# A Comparison of Inward and Outward Foreign Direct Investment Determinants in Turkey

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## Abstract

*This study compares the outward foreign direct investments (FDI) in Turkey with inward FDI taking into account factors such as the location selection for outward FDI, the stimulus determinant of outward FDI and strategic entrance options for both inward and outward FDI. Based on surveys and interviews with 107 firms and 169 facilities five factors affecting location selection for inward FDI were found, 1) to gain presence in new markets, 2) enabling faster market entry, 3) maintaining an adequate quality control, 4) enabling faster payback on investment, and 5) economies of scale. However, the factors of outward FDI are as follows 1) the advantages of a "first mover", 2) the growth rate of the Turkish economy, 3) the level of industrial competition, 4) market size, and 5) availability of low cost inputs. Differences are observed for acquisitions, greenfield operations, joint venture or wholly owned subsidiaries.*

**Keywords:** Inward FDI, Outward FDI, Ownership Pattern, Mode of Entry, Greenfield, Acquisitions and joint venture

### *1. INTRODUCTION*

Once a foreign investment decision is made firms have to select the country (ies) for investment and the entry strategy enacted through such ownership as a greenfield operation, acquisition, wholly owned subsidiaries (WOS) or joint ventures (JV) (Hennart and Park, 1993). Tatoglu and Glaister (1998a) stated in their analysis that the relative importance of the motives is found not to vary with ownership pattern, but rather vary to a moderate extent with the country of origin of the investment and the mode of entry (acquisition or greenfield), and to vary most with size of the investment and industry of the investment. Analysis of factors in location selection in the meta analysis by Chakrabarti (2001) reveals that market size and growth rate of an economy are the most important indicators in the two investment types.

Low labor cost is excluded from these factors because of low productivity and since the deregulation application following neo-liberalism is not a determinant of unionization. Market size, economic growth, and government policy (including repatriability of profits) have been found to be Turkey's most important assets when considering foreign direct investment (Coskun, 2001). Location selection in Turkey has become appealing for multinational firms because of its market potential, geographic proximity, and low labor cost. Turkey has a large diversity of markets due in part to its physical location between Asia and Europe. Based on a survey by the Istanbul Chamber of Commerce (ITO) cited by Taslica (1995), one of the most important factors influencing potential investors is the "Turkish Market." It was ranked most important by 33.6% of survey participants for their investment decisions. Moderately important factors are eliminating import restrictions, recognition and prestige, and using Turkey as an export base. The least important factors are taxation and financial incentives, local inputs, cheaper raw and intermediate materials, and lower wages (Coskun, 2001).

During the period of 1989 -2005 many Turkish firms made investments in the Turkic Republics where new market economies emerged following the dissolution of the Soviet Union. Although there have been some studies related specifically to FDI in some Turkic countries (Bitzenis, 2007), there have been few studies about the Turkish FDI's, analyzing why and how those companies chose outward countries for FDI, their competitors, and their performances in those countries. Anıl et al., (2007) focused on outward FDI investments of Turkish firms towards seven countries of the former USSR between 1989 and 2005. The reliable records of outward FDI cannot be obtained by the Turkish Treasury because of the existence of the shadow economy. Turkey has no investments in developed countries except opening bank branches that are called "finance investments". The direct capital investment of Turkey is negligible except for investments made in the former Soviet Union countries. These countries can be grouped into three categories: Turkic Republics in Central Asia, Balkan countries, the Russian Federation and neighboring countries. The three homogenous country groups are designated as follows: Turkmenistan, Uzbekistan, Kirghizstan and Kazakhstan for Turkic Republics in Central Asia, Bulgaria and Romania for Balkan countries and the Russian Federation itself and its neighboring countries.

The results of a study by Tatoğlu and Glaister (2000) based on a questionnaire conducted on 98 firms from 13 developed countries about FDI are similar to the findings of the research conducted by the Istanbul Trade Chamber in terms of effects of location selection on investment decisions (Erdilek, 1982, Coşkun, 2001). The results of the study by Tatoğlu and Glaister (2000) and the study by Marmara University Scientific Research Commission (Anıl et al., 2007) are similar. The reasons for the inwards FDI of firms in developed countries and the outwards FDI of Turkish firms to developing countries are common in both studies and they encompass the same period until 1998. Both studies are compared to each other and are analyzed in the present study taking into account location selection, type of investment, type of ownership, cultural familiarity and previous experience. Therefore this research focuses on the comparison of ownership patterns and strategic rationale of inward and outward foreign direct investment for Turkish companies engaged in Turkic expansion.

## *2. THEORETICAL FRAMEWORK*

Although there are many studies concerning "greenfield or acquisition decisions," that is how many shares of a firm will be shared with others for investment; there is no well-developed theory about the determinant factors of the above-mentioned selections (Barkema and Vermeulen, 1998). Important variables that are distinguished among acquisitions and greenfield investments are multinational experience of the parent firm (Kogut and Singh, 1988; Hennart and Park, 1993; Hennart and Reddy, 1997), the size of the parent firm (Caves and Mehra, 1986; Kogut and Singh, 1988), the relative size of the investment (Caves and Mehra, 1986; Hennart and Park, 1993; Padmanabhan and Cho, 1995), the cultural distance (Kogut and Singh, 1988), and research and development intensity of the parent firm (Kogut and Singh, 1988; Hennart and Park 1993; Padmanabhan and Cho, 1995). Some studies provide certain evidence for using institutional, cultural and transaction cost variables in predicting acquisition and greenfield start-ups in international growth. The results obtained by the above studies also suggest that organizations which have certain capabilities can use their capacity with greenfield start-ups easily. It is suggested that diversification can be easily realized with greenfield applications in high growth markets. Two recent efforts used transaction cost theory in explaining how firms make a selection between greenfield start-ups and acquisitions (Hennart and Park, 1993; Cho and Padmanabhan, 1995). However, Robins (1987) and Kogut and Sing (1988) suggest that the explanations for selections "…should be evaluated with factors stemming from the institutional and cultural contexts" (Kogut and Singh, 1988, pg. 412).

