6: The size of the company is likely to have a positive impact on the relationships between the independent and the dependent variables.

2.4.5.3 Networking

Networking can play a critical role to a firm's internationalisation strategies as networking may assist firms to gain resource combinations to develop internationally (Aldrich & Zimmer, 1986; Aldrich, et al., 1987; Zacharakis, 1997; Mort & Weerawardena, 2006). Zacharakis (1997) highlights that SMEs intend to rely on collaborative modes or networks of operation in foreign markets. The reason is that collaborative modes of operations imply shared risk and resources that help overcome barriers associated with SMEs, including limited productive resources, and market knowledge of the target country (Osland & Cavusgil, 1996; Buckley, 1997; Gomes-Casseres, 1997).

The role of networks is crucial in a firm's decision of becoming international. In fact, networks have provided the means for firms to identify opportunities, to facilitate the utilisation of other resources, to achieve competitive advantage and to develop

internationally (Burt, 1992). Networking speeds up internationalisation "... by providing synergistic relationships with other firms, small and large, that complement each other's resources at various stages in the value chain." (Dana, et al., 1999; Crick & Spence, 2005: p. 171). Networking in the form of partnership, for example, facilitates small handicraft enterprises from Tanzania to enter foreign markets (Rutashobya & Jaensson, 2004). According to Etemad (2004), networking may act as incentive stimulating the firm's internationalisation process, which in turn, becomes an important strategy in making investment decisions. Overall, networks and relationships are important in the firm's internationalisation process, and networks are likely to affect the investment decision.

H7: The presence of networking is likely to have a positive impact on the relationships between the independent and the dependent variables.

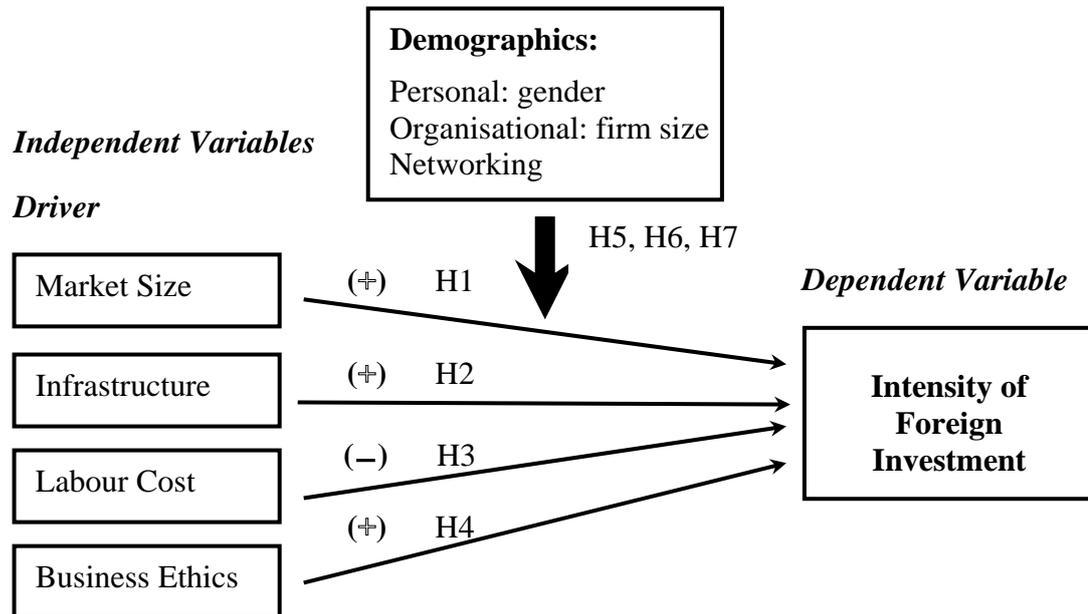
2.5 Conceptual Model

A conceptual model was derived from the integration of relevant literature review and interpretation. This conceptual model is shown as Figure 2.1. The framework consists of four independent variables, one dependent variable and a set of mediating variables. Figure 2.1 depicts that the independent variables are to act as drivers of WA's foreign investment in China. Four variables were employed as independent variables: market size, infrastructure, labour cost and business ethics. The dependent variable is labelled intensity of foreign investment. The conceptual model also contains a cluster of mediating constraints as demographics. The demographics of respondents that will be assessed are gender, firm size and networking.

Figure 2.1

Conceptual Model

Mediating Variables



The conceptual model holds four main hypotheses (nominated as H1, H2, H3 and H4), and each one is assumed to be mediated by demographics. A feature of Figure 2.1 is that the hypotheses are shown as arrows headed lines. These hypotheses present on the one hand, positive relationships between the drivers of market size, infrastructure, business ethics and the intensity of foreign investment. On the other hand, there is an inverse relationship between labour cost and the intensity of foreign investment. At a greater level of detail it is predicted that those four main hypotheses are mediated by demographic variables, including personal attributes, organisational attributes and networking. At the close of the chapter, a summary of the hypotheses is shown as Table 2.1. A more elaborate discussion of the constructs of the conceptual model as well as the hypotheses will be presented in the following section.

For simplicity and clarity the four independent variables, namely market size, infrastructure, labour cost, and business ethics have been categorised as ‘Driver’ constructs. A driver can act as a motivator that influences the foreign investment decision to conduct or withdraw from international business in a particular country.

The dependent variable is the intensity of investment, which refers to the level of international investment/involvement in a foreign country. In addition, the conceptual framework also employs mediating constraints, nominated as demographics. The demographics that facilitate or impact on the investment decision include gender, firm size and networking.

A key element of the conceptual model is the development of investigative hypotheses. Figure 2.1 anticipates that market size, infrastructure, and business ethics are likely to impact positively/favourably on the intensity of investment (see section 2.4 in details). In addition, there is an assumed inverse association between labour cost and intensity of investment. Moreover, demographics, such as gender, firm size and networking have potential to mediate the relationships between the independent variables (of the driver construct) and the dependent variable of intensity of FDI. These proposed relationships are translated into the study hypotheses and were generated from relevant literature.

2.5.1 Summary of the Hypotheses

Based on relevant literature, the hypothesised relationships between the independent and the dependent variables are summarised in Table 2.1. It is forecasted that market size, infrastructure and business ethics are positively related to the intensity of foreign investment, captured as H1, H2 and H4 in Table 2.1. Table 2.1 also predicts an inverse relationship between labour cost and the intensity of foreign investment, presented as H3. These four main hypotheses are predicted to be mediated by the demographic variables, including personal attributes (i.e., gender), organisational attributes (i.e., organisational size) and networking. These hypotheses are presented as H5, H6 and H7 in Table 2.1.

Table 2.1
Summary of the Hypotheses

Hypotheses	Forecasted Relationships
<i>H 1</i>	<i>Market size is positively related to the intensity of foreign investment.</i>
<i>H 2</i>	<i>The level of infrastructure is positively related to the intensity of foreign investment.</i>
<i>H 3</i>	<i>Labour cost is inversely related to the intensity of foreign investment.</i>
<i>H 4</i>	<i>The familiarity of business ethics is positively related to the intensity of foreign investment.</i>
<i>H 5</i>	<i>Male managers are likely to have a more positive impact on the relationships between the independent and the dependent variables compared to female managers.</i>
<i>H 6</i>	<i>The size of the company is likely to have a positive impact on the relationships between the independent and the dependent variables that female.</i>
<i>H 7</i>	<i>The presence of network is likely to have a positive impact on the relationships between the independent and the dependent variables.</i>

2.6 Summary

A literature review was the foundation for generating relevant study hypotheses. From a theoretical perspective theories of foreign investment that are relevant to the study were presented, underpinning the development of the conceptual framework. In addition, this chapter has incorporated potential drivers of foreign investment in the Chinese marketplace. By reviewing existing literature, several constructs have been identified that may statistically affect foreign investment decisions, including market size, infrastructure, labour cost, and business ethics. These constructs are translated into the four independent variables of the study conceptual model. A conceptual model has been developed to investigate the relationships between the independent variables and the dependent variable. Several demographic variables, such as gender, firm size and networking have been included in this study to evaluate whether the hypothesised relationships are mediated by the demographic variables. Finally, in order to empirically evaluate the proposed relationships between the independent variables and the dependent variable as well as the mediating variables, chapter three presents the methodology for this study.

Chapter Three

METHODOLOGY

3.1 Introduction

This chapter describes the study design in five parts. In the first part, the site and subjects are delineated. The second part of the chapter indicates the procedures for conducting the research. The third part of the chapter presents details of the instruments that were employed to evaluate the study data. In the fourth part, the statistical procedures that were employed to examine the study data and the relationships that are expressed in the conceptual model, are outlined. The final part of the chapter summarises, and provides, a link to chapter four. The study site and subjects are documented first.

3.2 Site and Subjects

This study was conducted with 43 respondents in 34 Western Australian companies. A salient feature of the study companies is that they either have capabilities to invest or are already investing in mainland China (People's Republic of China, in this study identified as China). These companies are involved in manufacturing and services industries, such as mining, education, banking, and telecommunication. A high population of the study companies has been engaged in international business for more than 10 years. A detailed discussion of the demographics of the respondents is presented in chapter four (see section 4.2.1).

The study respondents were owners or senior managers of the study companies. This group of exclusive respondent was chosen in the belief that people in these executive positions are the most cognisant about global investment projects and the dynamics of the overall foreign entry decision process (Kim & Hwang, 1992; Chandprapalert, 2000).

3.3 Procedure

A pluralist approach was adopted. Underpinning the quantitative dimension was a survey tool developed as a questionnaire and delivered to the study companies. The qualitative dimension of the study design complemented this data collection method. Face-to-face interviews were conducted to clarify aspects of the survey items as well

as the quantitative findings. There is a growing evidence (Pearson & Chatterjee, 2004; Teagardner, et al., 1995) to demonstrate that culturally related investigations are enhanced by binding quantitative and qualitative design features.

A questionnaire was developed to evaluate the conceptual model after a comprehensive examination of related literature. Each construct of the conceptual model was measured so the hypothesised relationships between the conceptual model variables could be assessed. The questionnaire used in this study consists of three sections as presented in Appendix Two. Section A of the questionnaire was developed for assessing the profile of the companies and the respondents. Section B was developed to measure the importance of market size, infrastructure and networking in foreign investment decisions in China, and section C was designed to measure the constructs of labour cost, business ethics as well as the intensity of foreign investment.

The study design had three stages. First, a pilot study was conducted prior to the main administration of the questionnaire. This pilot test was conducted among 10 respondents whose companies are currently investing in China. Initially, a questionnaire was administered to the senior managers or the owners of the study companies. A key purpose of the pilot study was to determine if the respondents had any problems in understanding the meaning of all questionnaire items. In fact, these respondents were asked to comment on the representativeness and suitability of the questionnaire (Saunders, et al., 2007). The confirmation provided in this qualitative section of the pilot activity was used to refine the questionnaire. For example, while one question initially contained two themes, feedback provided by the senior managers triggered a separation into two questions.

In the second stage the refined survey questionnaires were personally delivered by the researcher to the study companies in WA. A free post envelope was attached along with each questionnaire. A letter introducing the researcher and explaining the purpose of the study was included with the questionnaire when it was delivered to the companies. The letter also addressed other areas, such as ethical consideration for conducting this research, that participation was voluntary, and respondent anonymity

would be preserved. The letter of information to participate is attached as Appendix One.

The third stage was to conduct personal interviews. Personal interviews were conducted after examining the quantitative data. Interview appointments to visit companies were made with a purpose of explaining the objectives and significance of the study to the respondents. Prior to each appointment, a 'reassurance' call was made to potential respondents to seek agreement to participate in this leg of the study. Personal interviews were conducted with senior managers or owners, separately. A set of printed questions were delivered to the managers or owners of the study companies by the researcher prior to conducting face-to-face interviews. In order to avoid inter tension with some participants, the interviews were only electronically recorded when it was acceptable by the interviewee. This condition was clarified before each interview commenced.

3.4 Measures

The research instrument is designed to measure both quantitative and qualitative elements. For the quantitative element of the study, four independent variables, one dependent variable and the demographic dimensions were measured. The four independent variables are 1) market size, 2) infrastructure, 3) labour cost, and 4) business ethics. Further, the dependent variable is the intensity of foreign investment. These relationships are shown in Figure 2.1 (see 2.5 the conceptual model section). The independent and the dependent variables were assessed with data that were captured from the administration of seven point Likert scales. Arithmetic means were generated from the responses. In addition, the demographic dominions were evaluated from three perspectives, including 1) personal (i.e., gender), 2) organisational (i.e., size of the company), and 3) networking. The quantitative results were elucidated by undertaking interviews. A detailed discussion to the study measures are presented in the following section, and the quantitative element is documented first.

3.4.1 Quantitative

The quantitative section of this study is divided into six parts. The first part considers the measurement of market size construct. In the second part, the instrument for measuring the construct of infrastructure is presented. The third part documents the measurement items for the construct of labour cost. In the fourth part, examination to the measurement of business ethics construct is delineated. For the fifth part, the instrument for assessing the construct of intensity of foreign investment is given. In the final part of this section, consideration is paid to the measurement of the demographic dimension. The instrument for examining the construct of market size is presented first.

3.4.1.1 Market Size

Five items were adapted to measure market size. These five items were adapted from a study conducted by Chandprapalert (1999). The items employed to evaluate the market size construct are documented in Section B as items one (B1), two (B2), three (B3), five (B5) and eight (B8) in Appendix Two. Participants were asked to rate along a seven point Likert scales, with responses ranging from 1 = 'Strongly disagree' to 7 = 'Strongly agree'. Four items were obtained after the factor analysis, including items one (B1), two (B2), three (B3) and eight (B8) as captured in Section B. These items were used to examine the extent to which China's market size has an impact on investment decision of WA companies.

3.4.1.2 Infrastructure

Measurement items for infrastructure were adapted from the work of Tseng and Zebregs (2002). This variable of infrastructure was assessed with one item that includes four sub items. These sub items are presented in Section B of Appendix Two, as item 6, including B6b, B6c, B6d and B6e. The responses ranged from 1 = 'Strongly disagree' to 7 = 'Strongly agree'. An arithmetic mean was obtained for infrastructure.

3.4.1.3 Labour Cost

Four items were used to measure labour cost. Based on findings by Huang (2002), the variable of labour cost has two dimensions. These two dimensions are 1) managerial perception of cheap labour, and 2) the operational cost reduction. These

two dimensions were assessed with five items, which are presented as three (C3), seven (C7), 14 (C14), 17 (C17) and 23 (C23) in Section C of Appendix Two. The scale variable of managerial perception of cheap labour was evaluated with items seven, and 14; and the scale variable of the operation cost reduction is evaluated by items three, 17 and 23. Items 14 and 17 were reverse scored. Employing factor analysis led to the deletion of item 23 and maintained items three, seven, 14 and 17.

3.4.1.4 Business Ethics

Business ethics was scored with three items. The instrument used in this study was an adaptation of scale that was redefined by Armstrong (1992), from an earlier study that was conducted by Armstrong, et al. (1990). The measurement items employed in the study were designed to evaluate different ethical problems that relate to foreign operations, such as gifts/favours/entertainment, cultural differences, and knowledge of pressures to engage in small scale ‘bribery’, and inappropriate use of products and technology transfer. These items are presented as items one (C1), two (C2), four (C4), five (C5), six (C6), nine (C9) and 20 (C20), of Section C of Appendix Two. A factor analysis reduced the scale to three items, being items four (C4), nine (C9), and 20 (C20).

