



Strategic motives of Turkish foreign direct investment firms: An empirical study on manufacturing sector*

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Abstract

This paper aims to determine and assess strategic motives of Turkish manufacturing firms' (TMFs) foreign direct investment (FDI) involvement by the use of a broad set of factual and perceptual measures. Relying on the past research we have developed a number of hypotheses relating to firm characteristics and motives. Based on the analysis of 94 parent firm managers' responses to a survey, first, we find that market-related motives (such as market potential, market access) appear to be the most important motives. Second, the results show that the relative importance of TMFs' strategic motives do not vary with parent firm age; but, to a limited degree, they vary depending on subsidiary firm age. Third, strategic motives, to some extent, differ based on the size of the sampled firms and the size of their foreign subsidiaries. Fourth, motives of TMFs do not vary based on their sub-sector and entry mode. Finally, the results suggest that favorable business environment seeking and strategic asset seeking motives are significantly associated with investment in developed countries (DCs); and, cultural asset exploiting and efficiency seeking motives are significantly associated with investment in less developed countries (LDCs).

Keywords: Foreign Direct Investment (FDI), Strategic FDI Motives, Developing Country-Based FDI Firms, Turkish Manufacturing Firms, Entry Modes, Host Country Selection

Doğrudan yurtdışı yatırımı olan Türk firmalarının stratejik saikleri: İmalat sektörü üzerinde görgül bir araştırma

Özet

Bu makalenin amacı Türk imalat sektörü firmalarının (TİSF) doğrudan yurtdışı yatırımı yapmalarının ardındaki saikleri geniş kapsamlı veri ve görüşlerden yararlanarak belirlemek ve değerlendirmektir. Makalede geçmişteki araştırmalara bağlı olarak firma özellikleri ve güdeleri ile ilgili hipotezler geliştirilmiştir. Araştırmada 94 imalat firması yöneticisinin anketlere verdikleri yanıtların analiz edilmesinden şu sonuçlara ulaşılmıştır: 1) Piyasa ile ilgili saikler (pazar potansiyeli, piyasaya erişme, vb.) yurtdışında yatırımla ilgili en önemli güdü olarak karşımıza çıkmaktadır; 2) TİSF'nin saiklerinin göreceli önemi ana firmanın yaşına göre değişmemekte; ancak, bir dereceye kadar, yurtdışında kurulan firmanın yaşına göre farklılaşmaktadır; 3) TİSF'nin stratejik güdeleri bir dereceye kadar ana firmanın ve yurtdışında kurulan firmanın büyüklüğüne göre değişmektedir; 4) TİSF'nin stratejik güdeleri firmaların bulunduğu alt sektöre ve yurtdışına giriş biçiminde göre farklılaşmamaktadır; 5) Uygun iş/faaliyet ortamı arama ve stratejik kaynak elde etme güdüleriyle gelişmiş ülkelere yatırım yapmaları arasında önemli bir ilişki olduğu ortaya çıkmaktadır; buna ilave olarak, kültürel değerleri kullanma ve verimlilik elde etme

*This paper is based on the author's doctoral thesis.

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saikleriyle gelişmekte olan ülkelere yatırım yapmaları arasında da önemli bir ilişki olduğu belirlenmiştir.

Anahtar Kelimeler: Doğrudan Yurtdışı Yatırım (DYY), Stratejik DYY Saikleri, Gelişmekte Olan Ülke Temelli DYY Firmaları, Türk İmalat Firmaları, Yurtdışına Giriş Biçimleri ve Ülke Seçimleri

1. Introduction

We have been experiencing a massive transformation of world economy since the early 1980s. Dynamics of this transformation are the acceptance of market mechanism for allocating resources (which is reflected by deregulation, privatization and liberalization), intensification of competition, spread of information technology and the globalization phenomena that all of them are interrelated [1]. Consequently, growing number of countries and firms are integrating into world economy through flows of resources, goods, services and capital. In this process, foreign direct investment (FDI), which is one of the main vehicles of the integration, has occupied the attention of government policy makers, administrators, executives, managers and academic researchers.

From the academic point of view, since the mid 1970s studies dealing with FDI broadened their scope by including other country firms beside developed country-based ones; and, by tackling variety of questions and issues with more sophisticated statistical methods [2]. One of the subjects of these studies was motive(s) of firms for going abroad or selecting particular countries for investment location. Researchers have done a plenty of empirical studies dealing with motives of manufacturing FDI firms originating from developed nations and going to (a) the other developed nation(s) (e.g. [3-5]), (b) both developed and developing nation(s) (e.g.[6-9]), and (c) only developing nation(s) (e.g. [10-15]). However, empirical studies dealing with motives of manufacturing FDI firms originating from developing nations and going to (a) the other developing nation(s) [16-21], (b) both developed and developing nations [22-27] are scarce, compared to developed country firms'. It might be partly due to the fact that involvement of developing country-based firms in manufacturing FDI is a recent phenomena compared to the developed country-based firms. Therefore, there is a need for more research on developing (or less developed) country-based and emerging market-based firms' FDI motives.

Turkey, by increasing her share in both inward and outward FDI flows [28] and by becoming one of the most important emerging markets, provides an interesting context for studying FDI motives of emerging market-based firms. Even though outward FDI involvement of Turkish firms started as early as mid 1980s, except a few recent studies (e.g. [29-33]) foreign direct investment (FDI) research in Turkey has been centered on incoming rather than outgoing FDI firm activities (e.g. [34-44]). Likewise, up to date, except two recent attempts [30,45] there is not any research, at least we know of, thoroughly dealing with empirical examination of Turkish manufacturing firms' (TMFs) outward FDI motives. It might be very illuminating to understand the urges of emerging market-based firms that lead them to investment in both developing and developed countries. In this respect, it is necessary to look vital locational advantages of host countries that motivate and determine the extent, mode and pattern of an emerging market-based firms' internationalization via FDI. Thus, this study attempts to fill the mentioned research gaps in the literature by identifying and examining the strategic motives of TMFs. The main objective of this paper is to explore the underlying reasons for foreign direct investment activities of TMFs. Stating differently, the objective of this study is to identify the relative importance of the variables representing location advantages from the point of the Turkish investors. More specifically, the study attempts to seek answers to the following research questions:

(1) What are the motivational factors that urge emerging market firms to invest abroad both in developing and developed countries?