The researchers imply that institutional/cultural contexts and transaction costs should be examined simultaneously in order to understand the diversification selection (selection between greenfield start-ups or acquisitions) of firms. Studies on the detection of variables of preferences in investment decisions argue that the service sectors and production sectors can act differently because of the differences in risk dimensions and trust need in terms of the transition cost economy (Brouthers and Brouthers, 2003). While the peripheral uncertainties and risk dimensions of production investments affect the selection of firms, behavioral uncertainties, trust tendency and asset specificity affect the selections of the service providers because of the labor intensive nature of the service (Delios and Beamish, 1999; Erramilli and Rao, 1993; Anderson and Gatignon, 1988). Some studies argue that firms tend to interiorize the transactions while the specificity of assets is increasing and joint venture is preferred while the specificity of assets is decreasing (Delios and Beamish, 1999; Anderson and Gatignon, 1988). The majority of FDI inflows have been made up of mergers and acquisitions, mainly targeting service sectors and the real estate. Turkey needs to attract greenfield investments, especially in the manufacturing industries in order to achieve growth in the future (Yilmaz, 2009).

According to Tatoglu and Glaister (1998b), in the first quarter of 1995, International Joint Ventures (IJVS) accounted for about 53% of foreign equity ventures (FEV) in Turkey while Wholly Owned Subsidiaries (WOS) accounted for nearly 43%. Over half of the total 2,888 foreign equity venture formations recorded are created with firms from European countries, and around one quarter of the total number of FEVs are formed by firms from the Middle and Far East with less than 8% from the US (GDFI, 1995).

There are two different opinions about the effect of peripheral uncertainty and selection type. Williamson (1991) argues that joint venture is used less in high peripheral uncertainties because harmony between parties cannot be provided immediately. Some researchers, (Anderson and Gatignon, 1988; Kim and Hwang, 1992) argue that joint venture is beneficial for accelerating harmony because of its flexibility in conditions of high uncertainty. Defenders of transition costs, despite all these arguments, argue that the wholly owned subsidiary is preferable in order to achieve control over firms and to lower the transaction costs in conditions of high uncertainty (Chiles and Mcmackin, 1996). Some studies on the selections of production firms state that production firms prefer joint ventures when there are high uncertainties in the host country in order to reduce the financial burdens on them. The findings are compatible with the study by Anderson and Gatignon (1988) that examines the entry of American production firms to foreign markets and concludes that production firms prefer joint ventures in high risk markets.

Turkey also has distinctive cultural, historical, as well as economic ties with surrounding countries. Although they have many cultural ties with surrounding countries, their political structure is democratic, and is familiar for Western firms (Coskun, 2001). In general, firms entering markets with only a few cultural differences perceive the risk as low and therefore use greenfield entry, thus maximizing advantages particular to the firm. By contrast, firms entering markets with many cultural differences perceive the risk as high and prefer to use the acquisition method (Chatterjee, 1990; Lie, 1995; Hofstede, 1989; Yip, 1982).

## *3. RESEARCH METHODOLOGY*

### 3.1 Inward FDI

Ninety percent of the firms which were ranked by trade attachés affiliated to consulates and business associations were interviewed and a questionnaire was administered. The same questionnaire form used by Tatoğlu and Glaister (1998) was used for data collection. Thus, it was possible to compare attitudes measured with the same scale. In this study, data from 107 firms and 169 facilities that directly invested in four Turkic Republics, Bulgaria, Romania and Russia were collected through surveys and in-depth interviews. This method was used to discover the determinants of the investment and location decision making of these firms and the fundamental dynamics of the global emerging firms. In order to ensure an accurate comparison with developed countries' determinants, the factors affecting the decision making processes of the survey group were obtained using the same determinants used to identify the factors within developed countries. Most of the Turkish firms that went to the Turkic Republics for direct investment decided to find new markets and to use the competitive advantage of being the first to enter into the market. Those firms, which found cheap goods, labor and quality resources decided to invest in these markets only to find appropriate resources whilst totally ignoring the domestic market and some of them wanted to export those products.

### 3.2 Outward FDI

The questionnaire to identify the determinants of Turkish FDI's was given to 107 firms with wholly owned subsidiaries and 169 facilities in Bulgaria, Romania, Uzbekistan, Kazakhstan, Turkmenistan, Kyrgyzstan and Russia. The researchers personally went to the countries and asked the managers who made the investment decisions to fill out the survey forms. With the Foreign Economic Relations Board and the country's commerce consulates, a sample was formed which is calculated from the total census by analyzing the businesses with more than fifty employees. According to the list 20 companies did not wish to participate in the survey, resulting in an 84 % response rate. As it can be seen from the total investments amounts shown in Table 1 the majority of the companies consist of small-scale businesses. The average investment amount is 1,704 million dollars. Table 2 shows the industrial distribution of the sample. The 107 companies in the sample had operations in 129 different sectors. Some of the companies had more than one factory in the same sector, which provided 169 companies in the data set. In this study the survey used was developed by Tatoglu and Glaister (1998). Tatoglu and Glaister (2000) provide the details for the development, accuracy and confidence results of the survey form. In addition to demographic the survey form enabled comparison of results by developed and developing countries. In this research a survey form consisting of 16 sections as reflected in Table 3.

## *4. FINDINGS ABOUT INWARD FOREIGN DIRECT INVESTMENT*

### 4.1. Findings About Location Selection

There are thirteen variables which aim to measure location selection determinants of FDI into Turkey. The rank order of these variables on the basis of means which show the relative importance of each variable can be seen in Table 4. It is clear that the most important variable is "To gain presence in new markets", and the successive four are "Enabling faster market entry", "Maintaining an adequate quality control", "Enabling faster payback on the investment" and "Economies of scale: increased volume lower unit cost". The sample indicates that only the top three variables have a mean higher than the median value of three which shows these factors to be significantly important in determining FDI into Turkey. Factor analysis in Table 5 results in four factors of thirteen variables. The factors determined in order of most importance are "Transaction-specific costs", "Production efficiency", "Market development", and "Quality control and financial viability".

