

# Unfavorable Business Environment and Foreign Direct Investment Activities of Turkish Manufacturing Firms

Harun Kaya\*

## Abstract

The purpose of this paper is to empirically investigate the influence of the home country's unfavorable business environment on the internationalization of Turkish manufacturing firms (TMFs) via FDI. This study uses cross-sectional survey data from a sample 94 TMFs that have equity investment in 28 countries since the mid 1980s. The research results indicate that utility costs, unstable exchange rates, high inflation rate and political instability are considered to be the most important push motives of TMFs. While the relative importance of push motives (i.e., unfavorable business environment) vary with respect to the sampled firm's ages and, to some extent, their sizes; the motives do not vary based on TMFs' sub-sector.

**Keywords:** FDI from Developing Countries, Turkish FDI Firms, Push Motives of FDI Firms

**JEL Classification:** M19

## Özet - Olumsuz İş Çevresi ve Türk İmalat Sektörü Firmalarının Yurtdışına Doğrudan Yatırımları

Bu makale, Türkiye'deki olumsuz iş çevresinin Türk imalat sektörü firmalarının doğrudan yurtdışı yatırımlar yoluyla yurtdışına açılmalarındaki etkisini görgül olarak araştırmayı amaçlamaktadır. Makalede, 1980'lerin ortalarından başlayarak 28 ülkede doğrudan yurtdışı yatırımı olan 94 Türk imalat sektörü firmasından anket tekniğiyle elde edilen veriler kullanılmaktadır. Bu verilerin analizi göstermektedir ki gaz, elektrik ve su maliyeti, döviz kurlarındaki istikrarsızlık, yüksek enflasyon oranı ve politik istikrarsızlık Türk imalat sektörü firmalarını yurtdışında yatırıma iten önemli faktörlerdendir. Bu faktörlerin göreceli önemi firmaların yaşına ve büyüklüğüne bağlı olarak değişmekte iken; sözü edilen faktörlerin önemi örneklemdeki firmaların alt sektörlerine göre farklılık göstermemektedir.

**Anahtar Kelimeler:** Gelişmekte Olan Ülke Kaynaklı Doğrudan Yurtdışı Yatırımlar (DYY), Türk DYY Firmaları, DYY Firmalarının İtici Saikleri.

**JEL Sınıflaması:** M19

\* Assistant Professor, Bandırma Faculty of Economics and Administrative Sciences, Balıkesir University  
An earlier version of this article presented at the 3rd International Conference on Business, Management and Economics and published in the conference proceedings.

## 1. Introduction

In recent years, foreign direct investment (FDI) activities of Turkish firms have become a central issue occupying the attention of businessmen, policy makers, political and economic analysts along with the other interested individuals and groups in Turkey. Considering the social and economic impact of outward investment, many people think that since there are chronic under-investment and high unemployment in many sectors, Turkish firms should invest more, if not only, in Turkey. Some analysts note that FDI is a capital flight from unfavorable business environment of Turkey to a more favorable and advantageous locations. Knowing that outward FDI is not zero-sum game, Turkish policy makers promote it, in some way, through bilateral investment treaties and double taxation treaties. Businessmen recognize that if they don't invest in other countries their companies' growth and survival will be in danger. Because, some other firms from around the world may come to Turkey and challenge them in the local markets.

Despite the important benefits of outward FDI, its negative aftermaths are mainly emphasized in Turkey. Many of the observers ignore the long-term benefits of FDI outflows. Spread of domestic enterprises around the world can create a positive foreign image for a country and goods and services produced in that country; consequently, these improve export chances in general (O'Brien, 1980). It is true that the effect of FDI outflow on the balance of payment is negative (Daniels, 1970). Yet, in the long run, home country's economy may get reverse capital transfer from the earnings that directly come from the export of goods and services generated by FDI as well as from remittances of dividends. Moreover, it can create more linkages to global production and service network, technological developments; and, this in turn may be used to promote other exports of the home country (Agarwal, 1985). More importantly, FDI firms can develop competitive skills in foreign markets and use these skills and knowledge in the home country and in the other host countries (UNCTAD, 2006; Kalotay, 2004). No matter how one evaluates the effects of FDI, it is one of the most important means of doing business in today's globalized world.

