Foreign Direct Investment in Turkey
Determinant Factors and Advantages for Swedish Firms

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Abstract

Turkey's strategic geographical location, the country's unique Customs Union with the EU and its growing market potential are all factors that create market opportunities for foreign investors. However, despite the presence of necessary economic prerequisites and a diminishing number of barriers to entry, FDI in Turkey has remained quite low. Further, this area has not been covered extensively in the past and has therefore been of interest to study.

The purpose of this study has been to identify the determinant factors behind Swedish firms' investment decisions in Turkey and thus find the advantages that Turkey provides for Swedish firms. The motives and advantages form a proposal for how to best promote Turkey as an interesting market for Swedish firms interested in FDI.

A list of Swedish subsidiaries in Turkey was provided by the Swedish Trade Council in Istanbul and came to represent the selected population. The firms were contacted, using both e-mail and telephone, and were requested to respond to an e-mail survey. The final response rate was 22%. The firms' responses were then analysed together with secondary data such as general facts about Turkey as well as a business climate report about Turkey made by the Swedish Trade Council in November 2005.

Regarding the firms' ownership-specific advantages, the results showed that firm size is irrelevant to the investment decision, while research and development expenditure as well as a long international experience is a condition.

Concerning Turkey's location-specific advantages, market potential, the country's geographic position, its labour costs and its educational level, are important determinant factors as well as the business climate and the economic climate in Turkey. Agglomeration benefits, in business areas where they exist, and the possibility to receive assistance from external actors when entering a foreign market are also important determinant factors. Furthermore, infrastructure is an important determinant factor, but not of a conclusive significance to the investment decision. In addition to the specified variables, the political situation in Turkey was cited as an important determinant factor. The cultural distance between Turkey and Sweden was the only location-specific factor that proved not to be a determinant factor at all.

Conclusively, the Turkish market offers several advantages to Swedish firms wanting to engage in foreign direct investments. First, Turkey has a strategic geographic position that offers proximity to many other markets. Second, the Turkish market potential is alluring and offers opportunities of long term growth. Third, there are possibilities to receive assistance from external actors which facilitates overcoming probable obstacles that might occur when entering the Turkish market. Fourth, the process of establishing a labour force is freed from complications since labour costs are lower in Turkey than in Sweden and the access to highly educated personnel is good. Last, ongoing development in Turkey's business and economic climate decreases the investment risk involved when entering the Turkish market.
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1. Introduction

1.1 Study Background

Globalisation, the growing integration of economies and societies around the world (World Bank, 2005), is not a new phenomenon. Economic activity between people on different geographic locations has existed for centuries. The unique part for present globalisation is the rapid pace at which it is accelerating. This is also why globalisation today not only includes the exchange of goods and services, but also can be specified as the integration of trade, capital flows, labour or technological transfers between nations (Dutt, 2001). Especially the latter aspect, technology, with its effect on the speed of travel and communications, has created a new dimension to the economic, social and cultural integration of the modern world (Isaac, 2003).

Even though the expression ‘globalisation’ itself has been debated by several researchers, the extensive change in global trade during the last decades has been obvious. Not only has the Internet changed the way in how to do business outside national borders, but it has also changed the requirements needed for global trade. A new segment of competition has arisen with solely Internet-based companies, and it has also made it easier for smaller firms to expand abroad without massive resources. The intensified competition has resulted in developing economies becoming new emerging markets by making use of their competitive advantages. All of the above changes have forced Multinational Enterprises (MNEs) to adopt and develop new strategic approaches in order to survive.

Given Sweden’s small size and its limited domestic market, Swedish companies have been forced to trade internationally on a relatively early stage in order to expand their businesses. The small domestic market has made Sweden well integrated with, but also dependent on, its international trade. Sweden’s main trading partner regarding exports is the United States, while Germany is Sweden’s main import partner (Statistics Sweden, 2005). In 2005, Turkey represented merely 0.9% of Sweden’s total export and 0.7% of the total import which represents an increase of 22% and 27%, respectively, between 2004 and 2005 (Ibid.).