3.4.1.5 Intensity of Foreign Investment

Intensity of foreign investment was assessed with 16 items. These measurement items were employed from a study conducted by Hanson and Hedin (2007). Hanson and Hedin (2007) employed 23 items with no reversed items to measure the construct of the intensity of foreign investment. The intention was to investigate the importance of the motives for internationalisation of small and young firms. Hansson and Hedin (2007) believe that foreign investment decisions are based on motives, including market seeking, efficiency seeking, resource seeking, and strategic seeking. This study developed four similar variables from the initial study that Hansson and Hedin (2007) conducted. These are 1) market opportunities in China, 2) business framework and efficiency, 3) cost reduction, and 4) production opportunities in WA. In this study, these 23 items were adapted to form a 16 item multi facet scale. These items are presented as items eight (C8), ten (C10), 11 (C11), 12 (C12), 13 (C13), 15 (C15), 16 (C16), 18 (C18), 19 (C19), 21 (C21), 22 (C22), 24 (C24), 25 (C25), 26 (C26), 27 (C27), and 28 (C28) in Section C of Appendix Two. Respondents were

asked to indicate the importance of each item on a seven point Likert scale. These scales ranged from 1 = 'Extremely unimportant' to 7 = 'Extremely important'.

3.4.1.6 Demographics

The demographics dimensions of the respondents were evaluated from three perspectives: personal, organisational and networking. From a personal perspective, demographics, such as gender was determined as item six; demonstrated in Section A of Appendix Two. The respondents were asked to give responses to 1 = male and 2 = female. In addition, from an organisational perspective, demographics, such as the size of the company was determined, and respondents were asked to indicate the total number of employees in the organisation by choosing one answer among five categories. This is illustrated in Section A as item two of Appendix Two. Furthermore, networking as a mediating variable on the investigative relationships was assessed. Three items were adapted from Huang (2002) to measure the construct of networking. These items are documented as items four, seven and nine in Section B of Appendix Two.

3.4.2 Qualitative

Based on the findings of the quantitative data, five main research questions (as indicated in section 5.2) were derived. The five research questions were determined to allow the researcher to gain a deeper understanding of the quantitative findings as explored with managers or owners. The five questions are listed.

- 1) How do you view China's cheap labour cost in your company's foreign investment decision?
- 2) What is your view on business ethics in China?
- 3) What do you think about market opportunities in China to foreign investors?
- 4) What is your opinion on market presence in China's larger market in relation to your company's foreign investment decision?
- 5) How do you view the importance of market expansion for your product in your foreign investment decisions?

A total of 12 interviews were undertaken and the dialogue was recorded verbatim. Responses were recorded with an electronic recorder, and then typed. These typed

data were subsequently evaluated with a manual content analysis (Pearson & Chatterjee, 2004), and results were recorded on a matrix with three main parts. The extreme left side of the matrix had the assigned identification number for each interviewee, the central part (which comprises a number of columns) shows the common main features of responses, and to the right side of the matrix are uncommon features of the responses.

In practice responses of each interviewee were comprehensively evaluated and dominant features were recorded in fields in the central section of the matrix. These fields were nominated at the top of the matrix. The number of times the notion was presented (i.e., multiple mentioning) by the interviewee was recorded in the appropriate field. Less common notions (i.e., single mentioning), which had not demanded a specific field to this time, were captured towards the right of the matrix. Notions accrued from different interviewees attracted the importance of a field. The procedure was repeated until salient aspects of the data provided by the 12 interviewees were distilled on the matrix. Each of the five questions was evaluated with this procedure and each question produced a specific matrix.

3.5 Analysis

The data captured with the questionnaire survey and personal interviews were examined with a variety of statistical tests. First, after carefully imputing the questionnaire responses, these data were examined for outliers to ensure that no data entries exceed their interval range. Second, the interval validity was evaluated with exploratory factor analysis employing the Varimax option. Third, on determination of the variable factor frameworks reliability assessments were conducted. Fourth, a general interpretation of the conceptual model hypotheses was revealed by correlation analysis. Fifth, the hypothesised relationships of the conceptual model were tested with regression analysis. Finally, determinants of categorical pairs (male versus female) were assessed with T-Tests. These statistical procedures were conducted with SPSS software (SPSS, 20).

The qualitative data of the 12 interviews were analysed. First, frequencies of unique word usage were obtained to indicate the salient features of the responses to each of

the five questions. Also, latent ‘messages’ were ascertained by clustering themes in the responses (a discussion is documented in 3.4.2 of the qualitative section). These data were tabulated and reported in a matrix format table.

3.6 Conclusion

Chapter three has outlined the development of the methodology for this study. The site, respondents, and procedures for conducting the research were presented. The design of the questionnaire, including content and distributing process was addressed. The research instruments that were used to measure the independent variables, the dependent variable, the demographic dimensions as well as the qualitative assessments were determined. An outline of the statistical tests employed to evaluate the data was given as background for data analysis. For example, regression analysis was utilised to examine the study hypotheses. The results generated through statistical analysis are reported in chapter four.

Chapter Four

DATA ANALYSIS AND RESULTS

4.1 Introduction

In this chapter, the results of the empirical analyses will be presented in six parts. In the first part, a discussion of preliminary data assessment is provided, for example, demographics of the respondents. The second part delineates findings of the psychometric assessments. For instance, the results of the factor analyses and reliability assessments will be presented to demonstrate the robustness of the data. In the third part of this chapter, the results of correlational analysis, that reflect bivariate relationships, and hence, are indicative of the hypothesised connections, are presented. The fourth part of the chapter presents the results of the regression analysis, first, in the form of the total data; and second, to display the mediating effects, such as of the organisational variables. In the fifth part of the chapter, results of the assessments of the partitioned data as T-Tests for each of the conceptual model variable, will be provided. For example, the determinants of categorical pairs, such as responses given by males and females will be given. The final part of the chapter summaries the proposed hypotheses in a tabular format. A detailed discussion to the preliminary data assessment is documented first.

4.2 Preliminary Data Assessment

The study data were initially collected from 43 WA respondents. These data were broadly examined with two assessments. In the first assessment, although extensive attention was given to accurately inputting the questionnaire responses, the presence of outliers was assessed. In this process, the data were examined to ensure that no data entries exceed their interval range. In the second assessment, the presence of missing data was investigated, and it was found that one questionnaire had to be discarded as it was devoid of some responses (i.e., missing data). It is likely that as the researcher personally delivered the questionnaires to each individual respondent, this action led to participant binding, the completion of almost every question, and hence, an increased response rate. A total of 43 questionnaires was generated from companies in WA that are currently investing or planning to invest in China. In considering the results of preliminary assessments, it was deemed the data were

suitable for further analysis. Consequently, the demographics of the respondents is presented next.

4.2.1 Demographic of the Respondents

Table 4.1 summarises the demographics of the respondents. Table 4.1 shows that a majority of the investigated organisations have been engaging in international business for more than 10 years, and indeed, over one third of them had been active for 20 years or more. This finding demonstrates a fairly even distribution of international experience. A second feature of the sample was that almost half of the participant organisations employ 300 or more employees, about a quarter employ less than 50 employees whereas about 16 per cent employs 51 to 150 employees. These numbers show that the respondents' companies represent a fair sample of small, medium and larger companies. A third feature of the sample was that most respondents were involved in the education domain and the manufacturing sector (37 % and 27%, respectively). A fourth feature of the sample was that a majority of participants are at senior managerial level or above, which enriches the study information in terms of the decision making phenomenon (see 1.4.2 and 3.2 for more details). A fifth feature of the sample was that most respondents have been working in their current position for less than five years. Respondents are predominantly male (75 %), which may suggest that male leaders are more dominant and active in senior position in WA companies that engage in overseas investment in China. A sixth feature of the sample was that most of the study organisations have employed either exporting or joint venture as their investment type for entering foreign markets. These two types of investments are characterised as low intensity investment (see 1.2). In addition, the low level of total share turnover in China further confirms the notion that most WA companies have a low level of investment involvement in China. In short, the demographic information summarises respondent characteristics and provides a foundation for conducting psychometric assessments.

Table 4. 1
Demographics % (N = 43)

Years in International Business		Job Years	
1-5	9.3	Less than 2	32.6
6-10	16.3	2-5	44.2
11-15	20.9	6-10	7.0
16-20	18.6	11-15	7.0
More than 20	34.9	More than 15	9.3
Firm Size		Gender	
Less than 50	23.3	Male	74.4
50-150	16.3	Female	25.6
151-250	7.0		
251-300	4.7	Investment Type	
More than 300	48.8	Export	44.2
		Licensing	4.7
		Franchising	2.3
Business Sectors		Joint Venture	27.9
Education	37.2	Sales Subsidiary	9.3
Manufacturing	27.9	Production Subsidiary	2.3
Mining	14.0	Full Scale Subsidiary	2.3
Services Professionals	18.6	Other	4.7
Other	2.3		
Title		Turnover (%)	
Managers	30.2	Less than 5	72.1
Directors	18.6	5-25	9.3
Executives	34.9	26-50	9.3
Other	16.3	More than 50	2.3
		N/A	7.0

4.3 Psychometric Assessments

In conducting the psychometric assessments, factor analysis and reliability assessments were employed. Exploratory factor analyses (EFA) were conducted to determine the underlying structure of the robustness of the scale items among the five key variables being investigated in this study. These five key variables were 1) market size, 2) infrastructure, 3) labour cost, 4) business ethics, and 5) intensity of foreign investment. Reliability assessments were used to assess the internal consistency of all the scales.

The purpose of employing factor analysis is to evaluate the construct validity and to establish a platform for assessing the reliability of the investigated variables. The

principal components method for extraction under the EFA procedure was employed, and factors with eigenvalues greater than one were retained. The Varimax option was used because of the technique's success in obtaining orthogonal rotation of factors for the purpose of regression and other predictor techniques (Hair, et al., 1998). Given the relatively small sample size of 43, Hair, et al. (1998) suggests that conservative factor loading of approximately .70 or greater, were to be considered at the .05 level. Once the dimensionalities of the instruments were verified, the internal consistencies of the scales were assessed with reliability analysis.

The reliability assessment for each construct was estimated using Cronbach's alpha coefficient (Cronbach, 1951). The work conducted by Nunnally (1978) has been widely adapted and used for estimating the reliability of multi item scales. Generally, items were retained in the scale when the item-to-total correlation was at least .35, when there were at least three items in the scale, and a coefficient alpha in the order of .70 was obtained (Nunnally, 1978). There are some exceptions as Hair, et al. (1998) argued that the minimum acceptable reliability values were not constituted at an universal level. In addition, a coefficient alpha coefficient at .50 is deemed acceptable if the scales are modified or adapted to suit the context of the study site (Guildford, 1965). Overall, for this study, the alpha coefficients for the study constructs shown in Table 4.2, Table 4.3, Table 4.4 and Table 4.5 were above .70, except for production opportunities in WA, indicating acceptable internal consistency for further exploratory research. Based on these results, the factor analysis and the reliability assessments for the study constructs, including both independent and dependent variables, were conducted separately and the results are presented in the next section.

4.3.1 EFT and Reliability Analyses of the Independent Constructs

As presented in the conceptual model, the independent variables consist of four constructs, being 1) market size, 2) infrastructure, 3) labour cost and 4) business ethics. These are deemed to act as drivers of WA's foreign investment decisions. Hence, four factors were expected. Data analysis revealed that four factors emerged as illustrated in Table 4.2.

Initially, five items were adapted from Huang (2002) to evaluate labour cost construct, and item C23 (i.e., Spreading operational cost through geographical dispersion) was removed for later analysis as it loaded onto other factors. Moreover, five items were adapted from Chandrapalart (1999) to measure the market size construct, one of which (i.e., item B5: Chinese consumer demand is a crucial driving force of my company's industry) did not contribute to the measurement. As this item was loaded onto other factors, the decision was made to eliminate this item. Similarly, five items were adapted from Tseng and Zebregs (2002) to assess the infrastructure construct, and it was revealed that item B6a (i.e., My company's products are impacted by Chinese transportation facilities) was loaded onto other factors, and hence, was deleted. In addition, seven items were adapted from Armstrong (1992) to measure the business ethics construct. Four items were found to be loaded onto other factors, and hence, these items were removed. Three items were retained, which clustered to form the last factor. The retained items are listed in Table 4.2, and these sets were used for further empirical analysis.

Table 4.2

Principal Components Factor Analysis and Cronbach Alpha Scores for the Independent Variables

Variables	Questionnaire Item (#)	Factor 1	Factor 2	Factor 3	Factor 4	
Labour Cost	ItemC 3 Reduced operational cost.	.786	.230	.195	-.010	
	ItemC 7 Cheaper labour cost.	.888	.029	.044	.163	
	ItemC14 Avoiding higher labour cost in the home market.	.921	.063	.052	.175	
	ItemC17 To avoid higher operational cost in the home market.	.825	.073	.021	.246	
Market Size	ItemB1 China sets the demands for my company's products.	.247	.685	.333	.013	
	ItemB2 China is likely to impact the industry in which my company is engaged.	.072	.840	.172	.053	
	ItemB3 The growth of my company will be impacted by Chinese trade.	.194	.843	.040	-.021	
	ItemB8 The large size of the Chinese market will significantly increase demand for my company's products.	-.109	.754	.198	.174	
Infrastructure	My company's products are impacted by Chinese:					
	Item B6b	Communication services	.051	.106	.809	-.169
	Item B6c	Information technology	-.054	.152	.901	.023
	Item B6d	Financial institutions	.276	.231	.724	.073
	Item B6e	Political stability	.078	.233	.677	.361
Business Ethics	ItemC4 Knowledge of pressures to engage in small scale 'bribery'.	.307	-.017	-.067	.826	
	ItemC9 An awareness of possible bribery activities in China.	.055	.022	.038	.883	
	ItemC20 Opportunity to build clients relationship with entertainment.	.268	.383	.169	.584	
Eigenvalue		3.31	2.81	2.71	2.12	
Percentage of variance explained		22.05	18.72	18.06	14.13	
Cumulative percentage of variance explained		22.05	40.78	58.84	72.96	
Cronbach alpha		0.90	0.83	0.82	0.75	

Notes: a. N = 43.

b. Factor 1 = Labour Cost, Factor 2 = Market Size, Factor 3 = Infrastructure, and Factor 4 = Business Ethics.

Reliability assessments were conducted to examine the internal consistency of the four study independent constructs. The results of reliability analyses are shown in Table 4.3. A Cronbach alpha coefficient of .901 for labour cost, .827 for market size, .823 for infrastructure, and .746 for business ethics was obtained. The reliability scores for the four constructs were greater than the acceptable threshold .70. Moreover, all items met the desired criterion of .35 as suggested by Nunnally (1978). Table 4.3 confirms that the desired criteria for item-to-total correlation of the four factors were greater than .35 (i.e., minimum .421), which demonstrated the four constructs were acceptable for further statistical analyses.

Table 4.3

Reliability Analysis of Labour Cost, Market Size, Infrastructure, and Business Ethics

Question Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Alpha if Item Deleted
Labour Cost (Cronbach alpha =0.901)				
Item C 3	10.14	27.08	.683	.907
Item C 7	10.44	24.78	.810	.862
Item C14	10.63	25.43	.877	.839
Item C17	10.65	25.85	.759	.880
Market Size (Cronbach alpha=0.827)				
Item B 1	15.00	15.91	.629	.802
Item B 2	13.26	16.48	.751	.735
Item B 3	13.95	16.81	.691	.764
Item B 8	13.12	21.11	.586	.817
Infrastructure (Cronbach alpha=0.823)				
ItemB6b	13.12	18.96	.580	.806
ItemB6c	12.67	17.08	.777	.720
ItemB6d	13.05	16.76	.650	.778
ItemB6e	12.30	18.22	.596	.800
Business Ethics (Cronbach alpha =0.746)				
Item C 4	7.00	9.95	.648	.574
Item C 9	6.30	9.60	.667	.547
Item C 20	6.56	11.54	.421	.833

Note: N=43.