(2) Do sampled firms' motives vary in accordance with parent and subsidiary firms' certain firm graphics (such as age, size and sector of operation), host country's economic development level and chosen entry mode?

(3) What are the effects of certain FDI motives on sampled firms' choice of a particular host country location and entry mode?

This article provides new facts and empirical insights about one of the emerging market-based firms' expansion of business activities since the mid 1980s by using the data gathered from a sample of 94 Turkish parent firms that established 60 wholly owned subsidiaries (WOS) and 34 joint ventures (JVs) abroad. Following this introduction, in the next section we review the prior literature related to strategic motives of multinational firms in serving foreign markets. Based on the literature review, in this section we develop hypotheses in relation to certain firm characteristics and their FDI activities. In the third section we portray research design and methodology. After that, we present the results of the study and discuss the findings. Conclusions, limitations and future research directions are presented in the final section.

2. Literature Review and Hypotheses Development

Foreign direct investment outflows from developing countries can be categorized into three different waves [46] from the 1960s until early 1980s; after early 1980s to early 1990s, and thereafter. While the majority of first wave investors were from Latin America, the second wave investors were predominantly from Asia. Since the early 1990s, beside firms from these two regions, developing country firms from other parts of the world have been involving in FDI. Academic literature examining the first wave investors [16-21,47-52] generally indicate that these firms invested in developing countries and neighboring countries with market-seeking and efficiency-seeking motives. On the other hand, literature dealing with second wave investors [53-61] show that developing country-based firms invested in both developing and developed countries by having strategic asset-seeking motives along with the other motives. A third wave of investment took place after the collapse of communism and prevalence of liberal policies in the world; and, many firms from different parts of the globe engaged in outward FDI. In line with these developments literature on outward FDI from developing and emerging countries gained a momentum and several books [62-66] and a number of articles [31-32, 67-76] discussed many issues as well as FDI motives.

In the international business literature various classifications of FDI motives exist. Scholars have used different perspectives in explaining purpose, reason or drive that forces an investing firm to do investment abroad. First, motives of FDI firms are divided into proactive or aggressive and reactive or defensive nature [2, 77]. The former involves benefiting from economies of scale, tax differentials, exclusive information of foreign customer and market, and unique product while the latter are forced by competitive pressures and overproduction. Second, depending on governments' manipulation effects, FDI motives are differentiated as policy and non-policy related determinants [78, 79]. While the latter consists of political stability, cultural distance, per capita income, infrastructure, the former involves with various incentives offered or requirements put forth by local governments (e.g., tax concessions, local inputs and exporting requirements) in dealing with foreign investors. Third, drivers of FDI are differentiated as external market motivation and internal company motivation [5]. While the former include host country market size, labor market, capital markets and political stability, the latter arises from need for growth, technology, and global presence.

The external factors that motivate the FDI firms are generally locational advantages of host countries. Theoretical origin of the importance of locational factors can be traced back to comparative advantage framework that is based on Hecksher-Ohlin model [77], to location theory, which Dunning's location (L) component of ownership-location-internalization (OLI) derived from it [2,80]. In terms of locational advantages, dividing firms' behavior into three categories according to their economic orientations such as resource seekers, market seekers, and efficiency seekers is very pervasive in the literature (e.g. [2, 14, 26, 78, 81-83]). Resource seeking motive involves obtaining physical or natural resources (such as minerals, agricultural products, and raw materials), human resources and other resources relatively cheaply in order to sustain or advance international competitiveness. Market seeking motive involves sustaining or protecting current markets or exploiting new markets. Firms with market seeking motives attempt to follow suppliers and customers that went overseas and try to take advantage of host country market by being close to customers or by trying to follow competitors that went to a specific market. Efficiency seeking motives basically try to rationalize both resource seeking and efficiency seeking investment to gain cost and/or other advantages. Efficiency seeking expansions are carried out to realize scale and scope economies, and risk diversion among others. Dunning adds one more category of foreign investment motive and calls it as strategic asset seeking which involves "...acquiring the assets [such as technological, organizational or managerial skills, trade marks, goodwill etc.] of foreign corporations to promote their long-term strategic objectives" [2]. The main objectives in this action are either increase the competitive position of the firm or weaken the competitive position of competitors, or may be both. Researchers consider the investment climate, policy framework and business facilitation as other motives [3, 77, 82-84] that we will call them as favorable business environment seeking motives.

All of the mentioned FDI motives can be explained and justified under the Dunning's [2, 81] eclectic framework which we will use it in this study. In the eclectic approach FDI is seen as resulting from firm-specific ownership (O) advantages, country-specific location (L) advantages and transaction-specific internalization (I) advantages. This approach is also called OLI which gives answers to the questions of who will make FDI, where will the FDI take place and why some firms involve in FDI. The question of who will make FDI is answered by O component of OLI framework which states that firms own the specific assets that enable it to take advantage of investment opportunities abroad. L component of OLI answers the question of where the FDI take place. It is related with locational advantages of foreign countries that pull the FDI firms. Lastly, the I component of OLI answers the question of why some firms do the international business activities by themselves instead of contractual agreement like licensing. Although the eclectic theory requires a much broader set of motives for FDI ranging from location-specific motives, firm-related factors to transaction-related motives, this study specifically deals with a rather narrower segment of overall FDI motives focusing mainly on location-related motives. Besides, we exclude from our analysis push factors or locational disadvantages of home country and capability of FDI firms such as productivity.

Along with the eclectic theory we will also implicitly or explicitly use resource-based theory (RBT), institutional theory (IT) and transaction cost theory (TCT) in explaining and predicting the sampled firms' FDI behaviors. By utilizing these theoretical perspectives, below we will discuss the relationship between Turkish manufacturing firms (TMF's) motives and their parent and subsidiary characteristics (i.e., age, size, industry, type of host country and entry modes).