Turkey is situated on the crossroads between Europe and Asia and has a population of 70 million. Its strategic geographical location adds value to the country’s economic potential, creating market opportunities for foreign investors. 20% of the population is assumed to have Western purchasing power and 8 million people are considered having strong purchasing power (Swedish Trade Council, 2005). Turkey has had the strongest economic development within the OECD, which makes the country an expansive market (Ibid.). The same source also reports that Turkey’s growth rate has had an average of 4.5% per year since 1981 and given a continued progress in the
same direction, Turkey is expected to be the 16th largest economy in the world in 2025. Along with China, India, Russia and Brazil, Turkey has been named to be one of the ten emerging markets in the world by the World Bank as well as the US Department of Commerce (The World Bank, Erdal & Tatoğlu, 2002). During 2004, Turkey’s economic growth rate was 9.9% of which the main growth was in exports (The Swedish Trade Council, 2005).

The increasing Foreign Direct Investment (FDI) in Turkey after 1980 has been the result of comprehensive economic reform programs performed by the Turkish government (FDI Magazine and Erdal & Tatoğlu, 2002). These liberalisation policies made the Turkish economy more open to FDI. The Turkish market is highly interesting for the Swedish industry, both because of the increasing growth rate but also because of the geographical location between Europe and Asia, making the Central Asian market more accessible for Swedish MNEs.

Turkey is a quarter of the size of the EU in terms of geographical area and has a population that is one-fifth of that of the EU. This fact puts the country among the top 25 economies in the world in terms of Gross Domestic Product (GDP) (FDI Magazine, 2004). On January 1st 1996, a Customs Union between Turkey and the EU came into effect. Turkey is the only country to have a Customs Union agreement with the EU without being a member state. The Customs Union allows the free circulation of industrial goods and processed agricultural products and has resulted in a closer economic and political relationship between the EU and Turkey. Customs duties and charges have been abolished and quantitative restrictions such as quotas are prohibited. The Customs Union extended most of the EU's trade and competition rules and made the Turkish economy even more open to FDI.

On December 17, 2004, Turkey was granted to start negotiating for an EU membership provided the amendment of certain laws (Swedish Trade Council, 2005). On October 3 in 2005 the Turkish government and the EU started their negotiations. However, in order to continue the negotiations, Turkey has to implement several reforms within two years. The EU is, for example, demanding civil control over the military, freedom of religion and total prohibition towards torture (Sveriges Television, 2005). Nevertheless, it is estimated that it might take about 10 to 15 years before Turkey will be a full member of the EU (Svenska Dagbladet, 2005).

Turkey being an emerging market as well as a growing export partner to Sweden was the key motive for developing the purpose of the study presented below. The current EU negotiations further added on to the interest and importance to study the background to and the motives for Swedish MNEs’ choices to engage themselves in FDI in Turkey.

1.2 Discussion of the Problem

Despite the presence of necessary economic prerequisites and a diminishing number of barriers to entry, FDI in Turkey has remained quite low (FDI Magazine, 2004), especially when compared to other emerging markets such as the Far Eastern and Latin American countries (Erdal & Tatoğlu, 2002). However, it should be emphasized that FDI in Turkey is increasing, even though the progress is slow (Turkish Treasury Department statistics, 2005 and Swedish Trade Council figures, 2005).
As mentioned earlier, FDI in Turkey has remained relatively low and this area of study not being covered extensively despite its growing importance. It was therefore of interest to identify what objectives Swedish firms, already established in Turkey, had when engaging in FDI in Turkey, and what advantages they hoped to gain by choosing to invest in Turkey and what kind of location advantages Turkey provides as a host economy.

1.3 Statement of the Problem
The problem of this study is to find out the following:

1. What is the nature of the ownership advantages of Swedish firms in Turkey?
2. What kinds of location advantages does Turkey provide Swedish firms and how does it affect the location decision?