### 3.2. Findings About the Type of Investment

Table 6 shows differences of thirteen location selection determinants in terms of the type of investment. It is seen that convictions about "Enabling faster market entry", the "Cost of making and enforcing contracts", "exclusive or favored access to inputs" and "Market development" affect preferences in regard to greenfield or acquisition. That is, there is a significant difference between two groups at the 0.05 significance level. Accordingly, firms who perceive the "Cost of making and enforcing contracts" as high prefer the greenfield investment type while firms who perceive "Enabling faster market entry", "exclusive or favored access to inputs" and "Market development" as high prefer the acquisition investment type.

### 3.3. Findings About Type of Ownership Pattern

Table 7 shows differences of thirteen location selection determinants in terms of the ownership patterns. There are four significant differences in terms of the preferences about capital structure (type of ownership). They are the "Cost of making and enforcing contracts", "Enabling faster payback on the investment", "Maintaining an adequate quality control" and "Avoiding the risk of dissipation of knowledge". Firms who perceive these variables as high prefer WOS.

## *4. FINDINGS ABOUT OUTWARD FOREIGN DIRECT INVESTMENT*

### 4.1 Findings About Location Selection

There are nineteen variables which aim to measure location selection determinants of FDI from Turkey. The rank order of these variables on the basis of means which show the relative importance of each variable can be seen in Table 8. Statistically the most significant variable is "Being the first mover", and the successive four are "Level of industry competition ", "Growth rate of economy", "Market size" and "Low cost inputs". The last column in Table 8 shows t-statistics of comparing means around the value 3 which is the median measure. Only three variables do not have significant differences around median, "Government policy toward FDI", "Tax advantages", and "Geographical proximity". Factor analysis in Table 9 results in six factors of eighteen variables. The factors determined in order of most importance are "Investment risk", Government regulations", Market potential", "Cost advantages", "Location advantages" and "Labor supply".

### 4.2 Findings About the Type of Investment

Table 10 shows differences of nineteen location selection determinants in terms of the type of investment. It is seen that convictions about the growth rate of the Turkish economy, the degree of unionization and the proximity of the country geographically affect preferences in regard to greenfield or acquisition. That is, there is a significant difference between two groups at the 0.05 significance level. Accordingly, firms who perceive "Geographical proximity", "The growth rate of economy" and "Level of unionization" as high prefer the greenfield investment type.

### 4.3 Findings about Type of Ownership Pattern

Table 11 shows differences of nineteen location selection determinants in terms of the ownership patterns. There is just one significant difference in terms of the preferences about capital structure (type of ownership). It is "Level of industry competition" and firms who perceive it as high prefer WOS.

### 4.4 Findings About Cultural Familiarity

There is a significant difference between WOS and JV groups about "similarity level of local cultures" and "similarity level of ways of business" at the 0.05 significance level. Accordingly, firms that have high levels of perception about the similarity of local cultures and similarity of ways of business prefer JV ownership. There is no significant difference between "corporate culture" and "similarity of business ethics" in terms of ownership pattern. Table 12 and 13 show the significant differences. There is a significant difference between WOS and JV patterns in terms of newly formed variable which is derived by the means of cultural variables above. JV is preferable in high levels of cultural familiarity. Additionally, the relationship between cultural familiarity and mode of entry is analyzed but no significant difference can be determined.

### 4.5 Findings About Previous Experiences

In this survey, there are some companies who have previous business relations in the host country and some who do not have previous business relations. Associations between previous experience and both ownership pattern (Table 14) and mode of entry (Table 15) were analyzed by using cross tabulations but no symmetric or asymmetric significant relationships were determined. So it can be said that previous experience does not affect the ownership pattern and mode of entry (approximate significances are greater than 0.05). Table 16 shows the differences between companies with previous experience in the host country and those without previous experience in terms of location selection determinants. It is obvious that there are some significant differences between those with experience and those without. The variables: *Government policy toward FDI*, *Goods quality inputs*, *incentives*, *Level of unionization* and *International transport and communication cost* have significant differences in terms of previous experience. Companies who have no previous business relations in host country perceive these variables as major determinants about investment decisions.

## *5. CONCLUSIONS*

The following five determinants have the highest importance relative to location selection for inward Turkish FDI. These are *to gain presence in new markets*, *enabling faster market entry*, *maintaining an adequate quality control*, *enabling faster payback on investment*, and *economies of scale,* successively. Location selection determinants for inward Turkish FDI denote four major factors. Each factor has more than one determinant. These factors are *transaction-specific costs*, *production efficiency*, *market development*, and *quality control and financial viability*. The following five determinants have the highest importance relative to location selection for outward Turkish FDI. These are *advantage of being the first mover*, *level of industry competition*, *growth rate of economy*, *market size*, and *low cost inputs*, successively. Location selection determinants for outward Turkish FDI denote six major factors. Each factor has more than one determinant. These factors are *investment risk*, *government regulations and incentives*, *market potential*, *comparative cost advantages*, *strategic location advantages*, and *labor supply and infrastructure*.

The perception of inward Turkish FDI's relative to the importance of *making and enforcing contracts, exclusive or favored access to inputs, market development and enabling faster market entry* has significant differences in terms of mode of entry. Firms in greenfield mode attach higher importance to *making and enforcing contracts* than firms in acquisition mode. Firms in acquisition mode attach higher importance to *exclusive or favored access to inputs, market development and enabling faster market entry* than firms in greenfield mode. The perception of outward Turkish FDI's relative to the importance of *growth rate of economy*, *geographical proximity*, and *level of unionization* has significant differences in terms of mode of entry.