2. 1. Motives and Ages of Firms

Firms gain knowledge about opportunities in foreign markets contingent upon domestic business experience and by the passage of time. Even though there are firms that internationalize from the inception, parent firm's age is very much related with international expansion through FDI [85]. In their life-cycles of birth, growth, maturity, and decline corporations need different resources to compete with other corporations [86]. Since TMFs expand their business to access some rare and valuable resources and exploit the opportunities in foreign markets, their motives may differ based on being young or old. Therefore, we hypothesize that:

H1a: Relative importance of TMFs' motives will vary with the parent firm age.

Timing of entry to foreign market (i.e. subsidiary age (by subsidiary we mean a corporation which has a separate legal entity that is established or acquired in a foreign country by the parent firm and operates according to the laws of that country) is considered to be another constituent in explaining the strategic motives of firms [87-89]. Depending on their goals and strategies, FDI firms may respond differently to different types of motivators [82] at different times. For example, seeing opportunities in host countries, while some TMFs may want to take advantage of moving early, other TMFs might prefer a strategy of wait and see. Accordingly, these firms' strategic motives will be different. Additionally, if the firms' motives are on the overall high, that means greater the attractiveness of the host country in terms of low risk, high growth prospects, availability of strategic assets, etc., they will invest earlier to exploit the opportunities in foreign countries. Based on this, we hypothesize that:

H1b: Relative importance of TMFs' motives will vary with the subsidiary firm age.

H1c: The higher the relative importance of TMFs' strategic motives the more likely that they will invest earlier than later in a foreign country.

2. 2. Motives and Sizes of Firms

Firm size has been an important element in explaining the behavior of FDI firms. In his pioneering work, Hymer [90] emphasized the size of the firms along with their product differentiation as a sign of market power. Later, Horst [91] found that firm size is the single significant factor in firms' decision to invest abroad. A number of studies have shown that firm size had an impact on conducting FDI activities [89,92-96]. Needless to say that large firms have more resources and privileged access to learning channels [96] than that of small firms for international expansion through equity investment. Larger firm size is also means higher ownership advantage [81] and it is positively related to FDI [94]. Even though there is no empirical evidence (at least we are aware of) on deviation of emerging market-based large and small firms' motives, Urata and Kawai [97] report that Japanese firms' FDI motives differ based on their size of being large and small.

There are various usages of size measures for FDI firms such as total amount of capital investment [98] affiliate employees [88], subsidiary and parent employees [99] and asset of the parent firm [89]. Using these size measures we expect that TMFs' motives vary based on their amount of capital, sales and asset and number of employees. Motives of TMFs can also vary depending on their foreign subsidiaries' amount of capital and the number of employees. That is to say that higher the motives of TMFs larger the size of their foreign ventures becomes. Therefore, we hypothesize that:

H2a: Relative importance of TMFs' motives will vary with the parent firm's amount of capital.

H2b: Relative importance of TMFs' motives will vary with the foreign subsidiary's amount capital.

H2c: Relative importance of TMFs' motives will vary with the parent firm's number of employees.

H2d: Relative importance of TMFs' motives will vary with the foreign subsidiary's number of employees.

2. 3. Motives and Manufacturing Sub-sector of Foreign Investment

The nature of the industry and the business activity within this industry that a firm operates in has also affect on FDI involvement [87-88,100]. For some sub-sectors of manufacturing, establishing equity ventures in foreign countries may be more appealing than the others due to comparative advantages of the host countries. As reported in [11], different manufacturing sub-industries put more emphasis on different issues in FDI. For example, labor intensive textile firms might be more concerned with wage rates while capital intensive cement firms give importance to raw material price. Accordingly, FDI motives of firms in these sub-sectors will be different. Therefore, we hypothesize that:

H3: Relative importance of TMFs' motives will vary based on their sub-sector.

2. 4. Motives and Host Country Types

FDI motives of firms form both developed and developing countries can vary across countries depending on host countries' development level. Because of the fact that these two types of countries equipped with different endowments, firms choose FDI location of developed versus developing countries with a certain goal in mind [101]. In one of the first study on the relationship between FDI motives and host country's development level, in a study [26] it was found that Taiwanese firms that have market-seeking and strategic asset-seeking motives invested in developed countries; and, when they have asset exploiting motive they invested in less-developed countries. Their findings are confirmed with other studies also [9,102].

According to institutional theory, the systems that surround the organizations influence the organizational behavior [103]; and, the institutions set the formal and informal rules of the game for the organizational actions [104]. Looking from this perspective, economic, political, legal and socio-cultural institutions differ between developed and developing countries. In terms of differences between developed countries (DCs) and less developed countries (LDCs) Makino et al. [102:378] note that:

In general, LDC markets are usually characterized by high potential for economic growth but weaker institutional support such as lower levels of property rights protection and enforcement mechanisms, lack of sophisticated intermediaries and lower levels of political and financial stability. DC markets in contrast provide stronger property rights protection and enforcement mechanisms, sophisticated intermediaries, and stable political and financial foundations but are relatively more mature and competitive than LDC markets.

In line with the above argument, we think that Turkish manufacturing firms' (TMF) motives will vary based on their host countries' development level. Specifically, since DCs have favorable business environment, large market and abundant strategic asset, TMFs that seek these more will likely invest in DCs. TMFs that have investment motives of efficiency seeking or other asset exploiting will invest in LDCs. Therefore, we hypothesize that:

- H4a: Relative importance of TMFs' motives will vary with the host country's economic development level.
- H4b: The higher the relative importance of favorable business environment seeking motives the more likely that a TMF will invest in DCs than LDCs.
- H4c: The higher the relative importance of market seeking motives the more likely that a TMF will invest in DCs than LDCs.
- H4d: The higher the relative importance of strategic asset seeking motives the more likely that a TMF will invest in DCs than LDCs.
- H4e: The higher the relative importance of efficiency seeking motives the more likely that a TMF will invest in LDCs than DCs.
- H4f: The higher the relative importance of cultural asset exploiting motives the more likely that a TMF will invest in LDCs than DCs.