1.4 Purpose of the Study
The study aims to:

1. Identify the determinant factors behind Swedish firms' investments in Turkey.
2. Find the advantages that Turkey provides for Swedish firms.

The determinant factors and advantages form a proposal for how to best promote Turkey as an attractive market for Swedish firms interested in FDI.

1.5 Delimitations
The Swedish firms referred to in this study have already made direct investments in Turkey. The selection is based on information provided by the Swedish Trade Council in Istanbul, Turkey.

1.6 Study Design
Chapter 1 includes an introduction to our study and its main theme; determinant factors and advantages for Swedish firms investing in Turkey. It is followed by a discussion and a statement of the problem. Thereafter, the purpose of the study and its delimitations are presented.

Chapter 2 overviews the theoretical findings related to FDI operations and determinant factors. The findings are presented briefly to give an idea about the diversity of theories explaining FDI. Conclusively, the selected theories are summarized in a table at the end of the chapter.

Chapter 3 reviews the theoretical framework of this study, Dunning’s Eclectic Paradigm and FDI determinant factors are developed and presented in order to be examined subsequently.
Chapter 4 presents the research process as well as the data analysis process of the study. It discusses and explains the advantages and the disadvantages of the used methods and why these methods were found to best suit the study.

Chapter 5 presents the results of our empirical findings as well as relevant background information about Turkey.

Chapter 6 analyses the empirical findings, presented in Chapter 5 with the purpose to detect possible patterns.

Chapter 7 presents the analytical results of the empirical findings. Thereby, the questions developed in the problem discussion in Chapter 1 are answered.

Chapter 8 concludes the main results in order to verify whether or not the purpose of the study has been accomplished.

Chapter 9 discusses the validity and reliability of the study based on the methodological choices made for both the research and the data analysis process. Possible areas for future research will also be discussed.
This chapter includes an overview of theoretical findings related to FDI operations and determinant factors. The findings are presented briefly to give an idea about the diversity of theories explaining FDI. Conclusively, a summary of the selected theories can be found in Table 2.1.

2. Literature Review

The reasons behind why a firm decides to internationalise can be numerous and diverse in their nature. Whether the firm’s aims are to increase sales, to spread risks or to improve its image, it also has many choices of entry mode when engaging itself in international trade. There are today three different known modes of foreign market entry. Before engaging in international trade, a firm can choose to either use an export mode, an intermediate mode or a hierarchical mode of entry on the foreign target market (Cullen, 2002; Hollensen, 2001; Kim et al, 2002; Marshall, 2003).

![Foreign Market Entry Modes Diagram]

Figure 2.1 Foreign Market Entry Modes


The different modes vary in risk, control and flexibility and are therefore suitable for different kinds of markets. A more detailed explanation of the different entry modes can be found in Section 11.1.3.
2.1 Definition of FDI

Definitions of FDI are enclosed in the International Monetary Fund’s (IMF) Balance of Payments Manual (1993) and in the Organization for Economic Cooperation and Development’s (OECD) Detailed Benchmark Definition of Foreign Direct Investment: Third Edition (1996). The United Nations Conference on Trade and Development (UNCTAD) states that according to the IMF’s Balance of Payments Manual, FDI refers to an investment made to acquire lasting interest in enterprises operating outside of the economy of the investor. Further, in cases of FDI, the investor’s purpose is to gain a powerful position in the management of the firm. Here, the components of FDI are identified as equity capital, reinvested earnings and other capital (mainly intra-company loans), (Ibid.).

The IMF (1993) defines a foreign direct investment enterprise as “an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or the voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise”. The IMF’s definition is the most commonly used definition of FDI.

The OECD (1996) has also developed a definition of FDI. Their definition is more extended and can be found in its entirety in Section 11.1.4.

After studying the illustrations of various foreign market entry modes and the definitions of FDI, it can be stated that FDI can undertake both an intermediate and a hierarchical market entry mode. Usually FDI means that an MNE owns, in part or in whole, an operation in another country (Cullen, 2002). In this paper, the IMF’s definition of FDI will be used.