Firms in greenfield mode attach higher importance to these determinants than firms in acquisition mode. The perception of inward Turkish FDI relative to the importance of *avoiding the risk of dissipation of knowledge, the cost of making and enforcing contracts*, *enabling faster payback on investment,* and *maintaining adequate quality control* has significant differences in terms of ownership pattern. WOS's attach higher importance to these determinants than JV's. The perception of outward Turkish FDI relative to the importance of *level of industry competition* has significant differences in terms of ownership pattern. WOS's attach higher importance to level of industry competition than JV's. The perception of Turkish FDI relative to the importance of domestic cultural similarity has significant differences in terms of ownership pattern. JV's attach higher importance to domestic cultural similarity than WOS's. The perception of Turkish FDI relative to the importance of ways of business similarity has significant differences in terms of ownership pattern. JV's attach higher importance to ways of business similarity than WOS's. The perception of Turkish FDI relative to the importance of all aspects of cultural similarities has significant differences in terms of ownership pattern. JV's attach higher importance to all aspects of cultural similarities than WOS's.

There is no any association between ownership pattern and previous experience in the host country in terms of outward Turkish FDI. There is not any association between mode of entry and previous experience in the host country in terms of outward Turkish FDI. The perception of Turkish FDI relative to the importance of *government policy toward FDI*, *incentives*, *international transport and communications cost*, *goods quality inputs costs* and *level of unionization* has significant differences in terms of previous experience. Firms that have no previous experience attach higher importance to these determinants than firms that have previous experience. Although both inward and outward FDI focuses primarily on market development issues (Table 17), more emphasis is placed on cost savings with inward FDI (3 of 5 factors). This may be explained due to the fact that inward FDI implies some working knowledge of the market already whereas outward FDI is in fact focused more on market development. Similarly, outward FDI in a greenfield operation would likely focus on market opportunity factors identified through an external environmental factors. Statistically this research confirms traditional strategy orientations.

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**TABLE 1: Countries and companies used in the study**

| Countries | Number of Companies | Small size and Construction Companies | Number of Target Companies | Number of responding Companies | Number of non-responding Companies | Total Exported Capital (*) |
|---|---|---|---|---|---|---|
| Turkmenistan | 25 | 16 | 9 | 6 | 3 | 57551.386 |
| Russia | 128 | 105 | 23 | 22 | 1 | 188990.715 |
| Romania | 166 | 136 | 30 | 27 | 3 | 151281.240 |
| Uzbekistan | 79 | 60 | 19 | 17 | 2 | 37765.125 |
| Kyrgyzstan | 17 | 6 | 11 | 10 | 1 | 24148.093 |
| Kazakhstan | 100 | 85 | 15 | 11 | 4 | 444157.768 |
| Bulgaria | 56 | 36 | 20 | 14 | 6 | 69227.331 |
| Total | 571 | 444 | 127 | 107 | 20 | 973121658 |

Resource: (*) http.www.hazine.gov.tr (Undersecretariat of Treasury statistics (2005)

**TABLE 2: Distribution of the industry sectors used in the study**

| Industry | A | B | C | D | E | F | G | H | I | K | L | M | N | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Total | 3 | 6 | 25 | 16 | 14 | 3 | 22 | 1 | 9 | 7 | 6 | 2 | 15 | 129 |

A-Auto, transport B- Electronics and electrical machinery C-Food/Drink Manufacturing
D-Textile, apparel and leather E-Computer and software F-Metal iron and steel
G-Other manufacturing, H-Export-import trading, I-Tourism, K-Financial services,
L-Architecture, construction services M-Transport, N-Other services

**TABLE 3: Summary of the survey form**

| Section | Questions' coverage |
|---|---|
| 1 | Company's major activity and relations with the other sectors |
| 2 | Company's entry strategy |
| 3 | Factors that affect the entry strategy |
| 4 | Motivation factors |
| 5 | Company's perceptions of its strengths |
| 6 | Performance expectations related to various criteria and their satisfaction level |
| 7 | Overall performance of investments |
| 8 | The performance of the company's investments compared to home country operations |
| 9 | Performance compared to the competitors in the country of investment |
| 10 | Managerial control over the investment |
| 11 | Management problems areas and their frequency |
| 12 | Similarity of cultures between the host country and company |
| 13 | Percentage of the products purchased from the main company |
| 14 | Percentage of the products purchased from the investment company |
| 15 | The existence of the relationship with the host country before the investment and the form of existing relationship |
| 16 | The factors and how much they are considered during the investment period |

**Table 4: Relative importance of motives for FEV formation in Turkey**

| Motivation | N* | Mean** | Std. Deviation |
|---|---|---|---|
| To gain presence in new markets | 98 | 4.09 | 1.16 |
| Enabling faster market entry | 98 | 4.00 | 1.13 |
| Maintaining an adequate quality control | 98 | 3.30 | 1.23 |
| Enabling faster payback on the investment | 98 | 3.01 | 1.07 |
| Economies of scale: increased volume lowers unit cost | 98 | 2.76 | 1.25 |
| Better resource and capacity usage | 98 | 2.66 | 1.21 |
| Potential difficulties and problems with agents or licensees | 98 | 2.56 | 1.26 |
| Avoiding the risk of dissipation of knowledge | 98 | 2.53 | 1.12 |
| Exclusive or favored access to inputs | 98 | 2.49 | 1.21 |
| To conform to Turkish Government policy | 98 | 2.48 | 1.28 |
| Cost of making and enforcing contracts | 98 | 2.42 | 1.27 |
| Lack of patent and license protection laws | 98 | 2.11 | 1.06 |
| Non-transferability of technology by licensing and patents | 98 | 2.06 | 0.97 |

* valid numbers of data
** the average on a scale of 1 (no importance) to 5 (major importance)
Source: Tatoglu & Glaister (1998b)