4.3.2 EFT and Reliability Analyses of the Dependent Construct

Table 4.4 presents the relevant information for the factor analysis and reliability assessments of the dependent construct, namely intensity of foreign investment. The

instrument for measuring the construct of the intensity of foreign investment was adapted from Hansson and Hedin (2007) (see 3.4.1 of the quantitative section).

The study conducted by Hansson and Hedin (2007) employed 23 items with no reversed items to measure the construct of the intensity of foreign investment. In this study, these 23 items were adapted to form a 16 item multi facet scale. When this scale was factor analysed four factors emerged as the sub items of the intensity of foreign investment. Despite the emergence of the four factors in the factor analysis, these factors did not stringently conform with the multi item constructs for foreign investment as presented by Hansson and Hedin (2007). For example, items C8, C13, C16 and C22 were employed to measure market opportunities in China, but as shown in Table 4.4 items C16 and C22 leaked. Presumably, the factor items of Table 4.4 are different to the patterns proposed by Hansson and Hedin (2007). Arguably, differences will be encountered, not only because the Hansson and Hedin study has 23 items, whereas this study employed 16, but their study was conducted in Sweden, which is a Western community. In contrast the study reported in this research was conducted with respondents who were operating with partners who were conducting business in a non Western context. Table 4.4 shows that factor four (production opportunities in WA) had a reliability of .65, whereas the other three FDI constructs had reliabilities greater than .70, which are acceptable Cronbach alpha coefficients. Given the alpha coefficient values the dependent construct employed in this study was considered to be suitable for further statistical analysis. Subsequently, the analysis of the dependent variable will be undertaken on the basis of these four sub constructs, which derives the formations of sub hypotheses (see Tables 4.12 and 4.13).

Table 4.4

Principal Components Factor Analysis and Reliability Assessment for Dependent Variable

Variables	Questionnaire Item (#)	Factor 1	Factor 2	Factor 3	Factor 4
Business framework & efficiency	Item C10 Efficient support service systems in China.	.834	.110	.119	.293
	Item C12 Operating within the regulatory framework in China.	.836	.096	.345	.044
	Item C24 The stability of institutional and legal frameworks in China.	.874	.166	-.003	.105
	Item C25 Efficiency of infrastructure in China.	.848	.353	.231	.102
	Item C28 Availability of basic infrastructure (energy, water) supply in China.	.718	.474	.203	-.119
Cost reduction	Item C11 Establish an advantage through cheaper resources	.171	.841	-.209	.034
	Item C15 Minimising taxes through creative accounting practices.	.002	.743	.004	.222
	Item C18 Seeking opportunities to shorten bureaucratic procedures.	.374	.642	.250	.360
	Item C19 Avoiding high cost labour in the home market.	.358	.626	.097	.276
	Item C21 To reduce non labour cost.	.293	.738	.225	-.055
	Item C27 Accessing to cheap labour in China.	.235	.875	.086	-.022
Market opportunities in China	Item C8 To secure developing existing markets in China.	.147	.249	.860	.086
	Item C13 Entering new markets, seeking opportunities in China.	.251	-.133	.856	.082
Production opportunities in WA	Item C16 Achieving economies of scale.	.454	.269	.114	.647
	Item C22 Complementing a limited / saturated home market.	.055	.046	.061	.847
Eigenvalue		4.59	4.11	1.90	1.66
Percentage of variance explained		28.67	25.69	11.85	10.35
Cumulative percentage of variance explained		28.67	54.35	66.21	76.56
Cronbach alpha		0.93	0.88	0.75	0.59

Notes: a. N= 43.

b. Factor 1 = Business framework & efficiency, Factor 2 = Cost Reduction, Factor 3 = Market Opportunities in China, and Factor 4 = Production Opportunities in WA.

Reliability assessments were conducted to assess the internal consistency of the dependent construct. The results of reliability analyses are shown in Table 4.5. Cronbach alpha coefficients of .929 for business framework and efficiency, .887 for cost reduction .752 for market opportunities in China and .592 for production opportunities in WA were obtained. The reliability scores for the first three constructs were greater than the acceptable threshold .70. Although the Cronbach alpha for production opportunities in WA was lower than the acceptable threshold, the desired criterion was greater than .35 as suggested by Nunnally (1978). In general, it is illustrated in Table 4.5 that the desired criteria for item-to-total correlation of the four factors were greater than .35 (i.e., minimum .421), which demonstrates the four constructs that formed the dependent construct (i.e., intensity of foreign investment) were acceptable for further statistical analysis.

Table 4.5

Reliability Analysis of the Dependent Variable

Question Items	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Alpha if Item Deleted
Business framework & efficiency (Cronbach alpha=0.929)				
Item C10	17.74	42.81	.829	.910
Item C12	17.53	42.68	.765	.921
Item C24	17.79	42.03	.808	.913
Item C25	17.95	38.47	.911	.892
Item C28	18.37	39.95	.766	.924
Cost reduction (Cronbach alpha=0.887)				
Item C11	16.07	52.78	.715	.866
Item C15	16.77	55.23	.611	.881
Item C18	15.84	49.76	.719	.865
Item C19	16.07	52.83	.662	.874
Item C21	16.07	52.11	.687	.870
Item C27	16.40	50.01	.824	.848
Market opportunities in China (Cronbach alpha =0.752)				
Item C 8	5.26	2.53	.610	..
Item C22	5.05	1.86	.610	..
Production opportunities in WA (Cronbach alpha =0.592)				
Item C16	4.23	3.95	.421	..
Item C22	4.28	3.78	.421	..

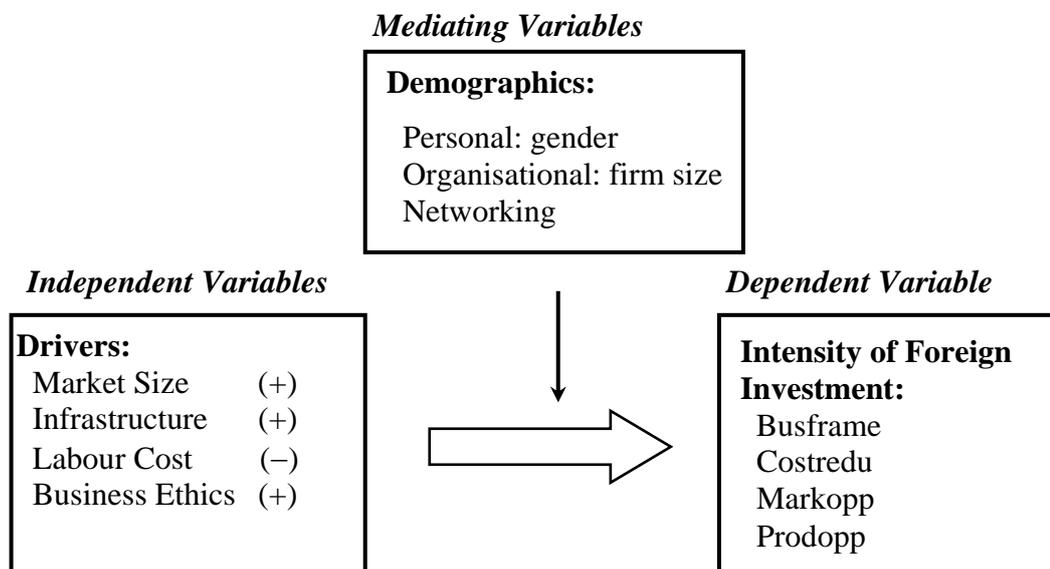
Note: N=43.

4.3.3 Reframed Conceptual Model

The reconstructed dependent variable is formed after conducting factor analysis and reliability assessments, and this observation is different from the literature. Based on the literature, the intensity of foreign investment has been measured with one construct. Subsequently, the generations of the study hypotheses (including four major hypotheses) were formed based on the initial belief that the dependent variable is a single construct. However, the information presented in Table 4.4 for the intensity of foreign investment suggests that the dependent variable has four sub constructs. These constructs are: 1) business framework and efficiency, 2) cost reduction, 3) market opportunities in China, and 4) production opportunities in WA. Hence, the construct of intensity of foreign investment is treated as a multidimensional variable in this study. The reframed conceptual model for this study is delineated next.

Figure 2.2:

The Reframed Conceptual Model and Hypotheses



Notes: Busframe = Business framework & efficiency, Costredu = Cost reduction, Maropp = Market opportunities in China, and Prodopp = Production opportunities in WA.

This reframed conceptual model consists of a set of independent variables, which is comprised of the four sub variables of market size, infrastructure, labour cost and business ethics; and the dependent variable, which consists of the four sub variables

of business framework and efficiency, cost reduction, market opportunities in China, and production opportunities in WA, as well as a cluster of moderating variables. The independent variable was employed to act as a driver of foreign investment from WA to China. The mediating variable for this study is a cluster of demographics of the respondents, including personal dimension (i.e., gender), organisational dimension (i.e., organisational size) and networking. Reframing the dependent variable necessitated expanding the study hypotheses.

The main study hypotheses are generated from the connections between the four independent variables and the four sub dependent variables. Thus, there will be four hypotheses between each independent variable and the four dependent variables. For example, it is predicted there will be a positive association between market size and business framework and efficiency (H1b). Similarly, market size is positively associated with cost reduction (H1c). In addition, it is anticipated that market size is likely to impact positively on market opportunities in China (H1a) and production opportunities in WA (H1d). Subsequently, 16 main hypotheses were proposed between the independent and the dependent variables, which is shown in Figure 2.2 as . Moreover, these proposed 16 hypotheses are likely to be influenced by the mediating variables of gender, firm size as well as networking. The generated hypotheses are presented in Table 4.12 and Table 4.13.

4.4 Descriptive Statistics and Correlations

Table 4.6 presents the means, standard deviations, and bivariate correlations among the study constructs. Given that the study constructs were measured using seven point Likert interval scales, the Pearson coefficient was employed to test the correlations (Field, 2005). Table 4.6 shows that market opportunities in China has a mean score greater than five, which indicates that WA investors tend to focus on expanding to the Chinese market. Some confidence can be entertained of this mean score as the standard deviation of 1.325, is the lowest of all the constructs, which illustrates the responses were focused. Interestingly, the results of Table 4.6 also demonstrate that the participants perceived the level of business framework and efficiency in China to be mediated, and perhaps this perception is a consequence of the Chinese government relaxing business policy to engage other market economies.

Table 4.6**Descriptive Statistics and Correlations (N=43)**

Variables	Mean	STD	1	2	3	4	5	6	7
1. Marsize	4.61	1.359							
2. Infrastr	4.26	1.365	.456**						
3. Labcost	3.49	1.665	.276*	.234					
4. Busethic	3.31	1.516	.257*	.202	.425**				
5. Busframe	4.47	1.590	.363**	.401**	.486**	.496**			
6. Costredu	3.24	1.428	.296*	.220	.833**	.543**	.578**		
7. Markopp	5.15	1.325	.233	.131	.068	.069	.422**	.226	
8. Prodopp	4.26	1.656	.487**	.396**	.352*	.387**	.439**	.420**	.250*

Notes:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, Busethic = Business Ethics, Busframe = Business framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp= Production opportunities in WA.

b. * $p < 0.05$, and ** $p < 0.01$.

As a general overview of the data, the content of Table 4.6 reveals general support for the 16 main hypotheses. However, there are three main exceptions. First, the relationships with the independent variables and market opportunities in China are non significant. Second, business ethics is significantly related with only business framework and efficiency, cost reduction and production opportunities in WA. Lastly, none of the predicted labour cost dependent variable connections are inversely linked. A closer inspection of the means and frequency of item responses indicates labour cost is related to the type of business interactions. The evidence demonstrates on the one hand those companies that are selling products and services in China are less interrelated to the cost of labour. On the other hand, companies purchasing materials from China do value lower labour cost. This finding provides fruitful ground for later discussions with focus group members to better understand why the predictions in the conceptual model (that there would be an inverse relationship) were not observed. Consequently, the linkages of the conceptual model will be evaluated with regression analysis.

4.5 Regression Analysis

Regression analysis was employed to test the proposed hypotheses that were delineated in chapter two. Each hypothesis was evaluated independently. Table 4.7 presents the result of the regression analysis for the tested hypotheses. As shown in Table 4.7, 35 per cent of the variance in the evaluated linkage was explained by the independent variables (i.e., labour cost and business ethics), which provides empirical support for the proposed relationships between the independent variables and business framework and efficiency. However, the proposed hypothesis H1b, and H2b were unsupported. Notably, the significant result at the $p < 0.05$ level did not provide support for the hypothesis (H3b) that labour cost is inversely related to business framework and efficiency. But the results presented in Table 4.6 show labour cost had a significant positive relationship with business framework and efficiency. This significant finding was further explored using qualitative feedback, and the observations are presented in chapter five (see 5.2 for more details).

There was a positive relationship between business ethics and business framework and efficiency, and hence, hypothesis H4b was supported. In addition, Table 4.7 shows that 71 per cent of the variance was explained for the bivariate relationships between labour cost and cost reduction, and also between business ethics and cost reduction. The significant relationships at the $p < 0.05$ level provides empirical support for proposed hypothesis H4c, which is that business ethics had a significant positive relationship with cost reduction. But the study data did not provide support for hypotheses H1c and H2c. Interestingly, the regression assessment finding did not support the initial assumption that labour cost had an inverse association with cost reduction, and thus, hypothesis H3c was not supported. To better understand these quantitative findings, qualitative interviews with the study participants were conducted, and a detailed discussion of the key responses are documented in chapter five (see 5.2 the qualitative presentation section).

Another interesting feature of Table 4.7 is that there were non significant relationships between the independent variables (including, market size, infrastructure, labour cost and business ethics) and market opportunities in China. In other words, the study data did not support proposed hypotheses, H1a, H2a, H3a and

H4a. Moreover, the robustness of the model was relatively weak as only four per cent of the variance was explained. The unexpected findings also provide a platform for revisiting the study participants through qualitative feedback sessions. In addition, Table 4.7 shows that 35 per cent of the variance in the assessed lineage was explained by market size. This relationship was significant at the $p < 0.01$ level providing support for study hypothesis H1d (market size has a positive connection with production opportunities in WA). Nevertheless, the other three tested hypotheses, H2d, H3d, and H4d were unsupported.

Table 4.7

Results of Regression Analysis for the Market Size, Infrastructure, Labour Cost, Business Ethics (the Independent Variables) and the Intensity of Foreign Investment (N = 43)

Variables	Busframe		Costredu		Markopp		Prodopp	
	b	t	b	t	b	t	b	t
Marsize	.105	.734	.045	.469	.218	1.200	.314	2.086**
Infrastr	.226	1.608	-.017	-.176	.030	.168	.179	1.208
Labcost	.274	1.951*	.729	7.795***	-.002	-.014	.133	.898
Busethic	.306	2.202*	.225	2.430*	.008	.045	.213	1.459
Adjusted R ²	.352		.713		-.044		.353	
F	6.711 ***		27.022 ***		.556		5.184 **	

Note:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, and Busethic = Business Ethics.

b. Busframe = Business framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp = Production opportunities in WA.

c. b = beta, t = value, F = F statistic.

d. *p<0.05, **p<0.01, and ***p<0.001.

4.6 Impact of Demographics on the Relationships

The impact of various demographics as mediating variables on the relationships between the independent variables, (including market size, infrastructure, labour cost and business ethics) and the dependent variables (i.e., business framework and efficiency, cost reduction, market opportunities in China, and production opportunities in WA) was examined with multiple regression analysis. Throughout these analyses, the demographics consisted of three mediating variables, which were 1) gender, 2) organisational size, and 3) networking presented in Tables 4.8, 4.9 and 4.10; respectively. The effect of gender is presented first.