There is no doubt that some external forces, such as pervasive globalization and liberalization of the world economy have facilitated competent Turkish firms' FDI involvement. Application of liberal outward FDI policy frameworks in Turkey since the mid 1980s is another facilitator of Turkish firms' outward investment. Along with these facilitators, emergence of new markets in Turkey's periphery (the Balkans, Middle East, the Caucasus, the Russian Federation and Turkic Republics in Central Asia) and the other parts of the world granted new opportunities to Turkish firms. In an attempt to exploit these opportunities and to fulfill their strategic objectives, growing number of Turkish firms have been involved in FDI (Kaya, 2004; Erdilek,

2003, 2005). Turkish firms' total cumulative outward FDI stock, invested in their 1624 foreign affiliates in 80 countries, reached to \$8.138 billion in 2005 (UNCTAD, 2006). Of this total amount, only a negligible portion of investment (less than 5 percent) is made before the 1989; and, the actual capital amount and firm number appears to be much higher than this official numbers (Kaya, 2004; Erdilek, 2005).

On the other hand, during the 1990s and in the early 2000s Turkish economic, political and legal environment were very unfavorable to business organizations. The nature of Turkish business environment is well stated in the latest Organization for Economic Co-operation and Development' (OECD) publications:

An inflationary economic climate and increasing public sector debt have led to a lack of confidence, a series of financial crises, a sharp rise in real interest rates and marked depreciation of the Turkish lira. GDP [Gross domestic Product] has fluctuated strongly, punctuated by recessions and average growth has been modest given the Turkish economy's growth potential and its needs (OECD, 2004a, p. 9).

Surveys of business executives attribute not only a below average ranking to the legal and regulatory environment in Turkey but the score has to date been substantially worse than that of other lower-income OECD countries (OECD, 2004b, p. 41).

Observing the Turkish firms under these conditions, one can presume that unfavorable business environment may have influenced them to go abroad via FDI. However, to the best of our knowledge, there is no empirical study on Turkey investigating the relationship between outward FDI and unfavorable home-country business environment. Therefore, this study attempts to answer the following questions: Does home country's unfavorable business environment influence the internationalization of Turkish firms via FDI? If it does, what are they? And, what type of Turkish firms are more affected from the unfavorable business environment and went abroad? For answering these questions, we will first identify the unfavorable environmental elements (i.e., push motives) and formulate hypotheses. Secondly, we will show the relative importance push motives for Turkish firms' internationalization through FDI. Third, we will provide a parsimonious set of push motives for the sample studied by means of factor analysis. Finally, we will test hypotheses related with whether the relative importance of push motives vary with the sample characteristics of age, size and industry or not.

The remainder of the paper is organized as follow. In the next section we review the prior literature related to push motives of multinational firms and business environment of Turkey; and, develop hypotheses in relation to certain firm characteristics. Then, we explain research design and methodology. In the third section we present the results and discuss the findings. Conclusions, implications and future research directions are presented in the final section.

## 2. Literature Review and Development of Hypotheses

According to mainstream of international business literature various classifications of FDI motives exist, such as, market seeking, resource seeking, efficiency seeking and strategic asset seeking (Dunning, 1993; Wells, 1983). There are different strands of theoretical perspectives (such as location theories, transaction cost theory, risk diversification, etc.) underneath of these four types of FDI motives (see Dunning, 2000). Depending on country-level macro variables, FDI motives can also be classified as pull factors like trade barriers, low labor and raw materials costs, market size and favorable government policies (Kumar and Kim, 1984; Chernotsky, 1987), and push factors (Bulatov, 1998; Seyf, 2001) such as political instability, labor unrest and unfavorable taxation at home country (Arpan et al., 1981; Ajami and Ricks, 1981). In this study, we will focus on the effect of push factors in understanding and explaining Turkish manufacturing firms' (TMFs) internationalization process.

Kogut (1983) notes that when the firm has capabilities and the home country environment is not supportive of their activities these firms will go to other countries that offer better locational conditions. Recognizing the effect of undesirable environment on developing country originated firms, Lecraw reasoned that being effected from insecure economic and political environmental conditions, "[m]any LDC [less developed country] firms saw their investment in Thailand as a means of increasing the chance of survival of their firms by operating in as many countries as possible" (Lecraw, 1977, p.446). Dunning considers home country-related positive and negative dynamics as contextual factors of ownership-location-internalization (OLI) framework (Dunning, 2000). Nevertheless, the influence of home country' economic, political and institutional environment on outward investment of firms has received inadequate attention in the literature (Dunning, 1993).