2.2 Selected Theories Explaining FDI

Early internationalisation literature aroused from the general marketing theories of the firm and its environment (Hollensen, 2001). It wasn’t until later, starting with Hymer’s dissertation in 1960, that the theory of FDI started to develop in reality. The concept of FDI is still at an early stage and does not yet have its own single theory. This is why there is a need to present the main frameworks that scholars around the world have developed during the years in order to show the existing diversity of theories explaining FDI.

2.2.1 Imperfect Markets Theory

In his work, The Nature of the Firm (1937), R.H. Coase focuses on the nature of the firm and its closest environment. At this early stage of international business studies, Coase illustrates what is today known as the concept of imperfect markets; how the existence of risk and uncertainty (the presence of ignorance and the choice of acting upon opinion instead of knowledge) in the firm’s nearest environment results in the absence of perfect competition (Coase, 1937). This results in costs of exchange transactions, and thus demonstrates that firms can be efficient alternatives to markets (Ibid.).
The concept of exchange transactions became the basis for many scholars in the 1970s when deriving the Internalisation/Transaction Cost Theory that will be described in detail below.

2.2.2 The Evolution of FDI Theory
Previoius to Hymer’s dissertation in 1960, there was no separate theory or concept of foreign direct investment (Dunning & Rugman, 1985). Most of the literature in foreign market entry involved the choice between exporting and FDI (Buckley & Casson, 1998). Hymer’s pioneering work declared the fact that FDI is more than a process by which assets and or claims are exchanged internationally. Hymer, like Coase in 1937, stated that the MNE is a consequence of imperfect domestic markets and that therefore the MNE has the ability to use its international operations to separate markets and remove competition, or to exploit an advantage (Ibid.). Hymer focused the attention on the MNE as an *institution for international production* rather than international exchange (Ibid.).

Rugman (1986) objected to the fact that Hymer has been named the grandfather of FDI theory by claiming that he “only focused upon the market closing activities of the MNE, such advantages giving it asset power as a response to structural rather than to market imperfections”. Rugman also criticises Hymer for merely focusing on the MNE having advantages being examples of monopolistic market activities and thereby not making statements about internalisation or transaction cost arguments. Hymer’s work may not seem very revolutionary for contemporary international business studies when compared to the work of his following scholars. However, his at the time, new way of viewing FDI should be emphasised.

2.2.3 The Transaction Cost Approach/The Internalisation Theory
Coase’s initial market imperfections theory in 1937 paved the ground to what has later been known as the Internalisation or the Transaction Cost Theory, as mentioned earlier. Williamson (1975 through Rugman 1986) is one of the more modern interpreters of the Transaction Cost theorem. Williamson developed a framework saying that organisational failure leads to transactional costs which in turn lead to the advantages of hierarchical organisation (the internalisation of the organisation) instead of markets (Ibid.).

The Internalisation theory was not a new phenomenon during the 1970s. Scholars (Aliber 1983 and Kindleberger 1984; both through Rugman 1986) argue that even Hymer was familiar to the existence of the transaction cost perspective despite the fact that it at no point is mentioned in his dissertation in 1960.

2.2.4 The Uppsala School Approach/The Nordic Internationalisation Model
During the same time period as Williamson developed his framework, researchers at the University of Uppsala, Sweden (Johanson & Wiedersheim-Paul 1975 and Johanson & Vahlne 1977) developed an FDI model that has been given various names such as The Uppsala School Approach or the Nordic Internationalisation Model or the Scandinavian ‘Stages’ Model. The model “focuses on the gradual acquisition, integration and use of knowledge about foreign markets and operations, and on the incrementally increasing commitments to foreign markets” (Johanson &
Vahlne, 1977). It is often used to show that enterprises tend to intensify their commitment toward foreign markets as their experience grows (Hollensen, 2001).