4.6.1 Gender

Table 4.8 presents the effects of gender on the regression results between the independent variables and the dependent variable. A salient feature of Table 4.8 is that the relationship between infrastructure and business framework and efficiency was significantly mediated by the gender effects at significant level $p < .05$, and hence, the study data provide support the proposed hypothesis (H5f). For example, male participants believed that the level of infrastructure in an overseas market is an important factor for undertaking foreign investment, whereas female counterparts held a different perception. Indeed, the female respondents did not perceive that the level of infrastructure is essential for decisions to invest in China. Moreover, the mediating variable of gender had significant effects on the relationships between business ethics and business framework and efficiency (H5n). Interestingly, both the male and female respondents considered the familiarity of business ethics was an essential factor for their investment decisions. Nevertheless, the regression analysis results did not provide support for hypotheses H5b and H5j.

It is also demonstrated in Table 4.8 that the effects of gender on the relationships between the independent variables and cost reduction were significant in three observations. First, the relationship between infrastructure and cost reduction was mediated by the effect of gender at significant level $p < .05$, as the female participants did not place an important emphasis on the level of infrastructure in the investment decision. This observation provides support for the hypothesis H5g. Second, gender had a significant mediating effect on relationship between labour cost and cost

reduction (H5k), as male managers considered labour cost plays a role in investment decisions. Third, gender had significant mediating effects on the relationship between business ethics and cost reduction (H5o). For instance, male respondents placed more emphasis on the labour cost and business ethics than female participants. Furthermore, the generated results in Table 4.8 indicated that hypothesis H5c was not supported.

Another finding of Table 4.8 is that the effects of gender on the two hypothesized relationships among the examined relationships were non significant. First, the mediating variable of gender had non significant relationships between the independent variables (i.e., market size, infrastructure, labour cost and business ethic) and market opportunities in China. In other words the study data did not support the proposed hypotheses H5a, H5e, H5i, and H5m. Second, there were non significant mediating effects on the relationships between the independent variables and production opportunities in WA. Hence, the proposed hypotheses H5d, H5h, H5l, and H5p were unsupported. Although the effects of gender has been considered as an exploratory aspect of the research, this dimension provides a wide scope for further investigation.

Table 4.8

Results of Gender Effects on Regression Analysis for the Independent Variables on the Dependent Variable (the Intensity of Foreign Investment (Males=32 and Females = 11)).

Variables	Busframe				Costredu				Markopp				Prodopp			
	Males		Females		Males		Female		Male		Female		Male		Females	
	b	T	b	t	b	t	b	t	b	t	b	t	b	t	b	t
Marsize	.154	.952	.163	.616	-.003	-.032	.267	.935	.322	1.544	.229	.642	.314	1.753	.055	.101
Infrastr	.399	2.527*	-.405	- 2.268	.114	1.250	-.458	-2.385*	.152	.745	-.443	-1.841	.190	1.084	-.010	-.027
Labcost	.112	.724	.945	2.622	.752	8.412 ***	.704	1.816	-.236	-1.186	1.106	2.278	.151	.880	.006	.008
Busethic	.315	2.138*	-.161	-.414*	.249	2.908 ***	.089	.211	.002	.008	-.667	-1.269	.203	1.242	.474	.595
Adjusted R ²	.418		.701		.804		.653		.027		.456		.282		-.248	
F	6.575 ***		6.848 *		32.775 ***		5.703 *		1.21		3.099		4.051 *		.503	

Note:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, and Busethic = Business Ethics.

b. Busframe = Business framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp = Production opportunities in WA.

c. b = beta, t = value, F = F statistic.

d. *p<0.05, **p<0.01, and ***p<0.001.

4.6.2 Organisational Size

Table 4.9 presents the results of the effects of organisational size on the predictions of the independent variables toward the dependent variable. A vast majority of the relationships were non significantly mediated by the effects of organisational size, with three exceptions. First, it is illustrated in Table 4.9 that the relationship between business ethics and business framework and efficiency (H6n) was significantly mediated by organisational size at significant level $p < .05$ when organisations employ more than 250 employees. Second, the connection between labour cost and cost reduction (H6k) was significantly mediated by organisational size at a level of $p < .001$ when organisations employ less than 50 to 250 employees. Third, the association between business ethics and production opportunities in WA (H6p) was mediated by organisational size when the organisations employ more than 250 employees. Overall, the results in Table 4.9 show that the tested mediating variable, namely organisational size had non significant mediating effects on most of the tested relationships. Thus, hypotheses H6a, H6b, H6c, H6d, H6e, H6f, H6g, H6h, H6i, H6j, H6l, H6m, and H6o were not supported.

4.6.3 Networking

Table 4.10 delineates the effects of networking on the regression results between the four investigated variables (e.g., market size, infrastructure, labour cost and business ethic) and the dependent variables. Before conducting the regression analysis, several steps were undertaken to obtain the networking construct, which was ultimately assessed with an interval scale. For example, the frequency plot was performed after computing the networking construct. Based on the frequency plot, two groups of participants were selected. Respondents who gave low scores (< 5.33) of networking and high scores (> 5.66) of networking were selected, and the group of respondents who gave scores between these two values were removed from the sample.

Table 4.9

Results of Organisational Size on Regression Analysis for the Independent Variables on the Dependent Variable (the Intensity of Foreign Investment (Less than 50-250, N =20; and More than 250, N= 23).

Variables	Busframe				Costredu				Markopp				Prodopp			
	Less than 50-250		More than 250		Less than 50-250		More than 250		Less than 50-250		More than 250		Less than 50-250		More than 250	
	b	t	b	t	b	t	b	t	b	t	b	t	b	t	b	t
Marsize	.238	1.216	-.049	-.208	.032	.215	.059	.389	.144	.547	.209	.746	.333	1.587	.308	1.368
Infrastr	.315	1.518	.137	.068	.126	.828	-.134	-.918	-.067	-.251	.048	.179	.334	1.568	-.107	-.495
Labcost	.357	1.826	.241	1.171	.737	4.942***	.741	5.568***	.229	.875	-.115	-.471	.242	1.158	.155	.788
Busethic	.167	.865	.471	2.253*	.151	1.024	.272	2.010	-.241	-.933	.317	1.274	.026	.124	.456	2.275*
Adjusted R ²	.367		.299		.631		.707		-.136		.004		.278		.356	
F	3.760*		3.356*		9.125***		14.245***		.433		1.024		2.875		4.041*	

Note:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, and Busethic = Business Ethics.

b. Busframe = Business Framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp= Production opportunities in WA.

c. b = beta, t = value, F = F statistic.

d. *p<0.05, **p<0.01, and ***p<0.001.

Based on the selected sample, further statistical analyses were conducted, and results of the regression analysis were reported in Table 4.10. Table 4.10 shows that the mediating variable, networking had non significant effects on the relationships between the tested variables, with five exceptions. First, the relationship between business ethics and business framework and efficiency (H7n) was mediated by networking variable, when respondents gave high scores of networking, or when they perceived networking as an important factor for their investment decisions. Second, the connection between labour cost and cost reduction (H7k) was mediated by networking in both groups. Third, it is illustrated in Table 4.10 that the relationship between business ethics and cost reduction (H7o) was mediated by the effects of networking at significant level $p < .05$ when respondents placed more emphasis on the role of networking plays in undertaking foreign investment decisions. Four, the effects of networking on the hypothesised relationship between business ethics and market opportunities in China (H7m) were significant, when participants gave networking high scores. Five, Table 4.10 also demonstrates that when respondents gave high scores towards networking, the relationship between market size and production opportunities in WA (H7d) was mediated by networking at significant level $p < .01$. Overall, the results reported in Table 4.10 indicate that the tested relationships were significantly mediated by networking when participants gave high scores to networking. However, when respondent perceived networking was not important for their investment decision, then the proposed hypotheses H7a, H7b, H7c, H7d, H7e, H7f, H7g, H7h, H7i, H7j, H7l, H7n, and H7p were unsupported. Table 4.10 also suggests that networking does have a limited mediating effect. Some insights into these interesting predictions provided a 'fruitful' ground for further qualitative feedback, results of which are reported in chapter five (see details in section 5.2 of chapter five).

Table 4.10

Results of Networking on Regression Analysis for the Independent Variables on the Dependent Variable (Low N =23; and High, N=18).

Variables	Busframe				Costredu				Markopp				Prodopp			
	Low		High		Low		High		Low		High		Low		High	
Level of networking	b	t	b	t	b	t	b	t	b	t	b	t	b	t	b	t
Marsize	.307	1.826	-.469	-1.981	-.069	-.718	.236	1.476	.275	1.175	-.338	-1.279	.085	.416	.733	3.711 **
Infrastr	.211	1.222	.311	1.566	.067	.675	.086	.639	.090	.377	-.056	-.254	.431	2.053	-.119	-.718
Labcost	.359	2.061	.097	.461	.874	8.579 ***	.485	3.411 **	.349	1.440	-.363	-1.544	.370	1.744	-.177	-1.008
Busethic	.246	1.481	.738	3.160 **	.104	1.099	.370	2.349 *	-.374	-1.621	.745	2.862 *	-.093	-.463	.259	1.331
Adjusted R ²	.546		.383		.851			.719	.122			.233	.328		.570	
F	7.611 ***		3.640 *		32.419 ***			11.855 ***	1.761			.291	3.679 *		6.643 **	

Note:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, Busethic = Business Ethics.

b. Busframe = Business framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp= Production opportunities in WA.

c. b = beta, t = value, F = F statistic.

d. n for low level of networking $n_1 < 5.33$, and n for high level of networking $n_2 > 5.66$

e. * $p < 0.05$, ** $p < 0.01$, and *** $p < 0.001$.

4.7 Independent – Sample T Test

A salient feature of the sample is that the respondents are decision makers of the organisations. This feature of a smaller number of subjects, who were in a position to provide quality information (in terms of organisation decision making) led to a robust data set as shown by the factor analysis and reliability assessments. However, Analysis of Variance (ANOVA) that requires a minimum of 15 respondents per cell could not be obtained from the available population of WA companies that are either conducting business in China or were planning to invest in the Chinese marketplace. Although a strategy of asking people in the study organisations at lower organisational levels, and thus unlikely to be participants of the company decision making, would have overcome the cell size problem, this is likely to have been at the expense of data robustness. Consequently, the study data were not evaluated with ANOVA analysis.

While the decision was made to not perform ANOVA analysis, a comparison of means tests or T-Tests for the study variables were undertaken. Table 4.11 demonstrates the comparison of mean tests for gender, managerial level, and experiences in the current job for all the study variables. Table 4.11 also presents the means and standard deviations of the conceptual model variables. A salient feature in Table 4.11 is that there was non significant difference between the female and the male managers, between manager plus directors and executive plus others, as well as between participants' working experience in the job. The only exception was for the variable of labour cost. However, given the facts that a number of tests were undertaken with only one variable that was significantly different between groups, there is a distinct chance that it may be a type I error. Overall, the T-Test results reported in Table 4.11 demonstrated the responses given by the examined groups were non significantly different for the conceptual model variables.

Table 4.11

Mean, Standard Deviation and Means comparisons Across Gender, Managerial Level, and Experience for the Variables of Market Size, Infrastructure, Labour Cost and Business Ethics

Variables	Males (n=32)	Females (n=11)	Means contrasts p<.05	Managers + Directors (n=21)	Executive +Others (n=22)	Means contrasts p<.05	Experiences In Job 1-5 (n=33)	Experiences In Job More than 6 (n=10)	Means contrasts p<.05
Marsize	4.68 (1.522)	4.41 (.718)	n.s.	4.14 (1.762)	4.36 (1.583)	n.s.	4.09 (1.508)	5.00 (1.242)	n.s.
Infrastr	4.34 (1.505)	4.05 (.857)	n.s.	4.52 (1.385)	4.01 (1.328)	n.s.	4.33 (1.360)	4.03 (1.426)	n.s.
Labcost	3.38 (1.687)	3.77 (1.170)	n.s.	4.00 (1.587)	3.00 (1.624)	1<2*	3.53 (1.565)	3.35 (2.052)	n.s.
Busethic	3.32 (1.558)	3.27 (1.459)	n.s.	3.40 (1.569)	3.23 (1.496)	n.s.	3.25 (1.481)	3.50 (1.694)	n.s.
Busframe	4.54 (1.563)	4.25 (1.728)	n.s.	4.44 (1.737)	4.50 (1.477)	n.s.	4.56 (1.530)	4.18 (1.832)	n.s.
Costredu	3.06 (1.778)	3.76 (1.557)	n.s.	3.47 (1.382)	3.02 (1.469)	n.s.	3.24 (1.379)	3.23 (1.658)	n.s.
Markopp	5.19 (1.366)	5.05 (1.254)	n.s.	5.33 (1.317)	4.98 (1.341)	n.s.	5.09 (1.433)	4.80 (2.071)	n.s.
Prodopp	4.42 (1.361)	3.80 (1.639)	n.s.	4.51 (1.558)	4.70 (1.167)	n.s.	4.49 (1.388)	5.35 (.914)	n.s.

Notes:

a. Marsize = Market Size, Infrastr = Infrastructure, Labcost = Labour Cost, Busethic = Business Ethics.

b. Busframe = Business framework & efficiency, Costredu = Cost Reduction, Markopp = Market opportunities in China, and Prodopp= Production opportunities in WA.

c. The values in parentheses are standard deviations of the means

d. n = number of respondents

e. * p<.05, and n.s.=non significantly different.

4.8 Summary of Hypotheses

In summary, a total of 80 hypotheses derived from seven main hypotheses (see summary of the hypotheses section of 2.5.1) were tested in chapter four, and the results of these hypotheses are illustrated in Table 4.12 and 4.13. The conceptual model proposed in Figure 2.1 (see details in 2.5) indicated four main hypotheses. These hypotheses were evaluated and tested with regression analysis in order to determine the overall fit and robustness of the conceptual model. After conducting factor analysis and reliability assessments, the results indicate that the dependent variable (i.e., the intensity of foreign investment) has four sub variables. Hence, the study hypotheses were reconstructed and 16 main hypotheses were generated. The regression analyses indicated the four most salient features for the 16 main hypotheses. The first feature is that the relationship between market size and the intensity of foreign investment was unsupported with one single exception, where market size is positively related to the production opportunities in WA. The second feature is that the study data did not obtain support for the proposed relationship between infrastructure and the intensity of foreign investment. A third feature is that the relationship between labour cost and the intensity of foreign investment was significantly positive. This was an unexpected finding as the initial assumption proposed that labour cost is inversely related to the dependent variables. The unexpected finding observation indicated the need for utilising qualitative interviews in order to complement the understanding of the quantitative findings. The fourth feature of the proposed relationship between business ethics and the intensity of foreign investment is rather interesting, as two hypotheses were supported and two were unsupported. Overall, four main hypotheses were supported, and 12 hypotheses were unsupported, a condition which provides a platform for conducting qualitative interviews.

The findings regarding the mediating effects of gender on the relationships between the independent variables and the dependent variables were evaluated. Four main findings were observed. First, gender generally had a non significant impact on the predicted relationships. For instance, the forecasted association between market size and the intensity of foreign investment was non significant mediated by gender. Second, the mediating effect of gender on the association between infrastructure and

the intensity of foreign investment was non significant, with one exception as gender was shown to have a positive impact on the relationship between infrastructure and the sub dependent construct of business framework and efficiency. Third, the relationship between labour cost and the intensity of foreign investment was non significantly mediated by the effect of gender, but the hypothesised relationship, that gender is likely to have a positive impact on the relationship between labour cost and cost reduction was supported. Four, the result of the mediating effects of gender on the relationship between business ethics and the intensity of foreign investment is unequivocal, as two hypotheses were supported and two were unsupported as illustrated in Table 4.13.