A few empirical researches have investigated home country-related macro factor's influence on choosing a country as an investment location. In one of the earlier study, Ajami and BarNiv (1984) found that existing bilateral trade and differences in interest rates between the United States (US) and home countries are important elements in choosing the US as the target country. Using political and economic variables, Talman (1988) found that level of economic development and political risks in the industrialized countries positively correlated with their FDI outflows to the US. Examining the effect of multiple factors (economic, political, cultural and geographic) on FDI outflows from developing and developed countries to the US, Grosse and Trevino (1996) found that existing bilateral trade, home-country GDP, exchange rate, cultural distance, geographic distance, and political risk are significant factors affecting the FDI flows. Except the cultural distance, all of these fac-

tors also found to be related to FDI inflows to Mexico (Thomas and Grosse, 2001). Through a cross-sectional survey, Bulatov (1998) identified that excessive taxation; political-legal instability and high level of criminality and bureaucratization were important motivation for outward FDI of Russian firms.

Since the adoption of systems theory perspective in business organizations, the effect of external environment on business activities is widely accepted. The entities and elements in the external environment whether they are in the general environment (i.e., economic, political-legal and socio-cultural, etc.) or in the task/industry environment (e.g., customers, suppliers, competitors) directly or indirectly affect the organizational activities and performance (Mirze, 2002). In the context of Turkish business environment, between mid 1980s and early 2000s, businessmen faced several difficulties emanated from the general and task environment which created dissatisfaction and which may have pushed the Turkish firms to do outbound investment. During the mentioned period, labor costs (including social security premium, and employment tax), utility costs (energy and water), the cost of finance/credit, and the cost of raw materials and semi-finished goods were very high in Turkey (ISO, 2003; Altuner and Demirer, 1999). Turkey's political-legal environment, for the same period, is characterized by political instability (Bugra, 1994; ISO, 2003), unfavorable legal climate and regulatory conditions, including red tape (ISO, 2003; OECD 2004b), and high corporate tax rates (Duran, 2003; ISO, 2003). Similarly, Turkish business organizations had lived in an economic environment in which exchange rates were very unstable (ISO, 2002) and inflation rates were very high (ISO, 2002). In addition to these, especially during the 1990s, TMFs experienced slow growth (ISO, 2003), low profitability and increased competition, which are considered as important push motives for growth-seeking firms' FDI involvement (Kimura and Lee, 1998)

All of these issues evidently create dissatisfaction and frustration which in turn serve as push motives for Turkish firms' FDI involvement in abroad. We think that firms are affected from these factors differently depending on their age, size and industry. For this purpose, other things being constant, the following exploratory hypotheses are developed:

H1: Relative importance of push motives will vary with the firm age

H2: Relative importance of push motives will vary with the firm size.

H2a: Relative importance of push motives will vary with the firms' amount of capital.

H2b: Relative importance of push motives will vary with the firm's number of employees.

H2c: Relative importance of push motives will vary with the firms' amount of total sales.

H2d: Relative importance of push motives will vary with the firms' amount of total assets.

H3: Relative importance of push motives will vary based on sub-sector of the firm.

### **3. Methodology**

#### ***3.1. Data Collection***

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 research objectives and purposes. 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 academicians in the pertinent field who have had experiences with questionnaire survey. According to their comments, we revised the questionnaire and designed the draft form for the pilot study.

The goal of this pilot study was to ascertain whether any inconsistencies, unsuitableness exist 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 main 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, and industry. In the perceptual questions, respondents are asked to indicate the degree of influence of the 12 push motive measures in choosing a country as a FDI location at the time of establishing foreign equity ventures. Answers were assessed using five-point scales, ranging from "not influenced at all" to "influenced much". Data collection took place in the period of March 20 and September 24, 2003.

### 3.2. The 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.

The sampled 94 Turkish manufacturing firms are established as mainly joint-stock company and limited liability company in Turkey and they are 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%) are relatively young, established after the 1982 when the liberal market economy policies went into effect.