2.2.5 The Eclectic Paradigm/The OLI Approach

When Dunning first presented the concept of the Eclectic Paradigm of international production in 1976, his main goal was to broaden the current theory of international production and growth of firms (Dunning, 1988), hence the name ‘eclectic’.

Dunning (1980, 1988) stated three main determinants for MNEs to engage in FDI:

1. **Ownership advantages** – the extent to which the firm has tangible and intangible assets unavailable to other firms (Dunning, 1980; Dunning, 1988).
2. **Location advantages** – the extent to which the firm will profit by locating its ownership advantages on a foreign market (Ibid.).
3. **Internalisation advantages** – given that it must be in the best interest of firms possessing ownership advantages to transfer them across national boundaries within the own organisation, rather than selling them, or the right to use them, to foreign firms (Dunning, 1988). In so doing, the internalisation of the organisation creates added value to the firm (Dunning, 1998, Dunning, 2001).

All of the above criteria in the Eclectic Paradigm (also named the OLI Approach based on the first letter of each advantage) must be satisfied in order for a firm to engage in international production. It should be noted that the internalisation advantage merely is an expression of the first two advantages which is further specified by Dunning (1980) when explaining the correlation of the advantages as the following: "The more the ownership-specific advantages possessed by an enterprise, the greater the inducement to internalize them; and the wider the attractions of a foreign rather than a home country production base, the greater the likelihood that an enterprise, given the incentive to do so, will engage in international production."

Despite his goal to broaden international business studies with his OLI framework, Dunning (1995, through himself, 2001) considers that there is still no satisfactory theory of international trade that fully explains all forms of exchange of goods and services across national borders. However, Tahir and Larimo (2002) and other fellow scholars use Dunning’s Eclectic Paradigm as they claim that it has proved to be the most comprehensive explanation of international production by providing a wide analytical framework for explaining the determinants of international production and how it differs between firms, industries and countries over time. Dunning himself states that the Eclectic Paradigm “is best regarded as a framework for analysing the determinants of international production rather than as a predicative theory of the MNE” (Dunning, 2001) as well as it may be used to explain the level and pattern of trade (Ibid.). Given the aim of this study being to identify the determinant factors for Swedish MNEs in Turkey, the Eclectic Paradigm will be the main framework and will therefore be studied further in detail in Chapter 3.
### 2.3 Summary of Selected FDI Theories

Table 2.1 Summary of Selected FDI Theories

<table>
<thead>
<tr>
<th>Researcher</th>
<th>Theory</th>
<th>Main Focus of the Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coase (1937)</td>
<td>Imperfect Markets</td>
<td>Firm risk and uncertainty results in the absence of perfect competition.</td>
</tr>
<tr>
<td>Hymer (1960)</td>
<td>FDI</td>
<td>General FDI study. The MNE is a result of imperfect markets and is viewed as an institution of international production.</td>
</tr>
<tr>
<td>Williamson (1975)</td>
<td>Transaction Cost / Internalisation Approach</td>
<td>Imperfect markets result in transaction costs. This in turn favours the internalisation of firms that hence become MNEs.</td>
</tr>
<tr>
<td>Johanson &amp; Wierdsheim-Paul (1975)</td>
<td>The Uppsala School Approach / Nordic</td>
<td>How firms enter foreign markets gradually and how their commitment deepens with growing experience.</td>
</tr>
<tr>
<td>Johanson &amp; Vahlne (1977)</td>
<td>Internationalisation Model</td>
<td></td>
</tr>
<tr>
<td>Dunning (1980, 1988, 2001)</td>
<td>The Eclectic Paradigm / The OLI Approach</td>
<td>A firm will engage in international production if the following conditions are satisfied: 1. The firm possesses ownership advantages. 2. The firm will profit by locating these ownership advantages abroad. 3. The firm will profit if it internalises its ownership advantages rather than selling/leasing them to foreign firms.</td>
</tr>
</tbody>
</table>

Source: Authors
This chapter reviews the theoretical framework of this study; Dunning’s Eclectic Paradigm and FDI determinant factors are developed and presented in order to be examined subsequently.