**Table 5: Factors of motivation**

| | Factor loads | Eigen-values | % Variance explained | Cumulative per cent |
|---|---|---|---|---|
| **Factor 1 (Transaction-specific costs)** | | 4.72 | 36.3 | 36.3 |
| Non-transferability of technology by licensing and patents | 0.83 | | | |
| Lack of patent and license protection laws | 0.77 | | | |
| Potential difficulties and problems with agents or licensees | 0.70 | | | |
| Avoiding the risk of dissipation of knowledge | 0.66 | | | |
| Cost of making and enforcing contracts | 0.64 | | | |
| To conform to Turkish Government policy | 0.49 | | | |
| **Factor 2 (Production efficiency)** | | 1.96 | 15.1 | 51.3 |
| Economies of scale: increased volume lowers unit cost | 0.89 | | | |
| Better resource and capacity usage | 0.86 | | | |
| Exclusive or favored access to inputs | 0.77 | | | |
| **Factor 3 (Market development)** | | 1.33 | 10.2 | 61.6 |
| To gain presence in new markets | 0.9 | | | |
| Enabling faster market entry | 0.88 | | | |
| **Factor 4 (Quality control and financial viability)** | | 1.01 | 7.7 | 69.3 |
| Maintaining an adequate quality control | 0.71 | | | |
| Enabling faster payback on the investment | 0.61 | | | |

* K-M-O Measure of Sampling Adequacy is 0.7588

** Bartlett Test of Sphericity is 571.282 ($p<0.0000$)

**Table 6: Motivation for FEV formation in Turkey: Mode of entry**

| Motivation | Group | N | Mean | Std. Deviation | T Value |
|---|---|---|---|---|---|
| Transaction-specific costs | greenfield | 76 | -0.02 | 1.03 | |
| | Acquisition | 22 | 0.08 | 0.90 | -0.44 |
| Non-transferability of technology by licensing and patents | greenfield | 76 | 2.01 | 0.96 | |
| | Acquisition | 22 | 2.23 | 0.97 | -0.91 |
| Lack of patent and license protection laws | greenfield | 76 | 2.05 | 1.09 | |
| | Acquisition | 22 | 2.32 | 0.95 | -1.03 |
| Potential difficulties and problems with agents or licensees | greenfield | 76 | 2.59 | 1.30 | |
| | Acquisition | 22 | 2.45 | 1.14 | 0.43 |
| Avoiding the risk of dissipation of knowledge | greenfield | 76 | 2.45 | 1.15 | |
| | Acquisition | 22 | 2.77 | 0.97 | -1.30 |
| Cost of making and enforcing contracts | greenfield | 76 | 2.56 | 1.32 | |
| | Acquisition | 22 | 2.17 | 1.08 | 1.80 |
| To conform to Turkish Government policy | greenfield | 76 | 2.47 | 1.36 | |
| | Acquisition | 22 | 2.54 | 1.01 | -0.30 |
| Production efficiency | greenfield | 76 | -0.03 | 0.97 | |
| | Acquisition | 22 | 0.11 | 1.10 | -0.57 |
| Economies of scale: increased volume lowers unit cost | greenfield | 76 | 2.72 | 1.24 | |
| | Acquisition | 22 | 2.91 | 1.31 | -0.62 |
| Better resource and capacity usage | greenfield | 76 | 2.62 | 1.19 | |
| | Acquisition | 22 | 2.77 | 1.27 | -0.50 |
| Exclusive or favored access to inputs | greenfield | 76 | 2.42 | 1.20 | |
| | Acquisition | 22 | 2.83 | 1.24 | -1.77 |
| Market development | greenfield | 76 | -0.06 | 1.08 | |
| | Acquisition | 22 | 0.16 | 0.67 | -1.71 |
| To gain presence in new markets | greenfield | 76 | 4.12 | 1.22 | |
| | Acquisition | 22 | 4.00 | 0.98 | 0.42 |
| Enabling faster market entry | greenfield | 76 | 3.89 | 1.16 | |
| | Acquisition | 22 | 4.28 | 0.97 | -1.81 |
| Quality control and financial viability | greenfield | 76 | 0.03 | 1.04 | |
| | Acquisition | 22 | -0.12 | 0.86 | 0.62 |
| Maintaining an adequate quality control | greenfield | 76 | 3.33 | 1.30 | |
| | Acquisition | 22 | 3.18 | 0.96 | 0.60 |
| Enabling faster payback on the investment | greenfield | 76 | 3.05 | 1.05 | |
| | Acquisition | 22 | 2.86 | 1.12 | 0.73 |

Source: Tatoglu & Glaister (1998b)