Table 4.13 also indicates that the relationship between the four independent variables (i.e., market size, infrastructure, labour cost and business ethics) and the intensity of foreign investment (i.e., market opportunities in China, business framework and efficiency, cost reduction, and production opportunities in WA) was non significantly mediated by organisational size, with three exceptions. First, organisational size had a significant effect on the relationship between labour cost and cost reduction. Second, the association between business ethics and business framework and efficiency was mediated by organisational size. Third, organisational size had mediating effects on the association between business ethics and production opportunities in WA.

The mediating effects of networking on the relationships between study variables were also assessed and a summary of the hypotheses is presented in Table 4.13. For example, as shown in Table 4.13, five connections were significantly mediated by the effects of networking. First, the relationship between market size and production opportunities in WA was significantly mediated by networking. Second, the mediating effects of networking on the connection between labour cost and cost reduction was significant. Third, the relationship between business ethics and market opportunities in China was significantly mediated by networking. Four, the connection between business ethics and business framework and efficiency was substantially mediated by networking. Five the significant mediating effects of networking on the relationship between business ethics and cost reduction was supported. A summary of the results of the hypotheses testing is presented in Table

4.12 and 4.13. Although 15 hypotheses were supported a large number of study hypotheses were not supported, which provides a foundation for further exploration using qualitative interviews. An essential interpretation and discussion of the results in relation to both quantitative and qualitative feedbacks are presented in chapter five.

Table 4.12

Summarised Results of the Main Hypothesis Testing

#	Hypothesised Relationships	Supported/ Unsupported	Reference Table #
H1	Market is positively related to the intensity of foreign investment.		
	H1a Market size is positively related to market opportunities in China.	Unsupported	Table 4.7
	H1b Market size is positively related to business framework and efficiency.	Unsupported	Table 4.7
	H1c Market size is positively related to cost reduction.	Unsupported	Table 4.7
	H1d Market size is positively related to production opportunities in WA.	Supported	Table 4.7
H2	The level of infrastructure is positively related to the intensity of foreign investment.		
	H2a The level of infrastructure is positively related to market opportunities in China.	Unsupported	Table 4.7
	H2b The level of infrastructure is positively related to business framework and efficiency.	Unsupported	Table 4.7
	H2c The level of infrastructure is positively related to cost reduction.	Unsupported	Table 4.7
	H2d The level of infrastructure is positively related to production opportunities in WA.	Unsupported	Table 4.7
H3	Labour cost is inversely related to the intensity of foreign investment.		
	H3a Labour cost is inversely related to market opportunities in China.	Unsupported	Table 4.7
	H3b Labour cost is inversely related to business framework and efficiency.	Unsupported	Table 4.7
	H3c Labour cost is inversely related to cost reduction.	Unsupported	Table 4.7
	H3d Labour cost is inversely related to production opportunities in WA.	Unsupported	Table 4.7
H4	The familiarity of business ethics is positively related to the intensity of foreign investment..		
	H4a The familiarity of business ethics is positively related to market opportunities in China.	Unsupported	Table 4.7
	H4b The familiarity of business ethics is positively related to business framework and efficiency.	Supported	Table 4.7
	H4c The familiarity of business ethics is positively related to cost reduction.	Supported	Table 4.7
	H4d The familiarity of Business ethics is positively related to production opportunities in WA.	Unsupported	Table 4.7

Table 4.13

Summarised Results of the Mediating Variables Hypothesis Testing

H5	Gender is likely to have a positive impact on the relationships between the independent and the dependent variables.	Supported/ Unsupported	Reference Table #
	H5a Gender is likely to have a positive impact on the relationship between Market size and market opportunities in China.	Unsupported	Table 4.8
	H5b Gender is likely to have a positive impact on the relationship between Market size and business framework and efficiency.	Unsupported	Table 4.8
	H5c Gender is likely to have a positive impact on the relationship between market size and cost reduction.	Unsupported	Table 4.8
	H5d Gender is likely to have a positive impact on the relationship between market size and production opportunities in WA.	Unsupported	Table 4.8
	H5e Gender is likely to have a positive impact on the relationship between infrastructure and market opportunities in China.	Unsupported	Table 4.8
	H5f Gender is likely to have a positive impact on the relationship between infrastructure and business framework and efficiency.	Supported	Table 4.8
	H5g Gender is likely to have a positive impact on the relationship between infrastructure and cost reduction.	Unsupported	Table 4.8
	H5h Gender is likely to have a positive impact on the relationship between infrastructure and production opportunities in WA.	Unsupported	Table 4.8
	H5i Gender is likely to have a positive impact on the relationship between labour cost and market opportunities in China.	Unsupported	Table 4.8
	H5j Gender is likely to have a positive impact on the relationship between labour cost and business framework and efficiency.	Unsupported	Table 4.8
	H5k Gender is likely to have a positive impact on the relationship between labour cost and cost reduction.	Supported	Table 4.8
	H5l Gender is likely to have a positive impact on the relationship between labour cost and production opportunities in WA.	Unsupported	Table 4.8
	H5m Gender is likely to have a positive impact on the relationship between business ethics and market opportunities in China.	Unsupported	Table 4.8
	H5n Gender is likely to have a positive impact on the relationship between business ethics and business framework and efficiency.	Supported	Table 4.8
	H5o Gender is likely to have a positive impact on the relationship between business ethics and cost reduction.	Supported	Table 4.8
	H5p Gender is likely to have a positive impact on the relationship between business ethics and production opportunities in WA.	Unsupported	Table 4.8

H6	The size of the company is likely to have a positive impact on the relationships between the independent and the dependent variables.	Supported/ Unsupported	Reference Table #
	H6a The size of the company is likely to have a positive impact on the relationship between Market size and market opportunities in China.	Unsupported	Table 4.9
	H6b The size of the company is likely to have a positive impact on the relationship between Market size and business framework and efficiency.	Unsupported	Table 4.9
	H6c The size of the company is likely to have a positive impact on the relationship between market size and cost reduction.	Unsupported	Table 4.9
	H6d The size of the company is likely to have a positive impact on the relationship between market size and production opportunities in WA.	Unsupported	Table 4.9
	H6e The size of the company is likely to have a positive impact on the relationship between infrastructure and market opportunities in China.	Unsupported	Table 4.9
	H6f The size of the company is likely to have a positive impact on the relationship between infrastructure and business framework and efficiency.	Unsupported	Table 4.9
	H6g The size of the company is likely to have a positive impact on the relationship between infrastructure and cost reduction.	Unsupported	Table 4.9
	H6h The size of the company is likely to have a positive impact on the relationship between infrastructure and production opportunities in WA.	Unsupported	Table 4.9
	H6i The size of the company is likely to have a positive impact on the relationship between labour cost and market opportunities in China.	Unsupported	Table 4.9
	H6j The size of the company is likely to have a positive impact on the relationship between labour cost and business framework and efficiency.	Unsupported	Table 4.9
	H6k The size of the company is likely to have a positive impact on the relationship between labour cost and cost reduction.	Supported	Table 4.9
	H6l The size of the company is likely to have a positive impact on the relationship between labour cost and production opportunities in WA.	Unsupported	Table 4.9
	H6m The size of the company is likely to have a positive impact on the relationship between business ethics and market opportunities in China.	Unsupported	Table 4.9
	H6n The size of the company is likely to have a positive impact on the relationship between business ethics and business framework and efficiency.	Supported	Table 4.9
	H6o The size of the company is likely to have a positive impact on the relationship between business ethics and cost reduction.	Unsupported	Table 4.9
	H6p The size of the company is likely to have a positive impact on the relationship between business ethics and	Supported	Table 4.9

	production opportunities in WA.		
H7	Networking is likely to have a positive impact on the relationships between the independent and the dependent variables.	Supported/ Unsupported	Reference Table #
	H7a Networking is likely to have a positive impact on the relationship between Market size and market opportunities in China.	Unsupported	Table 4.10
	H7b Networking is likely to have a positive impact on the relationship between Market size and business framework and efficiency.	Unsupported	Table 4.10
	H7c Networking is likely to have a positive impact on the relationship between market size and cost reduction.	Unsupported	Table 4.10
	H7d Networking is likely to have a positive impact on the relationship between market size and production opportunities in WA.	Supported	Table 4.10
	H7e Networking is likely to have a positive impact on the relationship between infrastructure and market opportunities in China.	Unsupported	Table 4.10
	H7f Networking is likely to have a positive impact on the relationship between infrastructure and business framework and efficiency.	Unsupported	Table 4.10
	H7g Networking is likely to have a positive impact on the relationship between infrastructure and cost reduction.	Unsupported	Table 4.10
	H7h Networking is likely to have a positive impact on the relationship between infrastructure and production opportunities in WA.	Unsupported	Table 4.10
	H7i Networking is likely to have a positive impact on the relationship between labour cost and market opportunities in China.	Unsupported	Table 4.10
	H7j Networking is likely to have a positive impact on the relationship between labour cost and business framework and efficiency.	Unsupported	Table 4.10
	H7k Networking is likely to have a positive impact on the relationship between labour cost and cost reduction.	Supported	Table 4.10
	H7l Networking is likely to have a positive impact on the relationship between labour cost and production opportunities in WA.	Unsupported	Table 4.10
	H7m Networking is likely to have a positive impact on the relationship between business ethics and market opportunities in China.	Supported	Table 4.10
	H7n Networking is likely to have a positive impact on the relationship between business ethics and business framework and efficiency.	Supported	Table 4.10
	H7o Networking is likely to have a positive impact on the relationship between business ethics and cost reduction.	Supported	Table 4.10
	H7p Networking is likely to have a positive impact on the relationship between business ethics and production opportunities in WA.	Unsupported	Table 4.10

4.9 Conclusion

This chapter reports the results of the empirical analysis of the data. A number of proposed study hypotheses have been tested and evaluated in this chapter. The results generated from preliminary data assessments demonstrated no outlier. In the first instance, a discussion of the demographic characteristics of the study respondents was presented. In addition, the findings of the psychometric assessments were reported that involved both factor analysis and reliability assessments. These assessments indicated that the study variables had acceptable construct validities and internal consistencies, which provided confidence for hypotheses testing. Moreover, descriptive statistics and correlations of both the independent and the dependent variables were evaluated. Although the results indicated that the study variables were correlated, a more comprehensive assessment of the linkages of the proposed conceptual model was performed with regression analysis. Next, the mediating effects of gender, organisational size as well as networking on the hypothesised relationships between variables were also assessed using regression analysis. Furthermore, an independent sample test (T-Test) was conducted to present the comparison of mean tests for variables including gender, managerial level and experience in the current job for all the testing variables. Finally, the results of the hypotheses testing were reported in a tabular format, which indicated that a large number of the proposed study hypotheses were unsupported, while 15 hypotheses were supported, which are shown in Tables 4.12 and 4.13. For example, hypothesis H1d in Table 4.12 was supported, while hypothesis H5fa in Table 4.13 was unsupported. To elucidate why some predictions were observed while other forecasts were not demonstrated, qualitative interviews were conducted with representatives of the study participants. Chapter five will present the results of the findings of these qualitative discussion sessions.

Chapter Five

DISCUSSION

5.1 Introduction

Chapter five reports an evaluation of the qualitative feedback, which will be presented in three parts, and is based on five questions, that surfaced as lines of enquiry from the results of chapter four. The first part provides an overview of the qualitative findings in Table 5.2 to Table 5.6, inclusive. In the second part of the chapter, a succinct, but comprehensive summation of the participant comments shows not only a compilation of 'direct' responses, but also latent issues that emerged from the dialogue. These first two parts of the chapter are the quantitative findings that expand the qualitative dimensions of the study design and are aimed to elucidate meaning to the five main questions that respondents addressed. The final part of this chapter reports on the meaning of the quantitative findings that were documented in chapter four.

5.2 Qualitative Data Presentation

Qualitative interactions, as interviews were undertaken based on five main questions. These questions were constructed after considerable analysis of the quantitative findings generated in chapter four. In short, the qualitative feature of the study was a strategy for elucidating the meanings of the quantitative results. Data collected from the qualitative interview were subsequently analysed using a manual content analysis procedure. The frequency of the comments was then captured for analysis.

Interview data were evaluated and presented in a matrix format. This matrix was designed with three main parts. The extreme left column was designed with the assigned identification number or subject number for each interviewee. The dominant features of the interviewee comments were recorded as the field headings at the top of the matrix, and the answers for the five questions were recorded in these fields. At the bottom of the matrix, the total number of the comments was recorded for each field. Finally, the total per cent for each field was calculated, and reported in the very bottom of the Table. The procedure was repeated until the salient features of the data for the 12 interviews were recorded on the matrix.

5.3 Demographic Profiles

A total of 12 interviews were conducted with representatives of the study sample. The demographic profiles of the representatives are presented in Table 5.1. Table 5.1 shows that 75 per cent of the respondents were male and that the respondents were distributed across the study business sectors of education, manufacturing, mining and services.

Table 5.1

Demographic Profiles % (N=12)

Gender	
Male	75
Female	25
Business Classification	
Education	33
Manufacturing	25
Mining	25
Services	17

In spite of the relatively small sample size (n=12) the data were exceedingly rich as extensive comments were given to the five questions. In addition, the respondents were in decision making roles of WA companies that are either operating in China or planning to invest in China.

5.4 Respondent Comments

A summary of the dominant features that were given by the respondents is documented as Tables 5.2 to Table 5.6, inclusive. The sequence of presentation is to first provide the question, followed by an overview of the key features delivered by the Table content.

Q1: How do you view China's cheap labour cost in your company's foreign investment decision?

In addressing the first question, a number of features were obtained as presented in Table 5.2. A predominant feature of Table 5.2 is that a majority of the respondents perceived that cheap labour had a non significant impact (field 1) on their foreign investment in the Chinese marketplace. A potential reason for this salient observation

may be drawn from the types of investments and involvement by individual organisations. Predictably, the responses from the interviewees, who represented nine organisations that could be deemed ‘not related’ to labour cost because these companies are involved in exporting only. In short, these respondents stated that cheap labour cost do not substantially impact on the investment decision in China for their company. Understandingly, three other respondents claimed that cheap labour cost would be an advantage (field 2) when the company is manufacturing goods in China. Hence, it is reasonable to assume those WA companies that are engaged in selling or exporting products to China are likely to pay less attention to the importance of low labour cost, whereas those companies that are involved in manufacturing products in China have a benefit in and preference for China’s cheaper labour cost relative to WA labour cost. Indeed, 81 per cent of the responses (i.e., fields 1, 2, 3, 4, 9 10 and 12) underpin this observation, which attract further discussion.

Another feature to be drawn from Table 5.2 is that there is an orientation towards global services. In fact, a quarter of the respondents commented on the quality in the new era of commercialisation as some of the respondents’ organisations (in Field 12) prefer to offer quality services to meet the local demand from China. One respondent’s comment further stated that:

“...we are able to deliver good quality outcomes, so that we really want to be the partner of first choice, preference partner with the Chinese organisations that share our goals.”

Table 5.2 reports a variety of respondents’ other comments. For example, one respondent indicated that China is a part of the ‘global operation’ (Field 7). As part of the global operation, China may be seen as leverage to disperse the global competition (Field 6). It may be argued that the difference in global operation strategy may potentially affect the managers’ or owners’ perception to the effects of labour on the decision making activity. These matters are worthy of attracting further evaluation, and more elaborate explanation to future research directions is presented in chapter six. In the process of providing justification on the concept of business ethics to the investment decision, respondents provided a rich set of qualitative information for question 2, as presented in Table 5.3.