3. Conceptual Framework for FDI Determinant Factors

3.1 The Eclectic Paradigm Reviewed

The Eclectic Paradigm was first presented in Chapter 2 (see Section 2.2.5). As a review, when developing his framework, Dunning (1980, 1988) presented the three main determinants for MNEs to engage in international production:

1. Ownership advantages – A firm possesses knowledge-related assets unavailable to other firms (Dunning, 2001).
2. Location advantages – The firm will profit when locating its ownership advantages on a foreign location that might offer unspoilt natural resources, lower labour cost, favourable government policies such as corporate tax and tariff barriers (Ibid.).
3. Internalisation advantages – The ownership advantages can be transferred on a foreign location but within the firm through the third advantage – internalisation - and hence create added value (Ibid.) to the firm.

International production is here defined as “production financed by FDI and undertaken by MNEs” (Ibid.). It should be noted that in this model, the advantages or disadvantages of particular locations are separated from the ownership advantages of particular firms as they may be specific depending on region, country or industry (Dunning, 1988). However, the readers should be reminded that as mentioned above, the main view of the theory is that the more ownership advantages a firm has, the more likely it is to internalise them and therefore prefer to engage in FDI (Dunning, 1980).

3.2 FDI Determinant Factors within the Eclectic Paradigm

Despite its worldwide success and use, the Eclectic paradigm has not been developed further by Dunning except for its three OLI advantages. Each advantage possesses different characteristics and can thereby be divided into several factors that create the specific advantage. There are no definitions of what factors each advantage consists of. In his 2001 paper, The Eclectic (OLI) Paradigm of International Production: Past Present and Future, Dunning exemplifies some factors that can be applied to the location-specific advantages. These factors will be clarified below. Given the broad and complex area that the Eclectic Paradigm encompasses, many academic papers have been based upon Dunning’s famous framework. After studying some of these papers (e.g. Agarwal and Ramaswami, 1992; Tahir and Larimo, 2002) certain common factors belonging to the OLI advantages have been distinguished. These factors make the FDI determinant factors that will be used in our study.
3.2.1 Ownership-specific Factors

Dunning (2001) defines the ownership advantages as “any kind of asset that generates income and that allow firms to engage in foreign production”. In order to generate income and to be able to survive among its competitors, international firms must possess superior assets and skills that can earn enough to counter the higher cost of servicing these markets (Agarwal and Ramaswami, 1992). Due to the nature of the ownership-specific advantages, the following factors are more of a descriptive character. Three main FDI determinant factors within the ownership advantages have been found throughout the studies; the investing firm’s Size, Research and Development Intensity and International Experience.

- **Firm Size**
  Firm size is a factor that many scholars (Agarwal and Ramaswami, 1992; Hollensen, 2001; Tahir and Larimo, 2002; Terpstra and Yu, 1988) have used as an ownership-specific FDI determinant factor. Large firms are often considered to have more possibilities due to their large resource base. Their size has also been explained to be a prerequisite in order to be able to undertake the commitment and risk that is involved when engaging in FDI (Hollensen, 2001). Large firms can also exploit benefits of economies of scale in production (Tahir and Larimo, 2002). The relationship between firm size and FDI has been demonstrated to be positive (Agarwal and Ramaswami, 1992; Tahir and Larimo, 2002; Terpstra and Yu, 1988). When referring to a firm size, we assume it to be sales volume (Agarwal and Ramaswami, 1992) and as well as employee amount.

- **Research and Development Intensity**
  The term ‘R&D Intensity’ is used as an ownership-specific factor by Tahir and Larimo (2002). This ownership advantage essentially refers to the fact that the firm invests in technology and thereby has assets in skills, such as an ability to develop differentiated products, also known as intangible assets. Naturally, the firm aims to protect and increase its competitiveness. When this type of innovation level is high, higher control modes of entry may be efficient (Agarwal and Ramaswami, 1992). Dunning (2001) states that a R&D-intense firm’s goal of internalising often is to coordinate existing assets with new assets. In the study, the R&D intensity of the investing firm is measured by the percentage of the group’s turnover spent on research and development.