**Table 7: Motivation for FEV formation in Turkey: Ownership pattern**

| Motivation | Group | N | Mean | Std. Deviation | T Value |
|---|---|---|---|---|---|
| Transaction-specific costs | WOS | 59 | 0.06 | 1.01 | |
| | JV | 39 | -0.08 | 1.00 | 0.66 |
| Non-transferability of technology by licensing and patents | WOS | 59 | 2.12 | 0.97 | |
| | JV | 39 | 1.97 | 0.96 | 0.73 |
| Lack of patent and license protection laws | WOS | 59 | 2.07 | 1.07 | |
| | JV | 39 | 2.18 | 1.05 | -0.50 |
| Potential difficulties and problems with agents or licensees | WOS | 59 | 2.67 | 1.39 | |
| | JV | 39 | 2.38 | 1.02 | 1.18 |
| Avoiding the risk of dissipation of knowledge | WOS | 59 | 2.63 | 1.15 | |
| | JV | 39 | 2.28 | 1.06 | 1.74 |
| Cost of making and enforcing contracts | WOS | 59 | 2.62 | 1.31 | |
| | JV | 39 | 2.13 | 1.15 | 1.98 |
| To conform to Turkish Government policy | WOS | 59 | 2.43 | 1.23 | |
| | JV | 39 | 2.56 | 1.37 | -0.50 |
| Production efficiency | WOS | 59 | 0.01 | 1.05 | |
| | JV | 39 | -0.01 | 0.94 | 0.04 |
| Economies of scale: increased volume lowers unit cost | WOS | 59 | 2.72 | 1.25 | |
| | JV | 39 | 2.82 | 1.25 | -0.37 |
| Better resource and capacity usage | WOS | 59 | 2.69 | 1.23 | |
| | JV | 39 | 2.61 | 1.18 | 0.30 |
| Exclusive or favored access to inputs | WOS | 59 | 2.55 | 1.26 | |
| | JV | 39 | 2.41 | 1.14 | 0.56 |
| Market development | WOS | 59 | 0.06 | 1.08 | |
| | JV | 39 | -0.09 | 0.88 | 0.75 |
| To gain presence in new markets | WOS | 59 | 4.14 | 1.19 | |
| | JV | 39 | 4.03 | 1.13 | 0.46 |
| Enabling faster market entry | WOS | 59 | 4.10 | 1.09 | |
| | JV | 39 | 3.84 | 1.18 | 1.10 |
| Quality control and financial viability | WOS | 59 | 0.12 | 0.94 | |
| | JV | 39 | -0.18 | 1.06 | 1.47 |
| Maintaining an adequate quality control | WOS | 59 | 3.48 | 1.27 | |
| | JV | 39 | 3.09 | 1.16 | 1.76 |
| Enabling faster payback on the investment | WOS | 59 | 3.17 | 1.08 | |
| | JV | 39 | 2.77 | 1.01 | 1.85 |

Source: Tatoglu & Glaister (1998b, 1998c))

**Table 8: Relative Importance of Location Selection Determinants for Turkish Outward FDI**

| | N* | Mean** | Std. Deviation | T value |
|---|---|---|---|---|
| Advantage of being the first mover | 107 | 4.743 | 0.6881 | 26.204*** |
| Level of industry competition | 106 | 3.717 | 1.4720 | 5.015*** |
| Growth rate of economy | 107 | 3.715 | 1.3824 | 5.350*** |
| Market size | 107 | 3.463 | 1.5642 | 3.059*** |
| Low cost inputs | 105 | 3.438 | 1.3880 | 3.234*** |
| Access to neighboring markets | 107 | 3.374 | 1.7295 | 2.236*** |
| Purchasing power of customers | 107 | 3.318 | 1.4446 | 2.275*** |
| Repatriability of profits | 107 | 3.313 | 1.3503 | 2.398*** |
| Government policy toward FDI | 107 | 3.000 | 1.6325 | 0.000 |
| Tax advantages | 106 | 2.986 | 1.6683 | -0.087 |
| Geographical proximity | 107 | 2.692 | 1.7879 | -1.784 |
| Int. transport and communication cost | 107 | 2.687 | 1.5729 | -2.059*** |
| Economic stability | 107 | 2.673 | 1.5693 | -2.156*** |
| Level of infrastructure | 107 | 2.654 | 1.4082 | -2.540*** |
| Qualified local personnel | 106 | 2.415 | 1.3336 | -4.516*** |
| Goods quality inputs | 106 | 2.396 | 1.6017 | -3.881*** |
| Political stability | 107 | 2.336 | 1.6523 | -4.154*** |
| Incentives | 107 | 2.075 | 1.6409 | -5.833*** |
| Level of unionization | 106 | 1.358 | 0.8640 | -19.561*** |
| Valid N (listwise) | 104 | | | |

* valid numbers of data.

** the average on a scale of 1 (no importance) to 5 (major importance)

*** significant difference occurs at median value 3

**Table 9: Factors of Location Selection of Turkish Outward FDI**

| | Factor Loads | Eigen-values | % Variance Explained | Cumulative Per Cent | Cronbach Alpha |
|---|---|---|---|---|---|
| **Factor 1 (Investment Risk)** | | 4.11 | 13.81 | 13.81 | 0.88 |
| Economic stability | 0.841 | | | | |
| Political stability | 0.839 | | | | |
| **Factor 2 (Government Regulations)** | | 2.25 | 11.48 | 25.29 | 0.69 |
| Tax advantages | 0.719 | | | | |
| Incentives | 0.718 | | | | |
| Government policy toward FDI | 0.622 | | | | |
| **Factor 3 (Market Potential)** | | 1.96 | 11.14 | 36.43 | 0.67 |
| Purchasing power of customers | 0.835 | | | | |
| Market size | 0.801 | | | | |
| Growth rate of economy | 0.521 | | | | |
| Level of unionization | 0.510 | | | | |
| **Factor 4 (Cost Advantages)** | | 1.38 | 11.10 | 47.54 | 0.66 |
| Low cost inputs | 0.816 | | | | |
| Goods quality inputs | 0.603 | | | | |
| Access to neighboring markets | 0.469 | | | | |
| **Factor 5 (Location Advantages)** | | 1.30 | 10.66 | 58.20 | 0.50 |
| Int. transport and communication cost | 0.792 | | | | |
| Geographical proximity | 0.708 | | | | |
| Repatriability of profits | 0.496 | | | | |
| **Factor 6 (Labor Supply)** | | 1.00 | 8.42 | 66.62 | 0.53 |
| Qualified local personnel | 0.786 | | | | |
| Level of industry competition | 0.770 | | | | |
| Level of infrastructure | 0.487 | | | | |