Sampled 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 old (22.3%). To determine the size of the firms, employee number and the amount of capital and total sales in U.S. dollars are used. 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%). Similarly, to provide roughly equal distribution, 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%). The 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) manufacturing sub-industry categories of firms are classified as follows: Food products and beverages (13.8 %); textiles (9.6 %); wearing apparel (7.4 %); 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 %). In these sectors, 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.

## **4. The Empirical Results and Discussions**

### ***4.1. Home Country-Related Push Motives***

The rank order of the Turkish manufacturing firms' (TMFs) home-country-related push factors based on the mean measure of the 12 push motives is shown in Table I. Looking at Table I, we see that the item that is considered of highest importance is "high utility costs" (3.54). It is no surprise that in Turkey, for example, electrical energy costs are twice as high as world prices (Demircan, 2003). The next two highly important push factors are "unstable exchange rates" (3.29) and "high inflation rates" (3.29) which have equal importance. These are clearly related with economic instability of Turkey, which have had negative influence on incoming FDI (Erdal and Tatoglu, 2002). In the last 20 years Turkish economy experienced very high inflation (in some years hyperinflation approaching 90 %), which caused a number of problems such as pricing and investment decision. Even large corporations tried to earn interest from government bonds instead of making investments in the country.

The next variable is "political instability" (3.19) which seems to be important. In the recent past, state intervention in Turkey created uncertainty via frequent change of economic policies, and blurred boundaries of intervention (Bugra, 1994). In the 1990s and early 2000s Turkey was governed by coalitional governments and about 10 governments came into power in this period (ISO, 2003). In the previous studies, even though Grosse and Trevino (1996) found weak support for home country political risk's effect on firms' outward FDI, studies done by Tallman (1988), Bulatov (1998) and Erdal and Tatoglu (2002) showed that home country political risks clearly affect the firms' outward internationalization. More specifically, Tallman (1988, p. 220) notes that "...increased conflict at home results in a national environment which threatens private investment and produces an increase in outward manufacturing direct investment. A cooperative home country political environment improves conditions for domestic investment and thus tends to reduce the incenti-

ves for overseas direct investment”. Therefore, inappropriate political environment of Turkey has an influence on outward FDI of Turkish firms.

The next issue is “high cost of finance/credit” in Turkey (3.18) which is also important; because in the last 10 years or so, to close the budget deficits Turkish governments constantly borrowed money from the local market; this policy in turn increased the interest rates; and, personal and institutional investors turned to money markets (Altuner and Demirer, 1999). The shortage of finance and high interest rates in Turkey appear to be important issue for TMF’s outward investment. Almost equally important two items are the “high employment costs” (3.16) and “high cost of raw material” (3.15). They also seem to affect TMFs’ investment abroad.

**Table 1: Relative Importance of Home Country-Related Push Motives of Turkish Manufacturing FDI Firms**

Motives	Rank	Mean	SD
High utility costs	1	3.54	1.36
Unstable exchange rates	2	3.29	1.43
High inflation rate	2	3.29	1.41
Political instability	3	3.19	1.39
High cost of finance	4	3.18	1.36
High employment costs	5	3.16	1.43
High cost of raw material	6	3.15	1.36
Unfavorable legal climate	7	3.09	1.32
Increased competition	8	3.05	1.39
High corporate tax rate	9	3.01	1.32
Slow growth of the firm	10	2.93	1.34
Low profitability of firm	11	2.91	1.39

Notes: 1. N = 94

2. The mean is the average on the scale of 1: Not influenced at all; 2: Not influenced; 3: Neither positively nor negatively influenced; 4: Influenced; 5: Influenced much.

3. SD = Standard Deviation

The concerns for “unfavorable legal climate” (3.09) and “increased competition in home market” (3.05) are just above the neutral scale. Unfavorable legal climate and regulatory conditions (including red tape) for business are widely noted in Turkey (ISO, 2003). Business facilitation such as investment promotion and incentives, hassle costs (related to corruption, administrative efficiency, etc.) are considered important non-economic determinants of FDI (UNCTAD, 1998; Jun and Singh,

1996). Nonexistence of these things may have slightly pushed Turkish firms to go abroad.