2. 5. Motives and Entry Mode

There are two main theoretical approaches and empirical applications of entry modes in the literature. First one is transaction cost theory that includes the concepts of internalization theory [4,105-109]. The second stream is the eclectic framework [8,110-112]. Transaction cost theory purports that when a FDI firm needs complementary assets or intermediate inputs (industry-specific knowledge, market knowledge, access to distribution channels) of other firms and when getting these assets from external market is costly or impossible due to search, negotiation and contracting costs, that firm should choose joint ventures (JVs) rather than wholly owned subsidiary (WOS) [107]. Eclectic framework maintains that choice of entry mode must be contingent upon the nature of firm-specific ownership, host country locational conditions and need for internalizing the intermediate inputs of firms [2,110,113].

Strategies of firms differ in entering foreign market and perception of risks can have impact on chosen strategic entry mode [87]. [114] state that choice of entry mode, in this case acquisition and joint venture, is contingent upon the combination of environmental, transactional and company characteristics. [115] found that JVs are means for accessing to other firms resources; and, when the local market experience of the foreign firm increases, it chooses acquisition over JVs.

Based on this review, by holding constant the influences of other factors in TMFs' choice of entry mode, we hypothesize that:

- H5a: Relative importance of TMFs' motives will vary based on chosen entry mode.
- H5b: The higher the relative importance of favorable business environment seeking motives the more likely that a TMF will establish wholly-owned subsidiary than joint ventures.
- H5c: The higher the relative importance of market seeking motives the more likely that a TMF will establish wholly-owned subsidiary than joint ventures.
- H5d: The higher the relative importance of strategic asset seeking motives the more likely that a TMF will establish joint ventures than wholly-owned subsidiary.
- H5e: The higher the relative importance of efficiency seeking motives the more likely that a TMF will establish wholly-owned subsidiary than joint ventures.
- H5f: The higher the relative importance of cultural asset exploiting motives the more likely that a TMF will establish wholly-owned subsidiary than joint ventures.

3. Research methods and sample

3. 1. Development of the Questionnaire

The data were gathered via a cross-sectional survey using a questionnaire. Before developing the questionnaire, first, we have done extensive literature review related to FDI motives; and, we have identified strategic motives variables and adapted them to this study. Second, semi-structured personal interviews are carried out with three managers who work in different internationally involved parent manufacturing firms. Third, appropriateness or applicability of the identified variables to Turkish firms is also determined through discussing with three experts from Turkish Industrialists' and Businessman's Association, Foreign Economic Relations Board, Istanbul Chamber of Industrialists. Fourth, the preliminary questionnaire was discussed with three academics in the pertinent field who had experiences with questionnaire survey. According to their comments, we revised the questionnaire and designed the draft form for the pilot study.

3. 2. The Pilot Study of the Questionnaire

The goal of this pilot study was to ascertain whether any inconsistencies, unsuitableness exists in the variables that are used in the questionnaire. A total of eight Turkish manufacturing parent firms located in Istanbul are used for the pilot test analysis. We have chosen two large-sized, three medium-sized and three small firms to represent the firms in the population. After completion of the draft questionnaire, semi-structured interviews were conducted with the respondents to evaluate the questionnaire in terms of capturing the desired information, assuring that they were clear and unambiguous. Each of these owners and managers interviewed had complete knowledge of the foreign equity investment that his or her firm previously set up. During the 30 minutes interview, we have discussed mainly issues covered in the draft questionnaire.

In the questionnaire, there were two types of questions: factual and perceptual. Factual, open-ended questions were mostly related with years of foundation, amount of capital, sales, assets, entry modes. In the perceptual questions, respondents are asked to indicate the degree of importance of the 16 motives measures in choosing a country as an FDI location at the time of establishing foreign equity ventures. Answers were assessed using five-point scales, ranging from "not important at all" to "very important".

3. 3. Sample

The research population of 300 manufacturing parent firms that formed equity ventures outside of Turkey was identified from official (Undersecretariat of Turkish Treasury database and Turkish Embassy Commercial Counsellors), quasi-official (Foreign Economic Relations Board), and other (sector associations in Turkey) sources. After employing several restrictions (e.g., eliminating the parent firms that have less than 10 per cent equity share), we contacted 204 parent firms located in Turkey. We have made appointments with 52 firms' managers and administered the questionnaire via personal interview in the city of Istanbul where 70 percent of our sampled firms are headquartered. The rest of the sampled parent firms, which located in the other relatively more developed cities of Turkey (e.g., Ankara, Izmir, Bursa, Konya), returned the completed questionnaire through mail, fax, and e-mail. As a result, we obtained 94 usable questionnaires that represent a response rate of 46 percent. No significant variation in the data was detected with respect to the data collection method.

The sample of this study consisted of 94 Turkish manufacturing firms established in Turkey as mainly joint-stock company and limited liability company that involved in formation of equity ventures abroad. Almost half of the sampled firms were within the list

of the largest 1000 manufacturing firms of Turkey in 2002 (34 of them were within the list of the largest 500 and eight firms were within the list of the second largest 500). More than half of these firms (53.2%) is relatively young, established after the 1982 when the liberal market economy policies went into effect.

Based on their demographic and other characteristics, the sampled firms are grouped into certain categories for making the statistical tests possible. Specifically, parent firms are grouped according to their ages as less than 10 years old (17%), between 11 and 20 years (36.2%), between 21 and 30 years (24.5%), and more than 30 years (22.3%). Even though subsidiaries of these firms are comparatively young (73% formed in the period of 1996-2002 while 27 % formed in the period of 1985-1995), for practical reasons they are grouped as less than three years old (28.7%), between three and five years old (26.6%), between five and six years old (18.1%), and more than six years old (26.6%).