* K-M-O Measure of Sampling Adequacy is 0.6620

** Bartlett Test of Sphericity is 610.445 ($p<0.05$)

**Table 10: Relative Importance of Variables by Mode of Entry**

| | | N | Mean | Std. Deviation | T Value |
|---|---|---|---|---|---|
| Market size | ACQUISITION | 40 | 3.475 | 1.5850 | 0.063 |
| | GREENFIELD | 67 | 3.455 | 1.5636 | |
| Growth rate of economy | ACQUISITION | 40 | 3.350 | 1.4597 | -2.146* |
| | GREENFIELD | 67 | 3.933 | 1.2965 | |
| Political stability | ACQUISITION | 40 | 2.338 | 1.6148 | 0.005 |
| | GREENFIELD | 67 | 2.336 | 1.6864 | |
| Economic stability | ACQUISITION | 40 | 2.775 | 1.6406 | 0.518 |
| | GREENFIELD | 67 | 2.612 | 1.5345 | |
| Level of infrastructure | ACQUISITION | 40 | 2.563 | 1.3549 | -0.519 |
| | GREENFIELD | 67 | 2.709 | 1.4464 | |
| Qualified local personnel | ACQUISITION | 40 | 2.500 | 1.4322 | 0.508 |
| | GREENFIELD | 66 | 2.364 | 1.2787 | |
| Government policy toward FDI | ACQUISITION | 40 | 3.063 | 1.4771 | 0.317 |
| | GREENFIELD | 67 | 2.963 | 1.7284 | |
| Incentives | ACQUISITION | 40 | 2.000 | 1.6172 | -0.363 |
| | GREENFIELD | 67 | 2.119 | 1.6654 | |
| Int. transport and communication cost | ACQUISITION | 40 | 2.338 | 1.4384 | -1.794 |
| | GREENFIELD | 67 | 2.896 | 1.6226 | |
| Repatriability of profits | ACQUISITION | 40 | 3.375 | 1.2545 | 0.365 |
| | GREENFIELD | 67 | 3.276 | 1.4123 | |
| Goods quality inputs | ACQUISITION | 40 | 2.600 | 1.5981 | 1.020 |
| | GREENFIELD | 66 | 2.273 | 1.6033 | |
| Low cost inputs | ACQUISITION | 40 | 3.563 | 1.2669 | 0.719 |
| | GREENFIELD | 65 | 3.362 | 1.4618 | |
| Tax advantages | ACQUISITION | 40 | 2.613 | 1.5379 | -1.813 |
| | GREENFIELD | 66 | 3.212 | 1.7143 | |
| Geographical proximity | ACQUISITION | 40 | 2.200 | 1.6825 | -2.239* |
| | GREENFIELD | 67 | 2.985 | 1.7964 | |
| Level of unionization | ACQUISITION | 40 | 1.175 | 0.3848 | -2.078* |
| | GREENFIELD | 66 | 1.470 | 1.0410 | |
| Purchasing power of customers | ACQUISITION | 40 | 3.150 | 1.4772 | -0.928 |
| | GREENFIELD | 67 | 3.418 | 1.4265 | |
| Level of industry competition | ACQUISITION | 40 | 3.900 | 1.4106 | 0.997 |
| | GREENFIELD | 66 | 3.606 | 1.5077 | |
| Access to neighboring markets | ACQUISITION | 40 | 3.550 | 1.6633 | 0.813 |
| | GREENFIELD | 67 | 3.269 | 1.7717 | |
| Advantage of being the first mover | ACQUISITION | 40 | 4.750 | 0.7763 | 0.081 |
| | GREENFIELD | 67 | 4.739 | 0.6358 | |

**Table 11: Relative Importance of Variables by Ownership Pattern**

| | | N | Mean | Std. Deviation | T value |
|---|---|---|---|---|---|
| Market size | JV | 31 | 3.548 | 1.6500 | 0.361 |
| | WOS | 76 | 3.428 | 1.5378 | |
| Growth rate of economy | JV | 31 | 3.774 | 1.4308 | 0.282 |
| | WOS | 76 | 3.691 | 1.3711 | |
| Political stability | JV | 31 | 2.548 | 1.6450 | 0.846 |
| | WOS | 76 | 2.250 | 1.6583 | |
| Economic stability | JV | 31 | 2.677 | 1.6409 | 0.019 |
| | WOS | 76 | 2.671 | 1.5504 | |
| Level of infrastructure | JV | 31 | 2.661 | 1.3378 | 0.033 |
| | WOS | 76 | 2.651 | 1.4446 | |
| Qualified local personnel | JV | 30 | 2.583 | 1.3004 | 0.815 |
| | WOS | 76 | 2.349 | 1.3491 | |
| Government policy toward FDI | JV | 31 | 2.839 | 1.8138 | -0.651 |
| | WOS | 76 | 3.066 | 1.5606 | |
| Incentives | JV | 31 | 2.290 | 1.7358 | 0.867 |
| | WOS | 76 | 1.987 | 1.6041 | |
| Int. transport and communication cost | JV | 31 | 2.548 | 1.7096 | -0.580 |
| | WOS | 76 | 2.743 | 1.5220 | |
| Repatriability of profits | JV | 31 | 3.468 | 1.4659 | 0.755 |
| | WOS | 76 | 3.250 | 1.3051 | |
| Goods quality Inputs | JV | 30 | 2.367 | 1.6914 | -0.119 |
| | WOS | 76 | 2.408 | 1.5763 | |
| Low cost inputs | JV | 30 | 3.650 | 1.3592 | 0.989 |
| | WOS | 75 | 3.353 | 1.3993 | |
| Tax advantages | JV | 30 | 2.933 | 1.7798 | -0.203 |
| | WOS | 76 | 3.007 | 1.6340 | |
| Geographical proximity | JV | 31 | 2.645 | 1.8357 | -0.171 |
| | WOS | 76 | 2.711 | 1.7800 | |
| Level of unionization | JV | 30 | 1.200 | 0.4842 | -1.556 |
| | WOS | 76 | 1.421 | 0.9697 | |
| Purchasing power of customers | JV | 31 | 3.226 | 1.6874 | -0.381 |
| | WOS | 76 | 3.355 | 1.3437 | |
| Level of industry competition | JV | 31 | 3.161 | 1.7530 | -2.257* |
| | WOS | 75 | 3.947 | 1.2829 | |
| Access to neighboring markets | JV | 31 | 3.484 | 1.7102 | 0.419 |
| | WOS | 76 | 3.329 | 1.7465 | |
| Advantage of being the first mover | JV | 31 | 4.742 | 0.5755 | -0.010 |
| | WOS | 76 | 4.743 | 0.7325 | |