“High corporate tax rate in Turkey” (3.01) seems to be neither important nor unimportant based on average mean measure. However, corporate tax rate of 44 percent is being gradually reduced since 1996 and became 33 percent in 2002, but it is still over the average of Organization for Economic Cooperation and Development (OECD) countries’ tax rates; and, it shows similarity to developing countries tax rates rather than developed ones which are lower than the former (Duran, 2003, p.39). The last two push motives are, “slow growth of the firms in Turkey” (2.93) and “low profitability of firms in Turkey” (2.91), below the average mean measure. Slow growth can arise from deficiencies in domestic demand (as one respondent observed it in our interview), which means domestic market is too small for firms’ operations (ISO, 2003). Or, it may occur because of both stagnation of the economy (Ajami and BarNiv, 1984) and monopoly position of some firms. During the study conducted in 2003, it was evident that Turkish economy, in which state-owned enterprises were “accounted for one third of manufacturing value added” (Cavusgil, et al., 2003, p.468), were suffering from inefficiency and low productivity (McKinsey Global Institute, 2003). Yet, slow growth and low profitability do not seem to be influencing TMFs’ outward investment.

#### ***4.2. Factor Analysis of Home Country-Related Push Motives***

The assumptions of normality, linearity and homoscedasticity are checked for push motives prior to factor analysis. Almost all of the variables met these assumptions. Correlation matrix provided that 60 out of 66 correlations were above the 30 percent that is an indication of very high correlation for the application of factor analysis to push motives.

Besides, there were 20 non-redundant residuals (30 % of the total) in the Reproduced Correlation Matrix, which is less than 50 per cent of the total, demonstrating the goodness of fit for the factor analysis. Further, Anti-image Correlation Matrix, being over 0.77, indicated that none of the variables were necessary to omit. The exploratory factor analysis highlighted three factors explaining the 77.15 percent of total variance for the push motives, which are shown in Table II.

General reliability analysis of all items resulted in 0.93 Cronbach alpha; and, internal reliability of three factors were 0.93, 0.89 and 0.81, respectively. Thus, Cronbach alphas indicated very high reliability. Doing the factor analysis with oblique rotation resulted in three factors and exactly the same item loadings. Also, the resulting factors are validated via splitting sample into two and running the factor analysis one more time. Three factors of push motives are named as unfavorable business environment, efficiency-related and market-related concerns.

**Table 2:** Factor Analysis of the Push Motives of Turkish Manufacturing FDI Firms

Factors	Factor loads	Eigen-value	%Variance explained	Cum. %	Cronb. alpha
Factor 1: Unfavorable Business Environment Pushers		3.96	32.98	32.98	0.93
Unfavorable legal climate	0.90				
Political instability	0.82				
Unstable exchange rates	0.78				
High inflation rate	0.74				
High cost of finance	0.65				
High corporate tax rate	0.62				
Factor 2: Efficiency Pushers		2.86	23.83	56.81	0.89
High employment costs	0.83				
High cost of raw materials	0.82				
High utility costs	0.80				
Factor 3: Market Pushers		2.44	20.34	77.15	0.81
Low profitability of firm	0.87				
Increased competition	0.82				
Slow growth of the firm	0.71				

Notes: Principal components factor analysis with varimax rotation.  
Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.832  
Bartlett's Test of Sphericity = 906.643;  $p < 0.000$

### 4.3. Push Motives and Ages of Firms

When we classify the 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 Variance (ANOVA) test results provide strong support for H1. Specifically, except for "efficiency push factor" and the variables of "unstable exchange rates", "high inflation rate" and "slow growth of the firm" the rest of the factors and variables were significant with various degrees. Examining each group closely, we see that older firms (30 years or above) find the push factors of home country less important for their internationalization.

### 4.4. Push Motives and Sizes of Firms

In terms of push motives and firm's capital relationships, One-Way ANOVA test results showed that three variables of "high cost of raw materials and semi-finished goods" ( $p < 0.1$ ), "low profitability of firm" ( $p < 0.01$ ), "increased competition" ( $p < 0.01$ ) and one factor of "market pushers" ( $p < 0.05$ ) were significant. This provides limited support for H2a, which means that the relative importance of push motives barely vary with the firms' amount of capital.