To determine the size of the parent firms, employee number and the amount of capital, total sales and total assets in U.S. dollars are used. Subsidiary firms' size is measured by employee number and the amount of capital in U.S. dollars. While the parent firms are classified with respect to employee number as up to 100 (27.7%), between 101 and 500 (29.8%), between 501 and 2000 (26.6%), and more than 2000 (16%), subsidiaries are grouped as up to 50 (24.5%), between 51 and 100 (24.5%), between 101 and 500 (23.4%), and more than 500 (27.7%). Similarly, to provide roughly equal distribution, parent firms are grouped according to their capital as up to \$1 million (31.9%), between \$1 million and \$10 million (26.6%), between \$10 million and \$20 million (16%) and more than \$20 million (25.5%) whilst subsidiary firms classified as up to \$500 thousand (26.6%), between \$500 thousand \$2 million (27.7%), between \$2 million and \$10 million (28.7%) and more than \$10 million (17%). Parent firms are categorized identically according to their total annual sales and total assets as such: sales/assets value, respectively, equal to or less than \$10 million (28.7 % versus 30.9 %); sales/assets value between \$10.1 million and \$50 million (28.7 % versus 25.5 %); sales/assets value greater than \$50 million and up to \$250 million (26.6 % versus 27.7 %); sales/assets value greater than \$250 million (16 % versus 16 %).

Based on the International Standard Industrial Classification of all economic activities (ISIC, Rev.3) sorting manufacturing sub-industry categories of both parent and subsidiary firms are as follows: Food products and beverages (13.8 %); textiles (9.6 %), wearing apparel (7.6 %), wood and wood products (5.3 %), pulp, paper and paperboard, publishing of newspapers (6.4 %), soap and detergents (6.4 %), rubber and plastic products (11.7 %), glass, glass products and non-metallic mineral products (7.4 %), basic metals, basic iron and steel, casting of iron and steel (8.5 %), fabricated metal products, structural metal products (8.5 %), pumps, compressors, taps and valves, other special purpose machinery, domestic appliances (7.4 %), insulated wire and cable, radio, television and communication equipment and apparatus (7.4 %).

The sampled firms established 60 wholly owned subsidiaries (85% greenfield, 15% acquisition investment) and 34 joint ventures (52.9% majority, 29.4% equal, 17.6% minority ownership) in 28 countries within the period of 1985 and 2002. Country classification and accompanying firm establishments as follows: Developed countries consist of Belgium (1 firm), Canada (1 firm), England (1 firm), Germany (7 firms), Ireland (2 firms), Israel (1 firm), Italy (1 firm) and Netherlands (4 firms) where a total of 18 firms established; Turkic Republics and other countries that are composed of Azerbaijan (5 firms), Kazakhstan (6 firms), Kyrgyzstan (2 firms), Turkmenistan (4 firms), Uzbekistan (8 firms), Algeria (2 firms), Argentina (1 firms), China (2 firms), Egypt (3 firms), Iran (2 firms), Malaysia (1 firms), Republic of South Africa (2 firms), Syria (2 firms) and Tunisia (3 firms) which makes to total of to 43 firm establishments; Central and Eastern European Countries which are comprised of Albania (1 firm), Bulgaria (11

firms), Poland (1 firm), Romania (10 firms), Russian Federation (8 firms) and Ukraine (2 firms) which totals to 33 firm establishments.

3. 4. Data Analysis

For examining the collected data and for testing the hypothesized relationships, various statistical analyses were conducted. First, we employed descriptive statistics to compare the means of each motive variable. Second, factor analysis, One-way Analysis of Variance (ANOVA), and *t*-test were used in a further analysis on the sample data. Third, Binomial Logistic Regression analysis was used to ascertain the relationship between independent and dependent variables. Collected data analyzed by using Statistical Packages for Social Sciences (SPSS) program.

4. Results and Discussions

4. 1. Strategic Motives of Turkish Manufacturing Firms

The rank order of strategic motives for Turkish manufacturing firms (TMFs), based on the mean measure of the importance of 16 host-country-related motives is shown in Table 1. Examining Table 1 first reveals that 13 out of 16 motives are higher than the mean measure of three. TMFs consider "market potential of host country" (4.11) and "access to markets in host country's region" (4.08) as outmost important motives in going abroad. This result is consistent with the results of United Nation's recent world investment report wherein it is found that market seeking motives are the most important motives of developing country-based FDI firms [28]. Heightened competition in the domestic market and export markets caused firms to reach new markets with a different means such as low cost inputs, which is the next important motive. As some respondents noted, in many manufacturing sectors in Turkey, factories work under capacity due to the existence of many producers and weak purchasing power of Turkish consumers. "Low cost of inputs" (3.72) and "to protect the market developed through trade" (3.66) come as next important reasons for choosing a host country for production location. The most important four motives are related with reaching new market or protecting the export market except the low cost of input motive, which is indirectly related with it.

"Favorable relations between host country and Turkey" (3.52), "political stability of the host country" (3.50), and "existence of no restrictions to limit foreign ownership" (3.49) are in between "important" and "neither important nor unimportant" scale. The favorable relations variable seems to be as important as political stability and existence of no restrictions to limit foreign ownership in the host country. Since the establishment of the Republic of Turkey, Turkish foreign policy followed the credo of "Peace at home, peace in the world". As a result, Turkey had good relations with most of her neighbor countries that may have provided for impetus for creating business relationship. "Quality of infrastructure in the host country" (3.39), "favorable legal climate in the host country" (3.39) and "economic stability of the host country" (3.38) are slightly less important than the latter three motives. The issues of "to avoid the tariff or non-tariff barriers of trade" (3.33), "foreign government incentives for foreign investors" (3.29) and "access to international corporate network" (3.12) are also important but close to neutral state.

The last three motives, which are "similarity of the host country to Turkey" (2.90), "access to capital" (2.42) and "access to know-how" (2.39) appears to be unimportant for the sampled firms. The similarity of host country motive is close to neutral state, but access to capital and access to know-how are unimportant. The reasons for this are that most of the countries (except the developed ones) Turkish firms established in are also financially weak countries, so the aims of firms were not reaching financial resources for their new venture. Similarly, since FDI firms are the competent firms of Turkey, their

know-how seems to be higher than the host country originated firms. Therefore, it appears that TMFs' did not have motives of access to capital and access to know-how.