**Table 12: Cultural Familiarity by Ownership Pattern**

| | | N | Mean | Std. Deviation | T value |
|---|---|---|---|---|---|
| Local culture | JV | 31 | 3.129 | 1.0565 | 2.580* |
| | WOS | 75 | 2.560 | 1.0232 | |
| Corporate culture | JV | 23 | 2.826 | 1.3022 | 0.760 |
| | WOS | 61 | 2.607 | 1.1333 | |
| Business ethics | JV | 31 | 2.355 | 1.2530 | 1.750 |
| | WOS | 75 | 1.927 | 0.8330 | |
| Ways of business | JV | 31 | 2.210 | 1.3024 | 2.379* |
| | WOS | 75 | 1.627 | 0.6319 | |

**Table 13: Cultural Familiarity by Ownership Pattern at Grouped Level**

| | | N | Mean | Std. Deviation | T value |
|---|---|---|---|---|---|
| Cultural similarity | JV | 23 | 2.7011 | 1.14362 | 2.201* |
| | WOS | 61 | 2.1578 | 0.49681 | |

**Table 14: Crosstabulation of Ownership Pattern and Previous Experience**

| | | Previous Experience | | |
|---|---|---|---|---|
| | | NO | YES | Total |
| Ownership | JV | 14 | 17 | 31 |
| | WOS | 42 | 34 | 76 |
| Total | | 56 | 51 | 107 |

**Table 15: Crosstabulation of Mode of Entry and Previous Experience**

| | | Previous Experience | | |
|---|---|---|---|---|
| | | NO | YES | Total |
| Entry mode | ACQUISITION | 16 | 24 | 40 |
| | GREENFIELD | 40 | 27 | 67 |
| Total | | 56 | 51 | 107 |

**Table 16. Location Selection Determinants by Previous Experiences**

| | | N | Mean | Std. Deviation | T value |
|---|---|---|---|---|---|
| Market size | NO | 35 | 3.686 | 1.5675 | -0.358 |
| | YES | 51 | 3.520 | 1.5328 | |
| Growth rate of economy | NO | 35 | 4.229 | 1.0870 | 1.835 |
| | YES | 51 | 3.461 | 1.4520 | |
| Political stability | NO | 35 | 2.657 | 1.7813 | 1.203 |
| | YES | 51 | 2.137 | 1.4835 | |
| Economic stability | NO | 35 | 2.900 | 1.5520 | 0.716 |
| | YES | 51 | 2.559 | 1.5958 | |
| Level of infrastructure | NO | 35 | 2.671 | 1.5289 | 0.598 |
| | YES | 51 | 2.569 | 1.3785 | |
| Qualified local personnel | NO | 35 | 2.629 | 1.3080 | 0.170 |
| | YES | 51 | 2.392 | 1.4259 | |
| Government policy toward FDI | NO | 35 | 3.600 | 1.4990 | 3.772* |
| | YES | 51 | 2.412 | 1.5547 | |
| Incentives | NO | 35 | 2.429 | 1.7870 | 2.822* |
| | YES | 51 | 1.627 | 1.2643 | |
| Int. transport and communication cost | NO | 35 | 2.714 | 1.6192 | 2.001* |
| | YES | 51 | 2.373 | 1.5094 | |
| Repatriability of profits | NO | 35 | 2.900 | 1.1869 | -0.076 |
| | YES | 51 | 3.324 | 1.3410 | |
| Goods quality inputs | NO | 35 | 2.914 | 1.7884 | 3.226* |
| | YES | 51 | 1.902 | 1.2846 | |
| Low cost inputs | NO | 35 | 3.686 | 1.4506 | 0.552 |
| | YES | 50 | 3.360 | 1.2779 | |
| Tax advantages | NO | 35 | 3.171 | 1.6888 | 0.964 |
| | YES | 51 | 2.824 | 1.6698 | |
| Geographical proximity | NO | 35 | 2.571 | 1.7704 | 1.892 |
| | YES | 51 | 2.353 | 1.7980 | |
| Level of unionization | NO | 35 | 1.657 | 1.2589 | 2.432* |
| | YES | 51 | 1.157 | 0.4182 | |
| Purchasing power of customers | NO | 35 | 3.771 | 1.1903 | 1.636 |
| | YES | 51 | 3.078 | 1.5472 | |
| Level of industry competition | NO | 34 | 4.088 | 1.1110 | -0.584 |
| | YES | 51 | 3.804 | 1.5623 | |
| Access to neighboring markets | NO | 35 | 3.629 | 1.6285 | 1.934 |
| | YES | 51 | 3.039 | 1.7659 | |
| Advantage of being the first mover | NO | 35 | 4.900 | 0.2921 | -0.030 |
| | YES | 51 | 4.745 | 0.6883 | |

**Table 17: Comparison Based On Location Criteria for Inward and Outward FDI**

| **Inward FDI** | **Outward FDI** |
|---|---|
| 1. New Markets | 1.Advantage of being first mover |
| 2. Faster Market Entry | 2.Level of industry competition |
| 3. Adequate quality control | 3.Growth rate of economy |
| 4. Faster payback period | 4.Market size |
| 5. Increased scale economies | 5.Low cost inputs |

**Table 18: Rationale for Greenfield versus Acquisition Strategy (Priorities)**

| **Inward FDI** | **Outward FDI** |
|---|---|
| **Greenfield:** | **Greenfield:** |
| 1. Making and enforcing contracts | 1. Growth rate of economy |
| | 2. Geographical proximity |
| | 3. Level of unionization |
| **Acquisition:** | **Acquisition:** |
| 1. Exclusive or favored access to inputs | None |
| 2. Marketing development | |
| 3. Enabling faster market entry | |