In the case of push motives and firm employee number relationship, the support for H2b ranges from moderate to strong support. The moderate support situation was resulted in the One-Way ANOVA test where six out of twelve variables were significant with varying degree such as “unfavorable legal climate” ( $p < 0.05$ ), “high inflation rate” ( $p < 0.1$ ), “high cost of finance” ( $p < 0.1$ ), “high corporate tax rate” ( $p < 0.05$ ), “high cost of raw materials and semi-finished goods” ( $p < 0.05$ ), “high utility costs” ( $p < 0.05$ ). The strong support situation occurred when we classified firms as small (up to 500 employees) and large (more than 500 employee) and did two-sample t-test. In this test, except for two factors (i.e. “unfavorable business environment pushers” and “efficiency pushers”) and two variables (i.e. “political instability” and “high employment costs”), all the other variables’ and a factor’ mean values are significantly different with varying significance levels. By looking at mean values of t-test results, we identified that small firms consider home country business environment more unfavorable than the large firms.

On the other hand, One-Way ANOVA results assigned very strong support for H2c, indicating that relative importance of push motives vary with the parent firms’ amount of total sales. Examining the ANOVA results closely, we saw that except for the variables of “unstable exchange rates” and “high employment costs”, and the factor of “efficiency pushers”, the rest of the factors and variables were significant with varying levels. Examining each group closely, we saw that compared to large firms (total sales more than 2 million \$), small firms (total sales less than or equal to 2 million \$) consider home country-related factors more pushy (especially in terms of efficiency and market related factors).

Using four groups classification and doing One-Way ANOVA test, we got limited support for H2d. Specifically, one factor, “market pushers” ( $p < 0.05$ ), and three variables, “high utility costs” ( $p < 0.1$ ), “low profitability of firm” ( $p < 0.05$ ) and “increased competition” ( $p < 0.05$ ) were significant. Applying two-group classification we found moderate support for H2d. Two-sample t-test showed significance of seven out of 12 variables. Therefore, relative importance of push motives moderately varies with the parent firms’ amount of total assets.

#### ***4.5. Push Motives and Manufacturing Sub-Sector of Firms***

In testing H3, One-Way ANOVA test results showed that none of the variables and factors was significant. Thus, we reject the hypothesis that the relative importance of push motives will vary based on the sub-sector of the firm. The reason for not finding support for this hypothesis might be related with condensing the firms that are operating in very distinct areas to the broader classifications.

### **5. Conclusions, Implications and Future Directions**

The main goal of this study was to empirically investigate whether home country’s unfavorable business environment influence the internationalization of firms

via FDI or not. Since very few studies have been undertaken so far to empirically analyze this issue, this study provides new facts about developing country-based firms' expansion of business activities through FDI. By using the data gathered from a sample of 94 Turkish manufacturing parent firms that have equity investment in 28 countries since the mid 1980s, the study offers new empirical insights on internationalization motives of emerging economy-based firms.

In this article we argued that, with the aid of some facilitators of international business, opportunities in the new markets may have pulled competent Turkish firms to other countries. Aside from these pull factors, we reasoned that adverse business environment in the home country can push Turkish firms towards other possible favorable locations abroad. Deriving from the previous studies and confirming with interviews that is done with the managers of Turkish manufacturing FDI firms during the qualitative phase of the study, we have identified a number of push motives that home country creates for the internationalization of Turkish manufacturing firms (TMFs) via FDI. Related to push motives' influence on TMFs we have developed a number of hypotheses.

We have analyzed the data first by mean measure of push motives. Results show that utility costs, unstable exchange rates, high inflation rate and political instability are considered to be the most important push motives of TMFs (see Table I). Variation in mean measure importance of the home country-specific factors seems to be justifiable with the mentioned reasoning. Secondly, we factor analyzed the push motives for the purposes of creating clear, parsimonious and distinct factors of TMFs internationalization. We named the resulting factors as "market pushers", "efficiency pushers" and "unfavorable business environment pushers". These push motives can be regarded as reverse of widely used market seeking, efficiency seeking and favorable business environment seeking pull motives. 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, and sub-sector via appropriate statistical methods.

Statistical test results indicate that relative importance of push motives vary with respect to the sampled firm's ages. Specifically, while older firms (30 years or above) find the push factors of home country less important for their internationalization, the other firms consider them as more important. In terms of the firm size and push motive relationship, support for the size hypotheses ranges from limited to strong depending on the used size measures. On the one hand, relative importance of push motives do not vary with the firms' amount of capital but they moderately vary with the firms' amount of total assets. On the other hand, relative importance of push motives diverges with the parent firms' employee number and the amount of total sales. More specifically, small firms (i.e., employee number less than

500 and total sales less than or equal to 2 million \$) consider home country business environment more unfavorable than the large firms. Lastly, the results show that relative importance of push motives do not vary based on TMFs' sub-sector.