Table 5.2

Captured Features of Responses to Question One

Q1#	No Influence	Labour adv/ operation	No manufacturing	Exporting	Relative cost of education	Competition	Global operation	Finish products	Chinese consumption	Manufacturing bulk of products in Australia	Using existing services	Provide quality service	Collaboration
Field#	1	2	3	4	5	6	7	8	9	10	11	12	13
Sub													
1	3		1	1									1
2	4				1								
3	1		1			1	1						
4	5		1					1	1				
5	2					1		1		1			
6	4										1		
7	2												
8		5				1					1		
9		2											1
10	3			1									1
11	4			1		1							1
12													1
N	28	7	3	3	1	4	1	2	1	1	2	4	1
%	48	12	5	5	2	7	2	3	2	2	3	7	2

Notes: a. Sub = subjects.

b. N = The total number of the comments for the field. There were 58 comments for the 13 fields.

c. % = The field comments as a percentage of the total comments. For field 1, $28 \div 58 \times 100 = 48$ per cent.

Q2: What is your view on business ethics in China?

In gaining a comprehensive understanding to the concept of business ethics in relation to investment decisions, an overview of responses to question 2 is presented in Table 5.3. Table 5.3 shows the perceived importance of business ethics on the foreign investment decision across three streams.

The first stream is realised as a large number of the comments indicated business ethics needs to be taken into account in making a foreign investment decision in China. In fact, 25 per cent of the responses and ten of 12 respondents suggested that business ethics is an important area for consideration (field 1). Another eight respondents also reiterated the need to teach and learn about business ethics (field 2), identifying and highlighting the notion of cultural differences (field 9), which was also mentioned as important by some respondents. One respondent has further suggested.

“... you have to understand, possibly some means of gathering favour by potentially offering presents or gifts to major decision makers potentially in government. So business ethics will definitely be an area for consideration in terms of a making decision to invest in China.”

It is, therefore, reasonable to assume issues that are related to business ethics need to be considered in relation to foreigners deciding to invest in China.

The second stream present in Table 5.3 is that some respondents tended to have a lack of understanding of business practices and procedures in China (field 10). The limited understanding to business practices may be caused by a lack of involvement or interaction with Chinese business people or partners. The business framework in China is moving from central bureaucracies to a competitive marketplace, and this shift may limit foreign investors from gathering useful information and gaining knowledge about China's competitive market. Arguably, China's competitive marketplace presents major market opportunities, that may attract foreign investors, however, they may need to fully evaluate business standards and practices in order to be engaged in a contemporary Chinese business environment.

The final stream reported in Table 5.3 indicated that bureaucracy can be a challenge for investors (field 13) who intend to operate in China. One respondent especially summarised the challenge.

“A lot of government policies or rulings in China make it very difficult to do business some times. Particularly, for example, getting money out of China and paying for our programme that we even got contract for, so, it is very hard for them, it is very difficult to get the money out to pay, because they have to go through a lot of things to get their money out.”.

Hence, in the decision of investing in China, respondents perceived issues that related to business ethics need to be considered.

Respondents provided a number of other comments, such as a belief that business practice in China is changing ‘towards a Western way of doing business’ (Field 8). This observation may potentially influence respondents’ views on the concept of business ethics in China, which in turn may affect the decision to invest in China. A further investigation on such matters may offer insightful information in the understanding of business ethics in China. This finding may attract future researchers to gain a thorough appreciation of the concept of business ethics in the Chinese economic context. In addition to business ethics, respondents were asked to indicate their viewpoints on market opportunities in China, the dominant fields of the responses are documented in Table 5.4.

Table 5.3

Captured Features of Responses to Question Two

Q2#	Important for decision making	Teach & learn ethics	No interaction	Export	Improving	Individual Consideration of ethics	Community & environment improvement	Towards western way of doing business	Cultural difference	Limited personal understanding	Minimum cultural difference	Highly ethical	Challenging/ bureaucracy procedure
Field#	1	2	3	4	5	6	7	8	9	10	11	12	13
Sub													
1			3	3									
2		4			2	1	1	1	1	1			
3	2					1							
4	1	2		1	2			1	1				
5	3	2				1							
6	2	2				1			1				
7	4	1						1		1	2	1	
8	2	1						1	1		1		
9	1	2				1			1	1			
10	2											1	7
11	2											1	1
12	1	1							1				
N	20	15	3	4	4	5	1	4	6	3	3	3	8
%	25	19	4	5	5	6	1	5	8	4	4	4	10

- Notes:
- a. Sub = subjects.
 - b. N = The total number of the comments for the field. There were 79 comments for the 13 fields.
 - c. % = The field comments as a percentage of the total comments. For field 1, $20 \div 79 \times 100 = 25$ per cent.

Q3: What do you think about the market opportunities in China to foreign investors?

A consolidation of the responses to question 3 is presented in Table 5.4. Table 5.4 presents two key features. The first feature is that eleven respondents suggest there are major opportunities in the Chinese marketplace (field 2), and the second feature is that the potential market opportunities are expected to increase (field 4). These notions were confirmed by most of the respondents (ten out of 12) who perceived that China is a promising market with potential either now or in the future (field 1). In fact, 65 per cent of the responses (fields 1, 2, 4, 8, and 9) provided the foundation for this observation, and a detailed representation is presented in Table 5.7.

Table 5.4 also shows that respondents have emphasised the essential nature of partnership/collaborative work (field 3) in operating business in the Chinese marketplace. For instance, one respondent indicated that:

“... If we are engaged, then it will just seem to be opportunistic short term, and as a result, that our company has done is to make sure we are building long term relationship as we are visiting and spending time in China regularly...”

This comment suggests that partnership or collaboration is likely to have an impact on facilitating business operations in China. In addition, the Chinese concept of patrimonialism may play a role in business engagement in China by WA companies. The patrimonialism concept embraces a number of characteristics, such as paternalism, mutual obligation, familialism, personalism, and connections (Chen, 1995). Put in a simpler way, the relationships may be developed externally through different channels. For example, a connection or relationship may be built through private and personal channels when a third party is involved. Other events such as banquet hosting and social gathering may be seen as other approaches to build relationships or networks (Ai, 2006). External relationship building or development may continue to play an active role in the Chinese society that may affect WA company decisions to invest in the Chinese marketplace. Hence, a need to further evaluate the concept of patrimonialism may widen the understanding of the phenomenon of guanxi or networking in foreign investment decision in China.

An emerged or latent feature reported in Table 5.4 is that the level of infrastructure or existing facilities (field 5) in China is deemed as a critical element for investment decisions in China by a few respondents. These responses suggest that although China is an emerging marketplace with increasing economic development and attracts a large amount of investments, an increased level of infrastructure may encourage more investors to conduct business in China. Indeed, this notion has attracted 11 (field 5) per cent of the comments of Table 5.4. This observation has provided a platform for further discussion, which will be presented in the section of emerging issues.

Furthermore, respondents claimed the Chinese government is interested in developing business relationships with foreign investors (field 11), which may potentially encourage business to invest in the Chinese marketplace. As a result, the level of foreign investment may be intensified between WA and China. Although the observation attracts less intend frequency, this finding may provide a wider scope for further examination. In addition to the importance of market opportunities in China, respondents have also provided some interesting features to address the essence of market presence to China's larger market in the investment decision, as presented in Table 5.5.

Table 5.4

Captured Features of Responses to Question Three

Q3#	Promising market now & future	Major opportunities	Partnership/ collaborative	Continue & potential	Existing facilities	No investment for investor	Customer perspective	Growing middle class economy	Important market in long term	Government requirements	Chinese Government developing
Field#	1	2	3	4	5	6	7	8	9	10	11
Sub											
1	8	2		2							
2		1									
3	1			1		1	1				
4	1	1		2			1	1	1		
5	1	1		1					1		
6	1	2	1		5	1					
7		3		1						2	1
8	1	1			4						
9	1	1	1				1				
10	1	3	2				1				
11	2	3	6	1					1		1
12	1	1		1				1			
N	18	19	10	9	9	2	4	2	3	2	2
%	23	24	13	11	11	3	5	3	4	3	3

- Notes:
- a. Sub = subjects.
 - b. N = The total number of the comments for the field. There were 80 comments for the 11 fields.
 - c. % = The field comments as a percentage of the total comments. For field 1, $18 \div 80 \times 100 = 23$ per cent.

4) What is your opinion on market presence to China's larger market in relation to your company's foreign investment decision?

Table 5.5, representing answers to question 4, illustrates that most of the respondents perceived market presence in China's larger market as important to the investment decision. The perception of this agreement is given on the consideration of China being a large and growing market (field 3). The large Chinese marketplace provides major market opportunities for investors to benefit from potential opportunities. In addition, the Chinese marketplace is perceived by eight respondents as continuously developing or expanding (field 4). This increasing demand in China may be seen as a driver for foreign investors to conduct business in the country. Although China is an increasingly customer driven market with demand (field 6), foreign investors are interested in providing quality services or products (field 9) to satisfy Chinese consumers.

Another emerged feature of Table 5.5 is the importance and strength of relationships or partnerships in the long term (field 1). Interestingly, respondents tend to show preference on intensifying current relationships rather than expanding the business and potentially risk the partnership. In fact, this notion has attracted about 28 (i.e., Fields 1, 5 and 11) per cent of the comments that indicates the importance of maintaining or nurturing relationships. According to Ewing (2000), to maintain and nurture relationships with partners may take a long time and need a great amount of effort; the outcomes may offer mutual benefits. For instance, future business opportunities may be shared between two parties that may provide the key to gain mutual trust (Ai 2006). Therefore, approaches for maintaining and enhancing an existing relationship may play a critical role in business engagement in the Chinese marketplace. This action may help foreign companies to build a long term competitive standing in China and eventually to become successful in the market. A more detailed discussion of this emerged feature will be presented in the emerging issues section.

Other comments include one instance implying 'more Chinese investors are coming to Australia' (Field 14). This observation may attract further investigation by interested researchers. For example, a future study may be undertaken to investigate

the determinants of China's foreign investment to Australia. An elaboration to this matter will be documented in chapter six. In addition to gauging the importance of market presence the qualitative investigation also addressed market expansion in the investment context as delineated next.

Table 5.5

Captured Features of Responses to Question Four

Q4#	Strength relationship or partnership in long term	Market presence is important	Larger market/ growing area	Continually developing	Build trust/ mutual learning	Chinese demand the product	Export product /demand driven	Limited/ small scale	Provide quality services/ products	Global operation & China is a small part	Potential risk with expansion	Future investment /Emerging market	No direct business/ no influence	More Chinese investors come to Australia
Field#	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Sub														
1						1	1						2	
2	2			1				1	2					
3			1	1		2	2		1					
4		1	1	1		1	1							
5			1	1						3			1	
6		1	1	1							2	1		2
7	3	1	1		2	2		3	2			3		
8	1	8	2	2		1								
9	1		1							1		3		1
10	3	2	2	2	2				1		1			
11	7	2	2	2	6				1			1		1
12														
N	17	15	12	11	10	7	4	4	7	4	3	8	3	4
%	16	14	11	10	9	6	4	4	6	4	3	7	3	4

- Notes:
- a. Sub = subjects.
 - b. N = The total number of the comments for the field. There were 109 comments for the 14 fields.
 - c. % = The field comments as a percentage of the total comments. For field 1, $17 \div 109 \times 100 = 16$ per cent.

Q 5: How do you view the importance of market expansion for your product in your foreign investment decision?

Answers to question 5 as captured in Table 5.6 suggests that eight individual respondents have given comments on the importance of focused market expansion (field 1 and 5) as part of the investment decision. For instance, some respondents suggest that their companies are interested in further strengthening the relationship with current partners (field 4) in the long term. Indeed, one respondent comment supported this notion and indicated that:

“I think our expansion needs to be and it is very controlled. In volume, I don’t think we should, we should continue to build relationships and capability so that in many ways, we increase the depth.” .

Another notion embedded in Table 5.6 is that Chinese customers drive the demand for the products (field 2). Due to increasing demand, China is also seen as a potential market with opportunities for further expansion (field 6) by most of the respondents. This notion is further supported by the belief that China is a growing and developing nation (field 7) with a large population. The Chinese marketplace may continue to be a market for receiving foreign investment from different nations. The diversity of the investments within the Chinese marketplace may over time have shifted the market to a competitive one. It may be argued that the necessity for competing in the Chinese market is to provide quality services or products to satisfy Chinese consumers. Consequently, the essence of providing quality and standard services is perceived by respondents as a focus on developing a ‘win-win’ situation (field 3) between parties or partners.

Table 5.6

Captured Features of Responses to Question Five

Q5#	Market expansion/ with focus	Chinese demanding the product	Standard services /win-win	Strength relationship	Extremely important	Amazing opportunities/ promising market	Growing/ developing nation	Suit for the market	Small part of global operation	Create demand	Partnership	Important of Infracst
Field#	1	2	3	4	5	6	7	8	9	10	11	12
Sub												
1		3			3	2	1	1				
2	2			4							1	
3		1		1	2		1					
4	1	3		1	1							
5	1					1			1	4		
6	1	3				1					2	
7	5		4	1		4						3
8	1	7			1		4					
9		1			1	1			1		1	
10	5		6	3	1	2						
11	6		5	3	1	2						
12					1							
N	22	18	15	13	11	13	6	1	2	4	4	3
%	20	16	13	12	10	11	5	1	2	4	4	3

Notes: a. Sub = subjects.

b. N = The total number of the comments for the field. There were 112 comments for the 12 fields.

c. % = The field comments as a percentage of the total comments. For field 1, $22 \div 112 \times 100 = 20$ per cent.

A range of other comments given by respondents, are reported in Table 5.6. For instance, one respondent indicated that the company has to ‘supply push’ or create the demand in order to expand a presence of products to China (Field 10). In other words, the company has to look for potential buyers from mainland China. In contrast, six respondents indicated that the Chinese consumers are demanding the products or service they offered. This observation may attract a further evaluation.

5.5 Summation of the Respondent Comments

When addressing the interview questions, participants gave ‘direct’ and ‘latent’ responses. For the ‘direct’ responses, comments were given by respondents that directly addressed the questions. The ‘direct’ responses could be coalesced by summarising the fields to indicate how they are perceived to be linked. In addition, ‘latent’ responses or emerging/subliminal issues were also given by respondents. These responses were derived when respondents’ perception of others may be influenced by factors which they are not fully aware of (Vecchio, Hearn & Southey, 1992). Two major emerging issues were formed. The first emerging issue is that respondents indicated that the level of infrastructure in China may have a significant impact on investment decisions. The second emerging issue is that respondents commented on the importance of networking or partnership in relation to investment decisions. These coalesced dimensions and emerging issues provide a foundation for further evaluation, and these are presented next.

5.5.1 Direct Response

In reviewing the information presented in Table 5.2 to Table 5.6, inclusive, the respondent comments were coalesced into five major dimensions. These are 1) operational cost, 2) consideration of business ethics, 3) significant market opportunities, 4) the importance of market presence, and 5) focused market expansion. These five dimensions attracted a great number of comments, and hence, justify further examination. Table 5.7 reports the coalesced five dimensions in one column and indicates how the combined dimensions were obtained, and derived. The final column of Table 5.7 shows the total per cent of each dimension.

Table 5.7**Summarisation of the Respondent Comments**

Dimension	Description	Fields	Tables	Per cent
1	Operational cost	1, 2, 3, 4, 9, 10,12	5.2	81
2	Consideration of business ethics	1, 2, 4, 5, 6, 7, 9, 11,12	5.3	76
3	Significant market opportunities	1, 2, 4, 8, 9	5.4	65
4	The importance of market presence	2, 3, 4, 6, 7, 8, 12, 14	5.5	60
5	Focused market expansion	1, 2, 5, 6, 7, 8	5.6	63

The first dimension of *operational cost* is reflected in Fields, 1, 2, 3, 4, 9, 10 and 12 in Table 5.2. It is noted that these fields have attracted a total of 81 per cent of the comments. More specifically, operational cost, such as cheap labour cost may be seen as an important area for consideration in the investment decision aligned with an industrial focus. For example, cheap labour had no substantial impact on foreign investment in the Chinese marketplace, when companies are involved in exporting (Field 3), and no manufacturing (Field 2). In contrast, companies that are engaged in labour intensive industries, such as manufacturing tend to pay attention to China's relatively cheaper labour cost.