4. 2. Factor Analysis of Host Country-Related Strategic Motives

Before the factor analysis, assumptions of multivariate data analysis are examined. Reproduced correlation matrix' residuals (expected correlation minus predicted correlations) was less than 50 percent (i.e. 41 per cent), indicating the goodness of the fit of the data for the factor analysis. Anti-image correlation matrix indicated that the only variable was the "low cost of inputs" (.492), being slightly below .50, might be a candidate for omission, but we preferred to keep it. Applying exploratory principal component factor analysis with varimax rotation resulted in five factors. Extracted factors are named as the motives of favorable business environment seeking, market seeking, strategic asset seeking, cultural asset exploiting and efficiency seeking. These factor scores and individual motive variables are used to test the motives hypothesis in terms of means, standard deviations together with suitable test statistics for evaluating differences in mean scores. The factor scores are also used in the Logistic Regression Analysis.

Table 1 Relative Importance of Host Country-Related Strategic Motives

Motives	Rank	Mean	SD
Market potential of host country	1	4.11	1.28
Access to markets in host country's region	2	4.08	1.27
Low cost of inputs	3	3.72	1.39
To protect the market developed through trade	4	3.66	1.39
Favorable relations between host country and Turkey	5	3.52	1.06
Political stability of the host country	6	3.50	1.19
Existence of no restrictions to limit foreign ownership	7	3.49	1.14
Quality of infrastructure in the host country	8	3.39	1.15
Favorable legal climate in the host country	9	3.39	1.19
Economic stability of the host country	10	3.38	1.17
To avoid the tariff or non-tariff barriers of trade	11	3.33	1.44
Foreign government incentives for foreign investors	12	3.29	1.22
Access to international corporate network	13	3.12	1.42
Similarity of the host country to Turkey	14	2.90	1.23
Access to capital	15	2.42	1.29
Access to know how	16	2.39	1.37

Notes:

1. N = 94

2. The mean is the average on the scale of 1: Not important at all; 2: Not important; 3: Neither important nor unimportant; 4: Important; 5: Very important.

3. SD = Standard deviation

Factor loadings greater than 0.50 were integrated for each factor extracted. For the sample size of 94, minimum factor loadings of 0.56 or above is needed [116]. In motive variables one of the item's loading (i.e. "to avoid the tariff or non-tariff barriers of trade") was below the required factor loading but it was kept. The factor analysis of strategic motives highlighted five factors and explained 65.49 percent of total variance, as it is shown in Table 2.

General reliability analysis of all items resulted in 0.81 Cronbach alphas; and internal reliability of each factor ranged from 0.27 to 0.84. To see whether the variables and factors differentiated from each other well, we did the factor analysis with oblique rotation.

Conducting the factor analysis with oblique factor rotations resulted in five factors and exactly the same variable loadings; hence, confirmed the orthogonal varimax rotation. Further, correlations among factors were less than 30 percent, indicating the clear

differentiation of factors. The resulting factors are validated also by means of factor analysis with split sample of the data.

Table 2 Factor Analysis of the Strategic Motives of Turkish Manufacturing FDI Firms

Factors	Factor Eigen-loads	Eigen-value	%Variance explained	Cum. %	Cronb. alpha
Factor 1: Favorable Business Environment Seeking		3.53	22.09	22.09	0.84
Favorable legal climate in the host country	0.88				
Political stability of the host country	0.82				
Economic stability of the host country	0.80				
Quality of infrastructure in the host country	0.66				
Existence of no restrictions to limit foreign ownership	0.58				
Foreign government incentives for foreign investors	0.57				
Factor 2: Market Seeking Motives		2.09	13.05	35.14	0.62
Access to markets in host country's region	0.86				
Market potential of host country	0.83				
To avoid the tariff or non-tariff barriers of trade	0.44*				
Factor 3: Strategic Asset Seeking Motives		2.03	12.68	47.82	0.74
Access to know how	0.84				
Access to international corporate network	0.82				
Access to capital	0.61				
Factor 4: Cultural Asset Exploiting Motives		1.57	9.81	57.63	0.27**
Favorable relations between host country and Turkey	0.79				
Similarity of the host country to Turkey	0.75				
Factor 5: Efficiency Seeking Motives		1.26	7.86	65.49	-0.62
Low cost of inputs	0.83				
To protect the market developed through trade	-0.62				

Notes:

Principal components factor analysis with varimax rotation.
Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.738
Bartlett's Test of Sphericity = 546.461; $p < 0.000$

*When we extracted this variable, cumulative percentage is increased to 69 percent and individual variables' loadings are escalated slightly (Figures in this table are based on including all variables)

**Based on the suggestion of one referee we checked the data analysis and found the Cronbach Alpha (CA) as 0.27. As it is known, the CA measures internal consistency of construct indicators. Factor 4's CA is very low may be because of our sample composed of both neighboring countries and developed European countries. Having favorable relations may not be related with similarity of the two countries.

4. 3. Logistic Regression Analysis for Entry Time, Host Country Type, and Entry Mode

Table 3 shows the results of the logistic regressions obtained through the SPSS program. Before we apply logistic regression, we checked means, standard deviations, and correlation between variables. Although not reported here, the pair-wise correlation between variables was generally low which means no critical multicollinearity problems for logistic regression analysis.

4. 4. Motives and Ages of Firms

When we classify the parent firms into four groups with respect to their ages, as very young (1-10 years old), young (11-20 years old), old (21-30 years old), and very old

(above 30 years old), One-Way Analysis of Variance² (ANOVA) test results showed that only two variables, "quality of infrastructure in the host country" ($p < 0.1$) and "market potential of host country" ($p < 0.05$) are significant in relation to motives and parent firm age. This indicates that there is no support for H1a, which means that the relative importance of the motives does not vary with respect to parent firm age. Similarly, we classified the foreign subsidiaries into four groups according to their ages, ranging with two, four, six and more than six years old and looked at age and motive relationships via ANOVA test. The test revealed that "political stability of the host country" ($p < 0.1$) "economic stability of the host country" ($p < 0.1$), "to avoid the tariff or non-tariff barriers of trade" ($p < 0.05$) and "similarity of the host country to Turkey" ($p < 0.01$) are the four variables that had significances. From this result we can see that there is limited support for H1b indicating that motives of firms hardly vary with subsidiary age.