This study has some limitations and future research directions. First, because we investigated the influence of unfavorable business environment on the behavior of TMFs after their FDI action, it is possible that the responses were not an accurate reflection of real situation. However, we see that the business environment in Turkey has been improving considerably since 2003, the impediments have not gone away completely (Erdilek, 2005). Second, we have used perceptual measures in determining the influence of unfavorable home country factors. Using only perceptual measures is clearly a limitation. Thus, future studies can include objective measures of unfavorable business environment (interest rates, inflation rates, currency convertibility, tax rates, etc.) and examine their effect on outward FDI. Third, one can research the negative impact of FDI outflows on employment and economic growth as well as positive effect on the home country economy.

The findings of this study can help Turkish government to identify and prioritize the macro environmental problems of business organizations in Turkey. Like many developing countries, Turkey needs capital for strengthening her economic progress. If economic, political and legal impediments continue, they may restrain the domestic and international firms contemplating to invest in Turkey. Likewise, the findings of present study will also help the governments of other developing countries in recognizing and identifying factors that might encourage local firms to invest abroad and discourage the foreign FDI.

## References

1. Agarwal, J.P. (1985). Intra-LDCs Foreign Direct Investment: A Comparative Analysis of Third World Multinationals. *Developing Economies*, 23 (3): 236-53.
2. Ajami, R. and BarNiv, R. (1984). Utilizing Economic Indicators in Explaining Foreign Direct Investment in the U.S. *Management International Review*, 24 (4):16-26.
3. Ajami, R., and Ricks, D.A. (1981). Motives of non-American Firms Investing in the United States. *Journal of International Business Studies*, 12 (4): 25-34.
4. Altuner, M. and Demirer, N. (1999). Türkiye'nin 20 Yapısal Sorunu (20 Structural Problems of Turkey), *Ekonomik Forum*, 6 (3): 55-65.
5. Arpan, J. S., Flowers, E. B. and Ricks, D. A. (1981). Foreign Direct Investment in the United States: The State of Knowledge in Research, *Journal of International Business Studies*, 12 (Spring/Summer): 137-154.
6. Bugra, A. (1994). *State and Business in Modern Turkey a Comparative Study*. Albany, NY: State University of New York Press.
7. Bulatov, A. S. (1998). Russian Direct Investment Abroad: Main Motivations in the Post-Soviet Period. *Transnational Corporations*, 17 (1): 69-82.
8. Cavusgil, S.T., Civi E., Tufek, H. H. and Dalgic, T. (2003). Doing Business in Turkey. *Thunderbird International Business Review*, 45 (4): 467-479.
9. Chernotsky, H.I. (1987). The American Connection: Motives for Japanese Foreign Direct Investment. *Columbia Journal of World Business*, Winter: 47-54.
10. Daniels, J.D. (1970). Recent Foreign Direct Manufacturing Investment in the United States. *Journal of International Business Studies*, 1(1): 125-132.
11. Demircan, H. (2003). *Dünyada ve Türkiye'de Yabancı Sermaye Yatırımları ve Stratejileri (Foreign Direct Investment Strategies in the World and in Turkey)*. Ankara:T.C. Başbakanlık Hazine Müsteşarlığı.
12. Dunning, J.H. (1993). *Multinational Enterprises and Global Economy*. New York: Addison-Westley.
13. Dunning, J.H. (2000). The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity. *International Business Review*, 9: 163-190.
14. Duran, M.S. (2003). *Teşvik Politikaları ve Doğrudan Sermaye Yatırımları (Incentive Policies and Foreign Direct Investment)*. Ankara: T.C. Başbakanlık Hazine Müsteşarlığı.