The second dimension, *consideration of business ethics* in Table 5.3 attracted 76 per cent of the comments. This dimension was determined by Fields 1, 2, 4, 5, 6, 7, 9, 11, and 12. Indeed, most respondents (Field 7) commented on the importance of considering business ethics in the investment decision (25%). Due to the limited understanding of business ethics in relation to cultural differences between Western and Asian societies, a concern of teaching and learning of business ethics has further confirmed the essential consideration of business ethics in undertaking investment in China.

The third dimension, *significant market opportunities* as captured in Table 5.4, attracted 65 per cent of the comments. Indeed, these comments were determined by Fields 1, 2, 4, 8, and 9. A large number of comments have been given to Fields 1 and 2, where respondents believed that China's large market may continuously offer promising market opportunities. These potential investment opportunities will be

increased either now or in the future as a result of the growing middle class economy in China.

The fourth dimension, *the importance of market presence*, was determined by Fields 2, 3, 4, 6, 7, 8, 12, and 14 in Table 5.5. In fact, a total of 60 per cent of the comments have been given by respondents within these fields. Market presence in China is important (Field 2) and this notion has attracted about 14 per cent of the comments. In addition, China is seen as a large and growing market with increasing consumer demands. Hence, a continuous development in the emerging market is essential as perceived by most respondents.

Evidence suggests that the *focused market expansion* in China is the fifth dimension. This dimension is represented by Fields 1, 2, 5, 6, 7, and 8 in Table 5.6, and a total of 63 per cent of the comments addresses this notion. Respondents believed that there is a wide scope of market expansion for their products in China. Despite China being a growing and developing nation and offering great market opportunities, the market expansion is focused. Most respondents claimed their organisations intend to strengthen or consolidate the current market with a purpose of satisfying the increasing demand of Chinese consumers.

Overall, it can be assumed that the qualitative findings have not only provided an overview of the key features of the five main questions, but also offered a platform for gaining a further comprehensive understanding of the quantitative findings.

5.5.2 Emerging Issues

Two emerging or latent features have been formulated from the qualitative findings. The first feature is that respondents have given a significant amount of attention to the impact of infrastructure on the decision to invest in China. The second feature is that the importance of the concept of relationship or the phenomenon of networking has been perceived as a long term strategy for investment decisions. These latent findings highlight that networking or relationship may be seen as an alternative approach for facilitating the engagement of foreign investors in the Chinese marketplace. The evolution of these two elements offers a wider scope for further

investigation. A more comprehensive understanding of the meaning of these two features will be explored in the following section.

5.5.2.1 The Importance of Infrastructure

The first emerging issue is that the level of infrastructure in China allegedly has an impact on a company's investment decision. For example, one prominent comment that was given by a respondent from the mining sector reveals the discernable relevance of infrastructure for foreign investment.

“...because we are a small company, we mostly explore, where there is already existing infrastructure, so existing pipe lines and those sorts of facilities, so that might limit our investment or limit us looking at China at this point possibly. Also, we are not big enough to fund our own pipe lines. So for us, we are thinking a partnership kind of thing, who might provide the facilities for us to further explore the market, and the plan we have at the moment is probably only for the next two to three years, and we are really trying to consolidate what we are doing in Australia and in America first, but then we would like to look further within Asia, so certainly China will be on that list, however, if we go to China and found the natural resources, but we can't get it out. Also, if it will take years for us to start making money on the investment, then, it will be a big decision for us to make in terms of investing in China. Hence, from our company's perspective, infrastructure is very important for our company's investment decision.”

In addition, respondent from the educational sector spontaneously commented about the relevancy of infrastructure in terms of investing in China.

“... you really can't go into an institution that has very basic facilities that you can find in various parts of China to deliver the same program if they don't have the physical resources. So, infrastructure is absolutely important..., and therefore we need

the same sorts of infrastructure (to Australia) in order to provide quality services and meet the standards.”.

Therefore, it is reasonable to assume that the level of infrastructure in China can be seen as an aspect that will be given significant consideration by an organisation when deciding to invest in China.

5.5.2.2 The Importance of Relationship

The second emerged feature is the importance of networking or relationships in the Chinese culture. According to Tsang (1998), *guanxi* or networking is nested in the Chinese culture, and *guanxi* can be treated as connections, which may be used as an important approach to facilitate business operation in China. Huang (2002) further stated that the phenomenon of *guanxi* is critical in running a business in the Chinese economy, as *guanxi* may help business people obtain scarce resources and circumvent the bureaucratic procedures. It may be argued that *guanxi* can be used by foreign investors as an effective management tool for conducting business in China. Indeed, the utilisation of *guanxi* has become increasingly pervasive, and also *guanxi* utilisation has been perceived to have certain implications for foreign investors to conduct business in China (Huang, 2002). Hence, with the increasing economic development, and China continuously attracting investors, networking or relationships play a significant role in assisting business operations in the Chinese marketplace, and subsequently impact on investment decisions in China. This notion was summarised by one respondent who succinctly stated.

“...we formed a very strong relationship with one vocational college in China that is because initially, it came through the relationships between the city in China and Joondalup...” .

Moreover, anecdotal evidence of the interviews suggests that some of the respondents tend to favour networking relationships as a potential strategy for establishing and operating business in China. For instance, one respondent indicated.

“...Trust, and shared values, with the other parties, through that you can help to develop relationships, because, it does become personal, you understand each others believes, aspirations, ...and

help each other learn about the culture and to me that is the most worthwhile approach and it is also there is somebody that can enhance the rewards from that kind of exchange in any kind of collaboration, whether it is two people working together, or two countries working together, it is built on a quality of good, and trusting relationship...If you are going to have a long term relationship that is going to produce the best outcomes, you have to go in depth and you have to commit to those focused relationships...”.

The significance of networking or relationships for those respondent organisations that are already operating in China emerged. Indeed, comments that organisations place a significant amount of attention on further developing or strengthening operational relationships surfaced. One example made reference to the phenomenon of relationship and networking.

“...so we are more into relationship, network, and we are more interested in continuing to develop good, long term relationships with Chinese partners and clients rather than risk those relationships by taking on more and doing more businesses, where we will be stretched to soon and not be able to provide the standard services that our current clients expect.”.

In a similar context, another respondent spoke about the profoundness of relationship in business engagement with Chinese mainland firms.

“...basically, we want to strengthen the relationship we have already had and provide the quality service and education. Without growing too much by risking the relationships that we have already built and risking the services to the students as well.”.

These comments demonstrate the significance of developing and growing networks or relationships to facilitate a company’s foreign operations in China. In particular,

from a long term perspective, networking or relationships may assist foreign companies to further expand business engagement within China.

Overall, findings indicate that the two emerging issues are essential aspects for foreign investment decisions in China. For example, the level of infrastructure is perceived as an important area for consideration in investment decision. To some extent, a sufficient level of infrastructure is likely to affect some organisations from undertaking investment in the Chinese marketplace. Similarly, networking or relationships play a critical role in the investment decisions. More specifically, the importance of networking or relationships in China may assist some companies to work collaboratively towards a trusting relationship. Interestingly, other emerging themes were also revealed through qualitative findings across the five main questions, these will be discussed next.

5.5.2.3 Common Themes Across Questions

A salient feature of the responses was the emergence of common themes. Despite the independence of the five questions they attracted similar responses, that arguably, were latent issues. For instance, questions one and two led to the generation of comments that attended to the importance of the feature of ‘exporting’ being a significant dimension when conducting business with companies in China. A summary of the integration of emergent issues across the five questions is given as Table 5.8.

Table 5.8

Summarisation of the Common Themes Across Questions

Questions	Common themes	Table	Field	Table	Field
1, 2	Exporting	5.2	4	5.3	4
1, 4	Provide quality of services	5.2	2	5.5	9
3, 4	Continuing potential	5.4	4	5.5	4
3, 5	Major opportunities	5.4	2	5.6	6
3, 5	Partnership	5.4	3	5.6	11
4, 5	Strength relationship	5.5	1	5.6	4
4, 5	Large market/growing area	5.5	3	5.6	7
4, 5	Chinese demand the product	5.5	6	5.6	2
4, 5	China is part of the global operation	5.5	10	5.6	9

Table 5.8 includes four major parts. The left side of the column indicates the question numbers. The central part of the table shows the common themes of the responses across several questions. The right side column of Table 5.8 documents the sources of these themes. For example, questions three and five revealed that respondents believe that the Chinese marketplace presents major market opportunities for WA companies to undertake foreign investment. These emerged common themes across questions further indicated the richness of the qualitative findings.

5.6 Summary

The chapter provides an overview of the qualitative findings, focuses on prominent responses and differentiates between findings on direct responses and latent responses. In addressing the qualitative findings, five salient features were captured. The first feature is that cheap labour cost may have an impact on the investment decision, particularly when companies are involved in manufacturing in China, but not in other industries. The second feature is that business ethics is an essential area for consideration when making investment decisions in China. The third feature is that most of the respondents took the position that market opportunities in China may continue to attract foreign investors and generate to conduct business in the future. The fourth feature is that these potential investment opportunities may drive investors to be present in the Chinese marketplace to satisfy increasing local demand. The fifth feature is that China is a growing nation and offers major market opportunities within which market expansion for some companies is focused.

Two latent features emerged from the qualitative findings. The first feature is that the level of infrastructure plays a significant role in the decision to invest in China. The second feature is networking or relationships, which is perceived to be an important area for consideration in terms of making investment decisions.

5.7 Conclusion

The increasing economic development in China has not only offered significant market opportunities for foreign investors but also risks; such as cultural differences between a home market and a host market. Market opportunities may be drawn from

China's large population. Being a large market with a need to develop, the Chinese marketplace has become a potential market for foreign investors with opportunities for investment. In contrast, a need to learn differences in business practice standards between Western and Asian societies may minimise potential risks of getting involved in unethical business practices. Hence, there is a need for investors to fully understand the benefits and risks of investing in China.

Overall, the findings of this study in relation to the first research objective can be summarised as four major points. This study investigated the interactions between the four independent variables (i.e., 1. market size, 2. labour cost, 3. infrastructure, and 4. business ethics) with the intensity of foreign investment. First, China's large market size provides investment opportunities, which attract investors to be present to explore the market. This observation supports the initial assumption that there is a positive relationship between market size and intensity of foreign investment. Second, the study results indicate that the effects of labour cost on investment decisions should be separated based on the investment types. For example, for services companies or exporting companies, the effects of labour cost have no significant impact on investment decision. In contrast, for manufacturing companies in China, seemingly cheap labour cost may be seen as an advantage for investment and competing in the global market. This finding did not fully support the primary research assumption that as cheap labour cost has a negative impact on investment decisions in China. Third, this research reveals that the level of infrastructure in China appears to be an essential element for WA investment companies. This supports the initial research question that the level of infrastructure plays a significant positive impact on foreign investment decisions in China. Four, investors perceived that business ethics is an essential area for consideration, when making investment decisions. Hence, the proposed research hypothesis, that business ethics is positively related to the intensity of foreign investment is supported.

The second research objective of the study is to evaluate how the four investigative relationships are mediated by personality attributes (e.g., gender), organisational properties (i.e., size), and networking. The study findings revealed that networking plays a significant mediating role in the investment decision. However, due to the

relatively small sample size, personality attributes and organisational properties were established to provide insufficient analytical rigor in the decision to invest in China by WA companies. These observations provide a foundation for further investigation, and hence, it may be considered as a future research area. A more elaborate discussion will be presented in chapter six, which presents a concluding remark of this study and indicates further research directions.

Chapter Six

CONCLUSION

6.1 Introduction

The purpose of this chapter, which is presented in three sections, is to conclude the thesis, and in particular indicate the implications of the study. In the first section, two salient features that can be drawn from this study, will be presented. In the second section, explanations of the study implications are presented. In the third section, future research directions that relate to the field of the determinants for foreign investment will be identified. The core of the final section is to summarise the dissertation. An important component of the first section is to consider the key features, as derived from this study.

6.2 Salient Features

Two prominent features were revealed from this study. The first salient feature is that the study reveals the intensity of Australian foreign investment in China, especially from WA is relatively low. Despite the low level of foreign investment, there is a wide scope for Australian companies to expand into the Chinese marketplace. For example, China's large market provides major opportunities for foreign investment, and these potential investment opportunities may be driven by the growing number of middle class consumers. According to Hodgson (2007), the increasing number of middle class consumers along with their significant purchasing power can be seen as an indicator of China's economic success. In turn, China is an extremely important marketplace for the international companies. Furthermore, a higher proportion of the population has acquired wealth through the economic development of China, and hence, the Chinese marketplace is on its way to become a required market for receiving investments from overseas. It may be argued that the growing demand in the Chinese market provides a wider scope for specifically WA firms as well as Australian companies in general to further increase the amount of investment in China. Over time, the intensity of foreign investment from Australia to China may be increased by means of shifting from exporting only to a more complex business involvement such as joint ventures. Hence, it is reasonable to assume that the trading relationship between Australia and China may be intensified when more trade or investment is conducted.

Another salient feature of the study findings is that China has been historically perceived as a developing nation with cheap labour resources. The low cost of labour may be seen as an advantage by foreign investors, and thus, China has attracted an enormous amount of investment in the last two decades. With increasing economic Chinese national developments, the orientation towards China's cheap labour over time has shifted. Given the fact that China has become a competitive marketplace, foreign investors are more interested in providing quality services or products to satisfy the demand in China rather than simply seeking cheaper labour cost. At the same time, the shift towards such change has encouraged Chinese consumers to seek higher quality of services or products. Indeed, the Chinese consumers are not simply accepting what producers believe will be accepted, but the general population is becoming more sophisticated in their preferential choices. The changing pattern of China as an emerging nation has moved away from a central bureaucratic market to a modern, competitive and socialistic marketplace. Hence, it may be argued that foreign investors need to fully understand the new changing business environment in order to effectively operate in the Chinese marketplace.

6.3 Implications

The implications for this study can be drawn from both theoretical and empirical perspectives. From a theoretical perspective, this study may offer insightful information to enrich the understanding of the determinants of Australian foreign investment in general, and in the Chinese marketplace in particular. In addition, by empirically investigating the perceptions of the decision makers of WA companies in relation to their investment decisions in China, the findings of this research may assist foreign companies to undertake better planning of their investment decisions. This study may provide a platform for future researchers to further examine the obtained findings. A more elaborate evaluation of the theoretical and the empirical implications of this study are presented in the following section, and the theoretical implications are discussed first.

6.3.1 Theoretical

From a theoretical perspective, this study may provide some potential implications to the existing body of knowledge in three ways. Firstly, this research intended to

determine how well parts of the models or theories such as Dunning's (1988) eclectic paradigm function in explaining the determinants of WA direct investment in China. For instance, this study investigated the likely relationships between four independent variables (i.e., market size, infrastructure, labour cost and business ethics) in China and the intensity of foreign investment. The research revealed that China's large market size plays a positive role in attracting investments from WA to China. Similarly, the adequate level of infrastructure and the level of familiarity of business ethics in China tend to somewhat encourage WA investors to conduct business in China. In contrast, China's cheap labour cost was not the primary driver that motivates WA companies to invest in China. This observation may attract future researchers to clarify this notion. These findings may specifically offer some insight to help business managers or owners to undertake better planning of their investment decisions.

Secondly, this research aimed to gain a more comprehensive understanding of the credibility of Western assumptions that have been reported in chapter two in explaining foreign investment in an Eastern Asian society. For instance, this study has tested these Western assumptions with a sample of respondents who are already operating in an Asian environment (i.e., in the Chinese marketplace) or are planning to invest in China. This study develops the scales for measuring four independent variables (i.e., market size, infrastructure, labour cost and business ethics) and the dependent variable (i.e., the intensity of foreign investment). The results obtained from psychometric properties have provided support for the validity and reliability of the instruments used. It may, therefore, be argued that the obtained results may provide opportunity for future researchers to employ these measures to further advance knowledge in the domain.