Table 3 Results of Logistic Regression Analysis for Entry Time, Host Country Type, and Entry Mode

Independent Variables	Dependent Variables					
	Model 1 Late vs. Early		Model 2 LDC vs. DC		Model 3 JV vs. WOS	
	B	S.E.	B	S.E.	B	S.E.
Fav. Bus. Env. Seeking	-.598**	.249	.681*	.374	.230	.222
Market Seeking	.236	.238	.001	.447	.307	.224
Strategic Asset Seeking	-.074	.231	1.076***	.394	-.230	.235
Cultural Asset Exploiting	.593**	.266	-.897**	.403	-.131	.231
Efficiency Seeking	.171	.249	-1.556***	.435	-.120	.228
Intercept	-.253	.230	-2.183***	.446	.668	.231
Model Chi-square	12.208**		35.450***		4.264	
Number of Cases	89 ^a		89 ^a		89 ^a	
-2 Log Likelihood	110.260		51.358		110.795	
Nagelkerke R ²	.171		.527		.064	
Correct Classification (%)	67.4		88.8		67.4	
Proportional Chance Criteria (%)	55		80.9		65.2	

* $p < 0.1$; ** $p < 0.05$; *** $p < 0.01$ (two tailed)

Late: Foreign equity venture five or less than five years old as of 2002; Early: Foreign equity venture more than five years old as of 2002 (Late = 0; Early = 1)

LDC: Developing Country; DC: Developed Country (LDC = 0; DC = 1)

JV: Joint Venture; WOS: Wholly-owned Subsidiary (JV=0; WOS=1)

B: Beta coefficients; S.E.: Standard Errors

a: Five cases with missing values are not included in the model

In testing H1c, we used binomial logistic regression analysis. Model 1 in Table 3 shows the test results for entering foreign market early or late depending on the types of motive. The overall model test of chi-square is statistically significant ($p < 0.05$) and classifies 67.4% of the cases correctly. Favorable business environment seeking and cultural asset exploiting motives are significant ($p < 0.05$) and explain 17% change in the dependent variable of entry time. However, favorable business environment seeking and strategic asset seeking motives have negative coefficient signs, contrary to our expectations, which lend partial support for the H1c.

² ANOVA "is a dependence technique that measures the differences for two or metric variables based on a set of categorical variables acting a predictors" [116:257]. It is used "to determine the probability that differences in means across several groups are due to solely sampling error" [116:262]. Due to the nature of the variables, in this paper we used ANOVA instead of Multivariate Analysis of Variance (MANOVA) to compare the differences in groups.

4. 5. Motives and Sizes of Firms

We have done statistical tests for parent firms' and their foreign subsidiaries' size characteristics mainly by classifying them into four groups (see sample characteristics section). However, when necessary, binary classifications for the support of each size hypothesis will be used also. ANOVA test results for the relationships between motives and the capital of parent firms provided very limited support for H2a. This test resulted in the significance of one factor, "strategic asset seeking motives" ($p < 0.05$), and the variables of "political stability" ($p < 0.05$), "economic stability" ($p < 0.1$) and "similarity of the host country to Turkey" ($p < 0.05$). Considering the hypothesis related to subsidiary capital and motives, ANOVA test results provided very limited support for H2b. Only two factors of "cultural asset exploiting motives" ($p < 0.01$) and "efficiency seeking motives" ($p < 0.1$) and two variables of "similarity of the host country to Turkey" ($p < 0.05$), "low cost of inputs" ($p < 0.1$) were significantly different among groups which expose that the relative importance of motives hardly vary with the foreign subsidiary's amount of capital.

In terms of the relationship between motives and the parent firms' employee number, ANOVA test results revealed that there is very restricted support for H2c. According to this test, three variables, namely "political stability of the host country" ($p < 0.05$), "similarity of the host country to Turkey" ($p < 0.01$), "to protect the market developed through trade" ($p < 0.05$), and one factor, "efficiency seeking motives" ($p < 0.05$) were significantly different among the four groups. In other words, relative importance of motives seldom varies with the parent firm's number of employees. Motives do not vary with the foreign subsidiary employee number either. ANOVA test results showed that "favorable legal climate in the host country" ($p < 0.1$) is the only variable that had a significance, which results in rejecting H2d.

4. 6. Motives and Manufacturing Sub-sector of Foreign Investment

Related to motives and sub-sector relationships we saw from ANOVA results that only two variables, which are "access to markets in host country's region" ($p < 0.01$), "market potential of host country" ($p < 0.1$), and one factor of "market seeking motives" ($p < 0.01$) are significant. Therefore there is no support for the hypothesis that the relative importance of motives will vary based on the sub-sector of the firm (H3).

4. 7. Motives and Host Country Types

The first thing we notice in the data analysis is that majority of TMFs (around 70 out of 94 firms) invested in geographically close developing countries. This is consistent with prior research findings that less developed country (LDC) firms generally invest in neighboring countries rather than developed ones [16,58]. In testing H4a, host countries are categorized as developed versus developing countries via using World Bank classification (see the sample section). Two-sample t-test results showed that there is moderate support for H4a, which was verified by the significance of "political stability of the host country" ($p < 0.1$), "economic stability of the host country" ($p < 0.1$), "access to know how" ($p < 0.05$), "access to international corporate network" ($p < 0.01$), "similarity of the host country to Turkey" ($p < 0.01$), "low cost of inputs" ($p < 0.01$) "to protect the market developed through trade" ($p < 0.05$) variables and three factors of "strategic asset seeking motives" ($p < 0.01$), "cultural asset exploiting motives" ($p < 0.05$), "efficiency seeking motives" ($p < 0.01$). Therefore, to a moderate degree, relative importance of motives differ with respect to the host country's economic development level.