15. Erdal, F. and Tatoglu, E. (2002). Locational Determinants of Foreign Direct Investment in an Emerging Market Economy: Evidence from Turkey. *Multinational Business Review*, 10 (1): 21-27.
16. Erdilek, A. (2003). A Comparative Analysis of Inward and Outward FDI in Turkey. *Transnational Corporations*, 12 (3): 79-105.
17. Erdilek, A. (2005). Turkish Outward Foreign Direct Investment. *Paper Presented at International Conference on Business, Economics and Management*, Çeşme, İzmir, Turkey.
18. Grosse, R. and Trevino, L. J. (1996). Foreign Direct Investment in the United States: An Analysis by Country of Origin. *Journal of International Business Studies*, First Quarter: 139-155.
19. ISO (2002). *İstanbul Sanayi Odasının Ellinci Yılında Türk Sanayii (Turkey's Industry in the 50th Anniversary of Istanbul Chamber of Industrialists)*. Istanbul: İstanbul Sanayi Odası (İSO) Yayınları.
20. ISO (2003). *İstanbul Sanayi Odası Sanayi Kongresi: Sürdürülebilir Kalkınma (Istanbul Chamber of Industrialists Industry Congress: Continuous Development)*. Istanbul: İstanbul Sanayi Odası (İSO) Yayınları.
21. Jun K.W. and Singh, H. (1996). The Determinants of Foreign Direct Investment: New Empirical Evidence. *Transnational Corporations*, 5 (2): 67-105.
22. Kalotay, K. (2004). Outward FDI from Central and Eastern European Countries. *Economics of Planning*, 37: 141–172.
23. Kaya, H. (2004). *Internationalization of Turkish Manufacturing Firms: Foreign Direct Investment Outflow*. Unpublished PhD Thesis, Institute of Social Sciences, Bogazici University, Istanbul, Turkey.
24. Kimura, Y. and Lee, H.K. (1998). Korean Direct Investment in Manufacturing: Its Patterns and Determinants – An Empirical Analysis. *Journal of International Management*, 4 (2): 109-127.
25. Kogut, B. (1983). Foreign Direct Investment as a Sequential Process. *The Multinational Corporations in the 1980s*, (Eds.) Kindleberger, C. P. and Audresch, D. MA: MIT Press:
26. Kumar, K. and Kim, K. Y. (1984). The Korean Manufacturing Multinationals. *Journal of International Business Studies*, Spring/Summer: 45-60.
27. Lecraw, D. (1977). Direct Investment by Firms from Less Developed Countries. *Oxford Economic Papers*, 29 (3): 442-457.

28. McKinsey Global Institute (2003). *Turkey: Making the Productivity and Growth Breakthrough*, [www.Mckinsey.com](http://www.Mckinsey.com) (accessed in December, 2005)
29. Mirze, S. K. (2002). *Introduction to Business*. İstanbul: Literatur Publishing.
30. O'Brien, P. (1980). The New Multinationals: Developing-Country Firms in International Markets. *Futures*, 12 (4): 303-316.
31. OECD (2004a). *Small and Medium-Sized Enterprises in Turkey-Issues and Policies, 2nd OECD Conference of Ministers Responsible for Small and Medium-Sized Enterprises: Documentation and Presentations*. Organization for Economic Co-operation and Development (OECD) <http://www.oecd.org/dataoecd/5/11/31932173.pdf> (accessed in November, 2005)
32. OECD (2004b). *OECD Economic Surveys: Turkey*. Paris:Organization for Economic Co-operation and Development (OECD) Publications.
33. Seyf, A. (2001). Can Globalisation and Global Localisation Explain Foreign Direct Investment? Japanese Firms in Europe. *International Journal of the Economics of Business*, 8 (1): 137- 153.
34. Tallman, S.B. (1988). Home Country Political Risk and Foreign Direct Investment in the United States. *Journal of International Business Studies*, Summer: 219-234.
- 35: Thomas, D. E. and Grosse, R. (2001). Country-of-Origin Determinants of Foreign Direct Investment in an Emerging Market: The Case of Mexico. *Journal of International Management*, 7: 59-79.
36. United Nations Conference on Trade and Development (UNCTAD) (1998). *World Investment Report 1998: Trends and Determinants*. New York and Geneva: United Nations Publication.
37. United Nations Conference on Trade and Development (UNCTAD) (2006). *World Investment Report 2006: FDI from Developing and Transition Economies: Implications for Development*. New York and Geneva: United Nations Publication.
38. Wells, L. T. (1983). *Third World Multinationals*. Cambridge, MA: MIT Press.