Thirdly, this study may offer additional insight to those companies that are operating or planning to invest in the Chinese marketplace. For example, this study may be particularly useful for international managers or owners, as it may provide some fruitful information to assist a better understanding of the issues that relate to business ethics with Chinese operations. Furthermore, given the fact that China is a growing and a developing nation and a dominant economic player within the East

Asian region, an exploration on the determinants of Australian foreign investment would complement and deepen owners' or managers' understanding of the Chinese market in particular. Moreover, a comprehensive understanding of the determinants of Australian foreign investment in China may provide some background information for Australian companies, that may advance their knowledge of the Chinese marketplace. Furthermore, with China's increasing economic power and development in East Asia, there is merit to be gained by having a more comprehensive appreciation of the determinants of Australia's investment in China. Hence, the present study has been undertaken to empirically examine the drivers that promote Australian companies especially from WA to conduct business in the Chinese marketplace. Such action may potentially minimise the existing knowledge gap of relatively limited studies conducted to examine Australian managers' or owners' perception in relation to their decisions to invest in China.

6.3.2 Empirical

This study has three empirical implications. First, this study has tested the relevance of a variety of instruments that have been developed in Western environments. By empirically testing the Western based scales of explaining foreign investment in a non Western country, like China, it was established that adaptations of the scales could be used in an Asian environment. For instance, the instrument for measuring the dependent variable (i.e., the intensity of foreign investment) did not form one single construct when tested in respondents that are operating or planning to invest in the Chinese marketplace. In fact, four sub scales emerged. This observation may provide a scope for future researchers to further test the validity and reliability of this scale in similar business contexts.

Secondly, this research has determined the extent to which Western management strategies and approaches are practiced in an Asian business environment. The study findings revealed cultural difference exist between Western and Asian societies, which may lead to differences in business standards and practice. It is reasonable to assume that companies that are planning to invest in China may need to gain an indepth and comprehensive understanding of the diverse range of management practices in order to effectively operate in the competitive Chinese marketplace. For

example, the phenomenon of *guanxi* in China has been considered as a major determinant for facilitating business engagement in the Chinese marketplace. It may, therefore, be argued that the phenomenon of *guanxi* in assisting business operations in China has become increasingly important, and international managers or owners may need to gain a deeper understanding of this phenomenon.

Thirdly, although a large amount of studies have been conducted to investigate the determinants of inwards investment in China fully exploring the determinants of Australian foreign investment in the Chinese marketplace is relatively restricted. In particular, what factors motivate or deter owners / managers of Australian companies from undertaking foreign investment in China. Moreover, in the Australian context, some researchers (Bryan, 1989; Edington, 1990; Sim & Teoh, 1994; Yang, et al., 2000) have paid a considerable amount of attention to the understanding of the determinants of inwards foreign investment to Australia. In understanding the determinants of foreign investment in China, the focus has been limited in countries such as the USA and Japan (Beamish, 1993; Pan, 1994). In addition, much of the research on the determinants of China's inward flows has been based on secondary data with a narrow focus on provincial or city level. Based on the existing knowledge gap, this study has been undertaken by using primary data.

To empirically investigate the determining factor for undertaking investment in China, this study employed both quantitative and qualitative approaches. The use of the quantitative method positivist approach is deemed as a suitable, partial approach, which assists in determining the statistical relationships between the investigated variables. Although collecting primary data appeared to be a challenge, the data were robust for statistical analysis. In addition, the data were from decision makers of the study companies, which further indicate the richness of the sample. Given the dynamic business environment in China, the use of a qualitative approach has potential for gaining a more comprehensive understanding of the results of quantitative analysis of data obtained from the administration of a questionnaire. Hence, a qualitative approach was used with the purpose of complementing the understanding of quantitative results. Due to the complexity and diversity of the global business environment, a qualitative approach provides rich information. In

addition, the sequence of first using a quantitative approach followed by a qualitative approach may allow researcher to comprehensively understand the collected data and to make a meaningful analysis. As a result, this study may potentially be useful for gaining a thorough understanding of determining factors of the inwards investment from Australia to China.

6.4 Future Research Directions

While the implications of this study have been acknowledged, there is a wide scope for future research. For example, given the complex and dynamic business environment in China, the investigative model in this study appears to be incomplete. A need to incorporate more aspects, such as networking (Guanxi) or relationships may widen the understanding of the determinants of Australian's foreign investment in China. For example, in a study conducted by Chatterjee, et al. (2006) it was observed Guanxi can be seen as an important aspect in successfully operating business in China. Furthermore, Ai (2006) demonstrates that the concept of Guanxi in China plays a significant role in business operations in China as it can be considered to be a key to conduct successful business. Due to the unique importance of guanxi in facilitating business engagement in China, a deeper understanding of the concept of guanxi or relationship in relation to the consideration of the Chinese culture has the potential to offer additional information to international managers or owner to advance their knowledge. In particular, Hutchings and Murray (2002) stated that the distinct cultural attributes may require international managers to consider such aspect in order to operate successful in the Chinese marketplace. Hence, the orientation towards a comprehensive model by incorporating the concept of guanxi (networking) or relationship may further enhance the understanding of Australian foreign investment in general, and in the Chinese marketplace in particular. This approach may offer fruitful ground for further exploration.

Although the concept of business ethics has gained importance in business operations in China, studies that promote this notion are relatively limited. In fact, there is a compelling need for researchers to continuously examine the concept of business ethics. Specially, there might be an opportunity for researchers to examine the concept of business ethics by incorporating the aspect of culture as has been

advanced by some researchers such as Hustead (2002) and Sanyal (2005), who claim issues that relate to business ethics, such as bribery to be associated with the aspect of culture. Furthermore, Rarick (2008) indicates that the development of the Chinese ethical orientation may be influenced by a long and historical Chinese culture. It may be argued that the concept of business ethics is derived from the historical Chinese culture. According to Robinson and Zhou (2006: p.11), “Business Ethics in China is deeply affected by Chinese traditional culture...”. Hence, a more comprehensive understanding of business ethics in relation to Chinese culture may further advance the knowledge of essential aspects of business ethics. More importantly, such exploration would offer insightful information for both researchers and investors to better understand the concept of business ethics in the Chinese marketplace, and bridging the knowledge gap between Asian and Western business environment.

A particularly interesting extension of this study is to consider the effects of demographic characteristics, such as personal and organisational attributes on the intensity of foreign investment. Although this study has examined the effects of demographics on Australian companies’ foreign investment decisions relative to business engagement in China, the study sample is relatively limited. In fact, the use of personal attributes such as gender may have an impact on the decisions to invest in China by Australian companies. Such examination may be fruitful for understanding how individual similarities and differences affect an organisation’s decision to invest in China. In addition, the importance of organisational attributes, such as organisational size may play a role in business engagement in the Chinese marketplace. Given the fact that organisational size may often be reflected by factors like financial capability, general management skills and international selling ability are more likely to affect foreign investment decisions. Hence, an assessment of organisational size in relation to business engagement decisions in China is likely to advance the understanding of determinants of Australian foreign investment in the Chinese marketplace. It may, therefore, be argued that a comprehensive understanding of the effects of demographic characteristics on investment decisions could potentially benefit the appreciation of the determinants of Australian foreign investment in general, and in the Chinese marketplace in particular.

Another worthwhile area for future researchers is to examine the determinants of China's foreign investment in Australia. In spite of Australian companies having shown increasing interest to China's large market, the intensity of foreign investment from WA appears to be limited. In contrast, a large number of Chinese investors are interested in investing in WA. It may be argued that WA has rich natural resources, such as coal and iron ore, which may attract Chinese investors to conduct business in WA. Being a fast economic growing nation, China has the need for resources to build or to develop the level of infrastructure. Furthermore, increasing demands for natural resources like coal by Chinese consumers are likely to increase the amount of foreign investment from China to Australia. Thus, these potential reasons may support the notion that the level of inward investments from WA to China is limited, which offers a potential area for further exploration by future researchers.

6.5 Conclusion

This study investigates the determinants of Australian foreign investment in China. Specifically, the first stream was to examine a set of constructs, namely 1) market size, 2) labour cost, 3) infrastructure, and 4) business ethics in relation to Australia's foreign investment in the Chinese marketplace. The second stream of the study focus was to assess how these relationships are mediated by personality attribute (i.e., gender), organisational attribute (i.e., size) as well as networking. An investigative model was developed after a comprehensive reviewing of the literature that related to the determinant of foreign investment in China. The investigative relationships were examined with connections and more powerfully by regression analysis. Three factors were revealed from the study findings; market size, infrastructure, and business ethics play somewhat of a dominant role in decisions to invest in the Chinese marketplace by Australian companies. However, the effect of labour cost has a non significant impact on Australian companies' investment decision in China. Overall, the effects of the demographic characteristics did not significantly affect WA companies' investment decisions.

This study employed a pluralist approach for testing the efficacy of the instruments and study hypotheses. Underpinning the quantitative dimension was a survey tool

that was developed as a questionnaire that was personally delivered to the study companies. The qualitative dimension of the study design complemented this data collection method. In practice, a two step process was employed. First, several statistical tools, such as factor analysis and regression, were performed to evaluate the data validity and assess the hypothesised relationships. Second, face to face interviews were conducted to complement the understanding of the quantitative results. There is growing evidence (Pearson & Chatterjee, 2004; Teagardner, et al., 1995) to demonstrate that culturally related investigations are enhanced by combining quantitative and qualitative design features. Metagora (2008: p.1) indicated that “Words in one language may simply not translate to another language; either the concept conveyed by the word requires a multi-word explanation in the second language, or the concept conveyed by the word does not have an equivalent concept available in the second language.”. It may be argued that the importance of qualitative process may be seen as supplementary to a quantitative approach. Given the fact that the global business environment is becoming more diverse and complex, combinations of both quantitative and qualitative methods could help the researcher make a more meaningful interpretation of the study results.

The implications of this study have been evaluated from both theoretical and empirical perspectives. Relatively limited studies have been conducted based on the primary data to examine the determinants of Australian foreign investment in China; the findings obtained from this study may offer additional knowledge to the understanding of the determining factors that inspire Australian companies to invest in China. Furthermore, psychometric properties provide evidence for researchers to apply the instruments in future studies. Indeed, the acceptable validities and reliabilities of the study scales (i.e., market size scale, labour cost scale, infrastructure scale, business ethics scale and the intensity of foreign investment scale) further support this notion. The findings from this study may be used as a foundation for both researchers and business managers or owners to advance the knowledge in the field. Overall, the present study may have implications on the understanding of the determinants of Australian foreign investment in China.

Despite the fact that this study provides some additional information to the understanding of the determining factors of investment decision in the Chinese marketplace by Western Australian companies, this study may have boundaries in terms of generalisability. The findings of this study focus on Western Australia only, the results are subjective to one state. Arguably, the determinants of Australian foreign investment as a whole, and across different industries might be different from the focus of one state. This provides an opportunity for researchers to further examine this angle. In addition, a more comprehensive model may possibly be developed and tested. Indeed, the phenomenon of guanxi in the Chinese context may possibly be incorporated in the model. Hence, there is evidence that this study might be extended by other researchers in the future.

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Appendix One

Cover Letter

Dear Participant

I am a Masters of Commerce, by research student at Curtin University of Technology. The purpose of the research is to explore the determinants of Australian investment in China. The study subjects are companies in Western Australia that either have capabilities or are already investing in mainland China. Your insights as owner or senior managers of such a company will help to gain a better understanding of the determinants of Australian companies' investment decisions.

The questionnaire consists of three sections and completion of the questionnaire may take 15 minutes. This project is approved by the Curtin University Human Research Ethics Committee. Participation in the survey is voluntary and you may withdraw at any time without prejudice. Participant anonymity will be upheld in this study.

This research is being conducted to meet the requirements of the Masters of Commerce by research degree under the supervision of Associate Professor Werner Soontiens.

Thank you for taking the time to participate.

Yi Liu

Any questions regarding the research can be addressed to:

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Appendix Two

Please answer EVERY item of the Questionnaire!

Section A

1. For how many **years** has your company been engaged in international business?
 1-5 6- 10 11 - 15 16 - 20 More than 20
2. How many employees are there in your organisation?
 Less than 49 50-150 151-250 251 -300 More than 300
3. What is your business sector?
 Education Manufacturing Mining Services Professionals
4. What is your current job title? Please write _____
5. How many **years** have you been in your current job position?
 Less than 2 2 – 5 6 - 10 11-15 More than 15
6. What is your gender?
 Male Female
7. Please indicate the main type of investments in which your company is engaged in China.
 Export Licensing Franchising Joint Venture
 Sales Subsidiary Production Subsidiary Full Scale Subsidiary

Section B

Using the scale as illustrated below, please score each of the **9** items to indicate the extent of your agreement that they impacted your organisation's decision to invest in China?

	Strongly disagree	Disagree	Slightly disagree	Neither disagree nor agree	Slightly agree	Agree	Strongly agree
	1	2	3	4	5	6	7
1. China sets the demands for my company's products.	1	2	3	4	5	6	7
2. China is likely to impact the industry in which my company is engaged.	1	2	3	4	5	6	7
3. The growth of my company will be impacted by Chinese trade.	1	2	3	4	5	6	7
4. Business activity in China is underpinned with a network of social connections.	1	2	3	4	5	6	7
5. Chinese consumer demand is a crucial driving force of my company's industry.	1	2	3	4	5	6	7
6. My company's products are impacted by Chinese:							
a) Transportation facilities	1	2	3	4	5	6	7
b) Communication services	1	2	3	4	5	6	7
c) Information technology	1	2	3	4	5	6	7
d) Financial institutions	1	2	3	4	5	6	7
e) Political stability	1	2	3	4	5	6	7
7. Business success in Chinese society is manifested through group interactions and reciprocity of favours.	1	2	3	4	5	6	7
8. The large size of the Chinese market will significantly increase demand for my company's products.	1	2	3	4	5	6	7
9. Networking facilitates successful Chinese business encounters with my company.	1	2	3	4	5	6	7

Section C

Using the scale as illustrated below, please indicate the importance of the **28** items in relation to your organisation's decision to investment in China.

	Extremely unimportant	Unimportant	Slightly unimportant	Neither unimportant nor important	Slightly important	Important	Extremely important				
	1	2	3	4	5	6	7				
1.					1	2	3	4	5	6	7
2.					1	2	3	4	5	6	7
3.					1	2	3	4	5	6	7
4.					1	2	3	4	5	6	7
5.					1	2	3	4	5	6	7
6.					1	2	3	4	5	6	7
7.					1	2	3	4	5	6	7
8.					1	2	3	4	5	6	7
9.					1	2	3	4	5	6	7
10.					1	2	3	4	5	6	7
11.					1	2	3	4	5	6	7
12.					1	2	3	4	5	6	7
13.					1	2	3	4	5	6	7
14.					1	2	3	4	5	6	7
15.					1	2	3	4	5	6	7
16.					1	2	3	4	5	6	7
17.					1	2	3	4	5	6	7
18.					1	2	3	4	5	6	7
19.					1	2	3	4	5	6	7
20.					1	2	3	4	5	6	7
21.					1	2	3	4	5	6	7
22.					1	2	3	4	5	6	7
23.					1	2	3	4	5	6	7
24.					1	2	3	4	5	6	7
25.					1	2	3	4	5	6	7
26.					1	2	3	4	5	6	7
27.					1	2	3	4	5	6	7
28.					1	2	3	4	5	6	7

Thank you very much for taking your time to complete this questionnaire.