For testing H4b through H4f we utilized binomial logistic regression analysis. Model 2 in Table 3 shows the test results for entering developing versus developed host country depending on the types of motive. The overall model test of chi-square is statistically significant ($p < 0.01$) and classifies 88.8% of the cases correctly. Table 3 shows that except the market seeking motive, favorable business environment seeking ($p < 0.1$), strategic asset seeking ($p < 0.01$), cultural asset exploiting ($p < 0.05$) and efficiency seeking ($p < 0.01$) motives are significant and explain 52% change in the dependent variable of host country type. All of the motive coefficients are in the expected direction. But, market seeking motive is not significant. Therefore, consistent with Hypotheses H4b, H4c, H4d, H4e, and H4f, our results suggest that favorable business environment seeking and strategic asset seeking motives are significantly associated with investment in DCs; and, cultural asset exploiting and efficiency seeking motives are significantly associated with investment in LDCs. These results conform to the results of previous studies [9, 26, 102].

4. 8. Motives and Entry Mode

Contrary to our expectation, the relative importance of motives does not vary based on the chosen entry mode. ANOVA test of three groups such as greenfield, acquisition and JV assigned no significant variable or factor, which results in rejection of H5a. The no support situation did not change when doing two-sample t test of wholly owned subsidiary (WOS) versus joint venture (JV), and ANOVA test of four groups such as greenfield, acquisition, majority ownership JV, balanced ownership JV, and minority ownership JV investment. Apart from hypothesis testing, we notice from the sample characteristics that 60 firms have used wholly owned subsidiaries (WOS) and, among the firms using joint ventures (JV), they preferred majority (18 firms) or equal ownership (10 firms) share in their investment. This is not in line with the previous literature on developing country based firms' choice of entry mode where it had been found that developing country based firms prefer minority joint venture because of lack of firm-specific technology and management know-how to internalize [61].

In testing the motives and entry mode hypotheses of H5b through H5f, logistic regression analysis revealed no significant model (see Table 3). Even though signs of specific motives were as expected, we reject these hypotheses. We did not find support for the entry mode hypotheses, it might be because of the fact that entry modes depends on various firm-specific, industry-specific, country-specific factors [105,111]; but, in this study we utilized only the latter.

5. Conclusions, Limitations and Future Research Directions

Firms contemplating to invest in other countries take into consideration many factors related to their location choice [80,117,118). Some previous studies have used objective factors such as per capita income, infrastructure quality [119], existing bilateral trade, exchange rate, home country gross domestic product (GDP), geographic distance [10,12,120], political stability [121,122], wage rate and inflation rates [123] to determine location choice of FDI firms. As in some other studies [36, 38, 40-41] we have used perceptual measures in trying to answer the questions of "why Turkish manufacturing firms (TMFs) go abroad"; and, why have they invested in particular areas and not in others?

In this article, building on the previous research we have identified a number of strategic motives that host countries provide for the internationalization of TMFs via FDI. By relying on the past research we have developed a number of hypotheses relating to firm characteristics and TMFs' internationalization behaviors. We have analyzed the data first by mean measure of strategic motives. Market-related motives (i.e. market potential,

market access, market protection and low cost of inputs) appear to be the most important motives (see Table 1). Variation in mean measure importance of the host country-specific items seems to be justifiable with the mentioned reasoning.

We factor analyzed the strategic motives for the purposes of creating clear, parsimonious and distinct factors of TMFs internationalization. Resulting factors supported discrete conceptualization of market seeking, efficiency seeking, strategic asset seeking and favorable business environment seeking motives that are widely used in the literature. By using resulting factors and variables that highly loaded on these factors we have tested previously developed hypotheses with respect to sample characteristics (such as age, size, host country type, entry mode, and sub-sector) via appropriate statistical methods.

Results show that the relative importance of TMFs' strategic motives does not vary with parent firm age; but, to a limited degree, they vary depending on subsidiary firm age. To some extent, higher the relative importance of strategic motives of the firms earlier they expand their business abroad. Strategic motives, to some degree, differ based on parent firms' amount of capital, total sales, and number of employees. When we use four group classification (i.e., ANOVA test), parent firm' amount of total asset also do not differentiate the motives of sampled firms. However, when we use two group classifications (i.e., Two-sample *t* test) for parent firm's amount of total asset, motives of firms moderately vary. Strategic motives of TMFs to some extent differ based on their foreign subsidiary' amount of capital; but, they do not differ based on their subsidiary' number of employees. These results for the size hypothesis suggest that researchers should be more cautious for interpreting the research results that use only one or limited number of size measures.

Related to sub-sector of the TMFs, no support was found concerning the divergence of the relative importance of host country location factors and sub-sector of the firms. Similarly, there is no support for the divergence of the sampled firms' entry mode with respect to motives. Finally, there was moderate to strong support for the host country-related hypotheses. Specifically, the results suggest that TMFs that seek favorable business environment and strategic asset prefer to invest in DCs; and, TMFs that want to exploit cultural asset of the home country and production efficiency in the host country invest in LDCs. Therefore, motives of the sampled firms to a great extent affect the firms' location choice depending on the host country's development level.

Like in similar studies, this study has some limitations. Using only survey questionnaire is clearly a limitation. For an elaborate coverage of the issue some quantitative measures such as a cultural distance index [106], macroeconomic variables such as gross national product (GNP) of the host countries, interest rates, their population [10,83,120], could have been used as a triangulation. Due to time and resource constraints we were not able to do that. Since our study focused on only surviving parent and subsidiary firms, our evidence may contain survivor bias which can reduce the generalizability of results. Future studies should take into account these issues for a complete and detailed investigation of foreign direct investment (FDI) motives. Finally, motives of FDI firms can be studied in a comparative manner by including two or more countries' firms in the sample. In this way, a thorough assessment of the issue can be accomplished.

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