- **International Experience**
  A firm’s international experience is one of the ownership-specific factors that have been cited to be an important FDI determinant (Agarwal and Larimo, 2002; Hollensen, 2001; Tahir and Larimo, 2002; Terpstra and Yu, 1988). International experience refers to the degree to which a firm has been involved in international operations. International experience reduces the cost and uncertainty of serving a market, and as a result increases the likelihood of firms committing resources to foreign markets (Hollensen, 2001). The latter has been stated by Johanson & Vahlne (1977) in the Uppsala School Model where international firms intensify their commitment toward foreign markets as their experience in international operations grows. In many of the studied papers, a firm’s international experience and FDI are demonstrated to be positively related (Agarwal and Ramaswami, 1992; Tahir and Larimo, 2002; Terpstra and Yu, 1988). In this study, international experience refers to
the number of years that the firm has been involved in international operations as well as the number of countries in which it is present.

3.2.2 Location-specific Factors

The location-specific factors describe different features of the country in which the firm possessing ownership advantages has decided to invest. Some of the factors have been mentioned earlier by Dunning (2001), as well as other scholars (e.g. Agarwal and Ramaswami, 1992; Tahir and Larimo, 2002). Other factors have been added by the authors, suited specifically for the target country in this study, Turkey. Some of the following factors are of a descriptive character, but also more complex and somewhat hard to define as they are connected to social behaviour or related to potential events related to the future. The different FDI determinant factors within the location advantages that have been chosen are; Cultural Distance, Geographic Position, Infrastructure, Agglomeration Benefits, Market Potential, External Actors, Labour Cost, Educational Level, Business Climate, Economic Climate and Other Variables.

- Cultural Distance

Culture is a location-specific factor that is connected to social behaviour and thus somewhat hard to define. Culture can be described as “the collective programming of the mind which distinguishes the members of one human group from another” (Hofstede, 1980 through Hollensen, 2001). Cullen (2002) defines culture as “the pervasive and shared beliefs, norms, and values that guide the everyday life of a group”.

Many scholars (Cullen, 2002; Grosse and Trevino, 1996; Kogut and Singh, 1988; Tahir and Larimo, 2002 among others) argue that the higher the cultural distance between two countries, the lower the propensity for a firm in one of the countries to engage in FDI in the other. Terpstra and Yu (1988) also claim that the closer geographically two countries are, the higher the possibility is for them to share a similar culture. The claimed positive relation between geographic proximity and FDI is discussed more in detail below. Kogut and Singh (1988) found that the national culture also has an effect on the chosen entry mode, a discussion that was later followed by other scholars (Bouthers and Brouthers, 2001; Erramilli, 1996; Erramilli and Agarwal and Kim, 1997; Green and Meyer, 1997).

In his study, Hofstede (1983) defined four dimensions of national culture (individualism versus collectivism, large or small power distance, strong or weak uncertainty avoidance and masculinity versus femininity) and studied differences between people’s work-related values between 50 countries, among which Sweden and Turkey were present. In Hofstede’s results (1983) one can distinguish some clear differences between Sweden and Turkey within his model of four dimensions of national culture. Sweden showed an obvious high level of individualism while Turkey had a low level, meaning it proved to have more of a collectivist culture. Power distance was observed low in Sweden and high in Turkey. Uncertainty avoidance was weak in Sweden and strong in Turkey, meanwhile both countries showed to have feminine values. Given the obvious cultural differences between Sweden and Turkey, it should be of even more interest to study if cultural distance has been a determinant factor for Swedish firms when deciding to invest in Turkey.
Despite the fact that the majority of studied papers argue that high cultural distance lowers the propensity for a firm in one country to invest in a culturally distant country, it should be noted that Tahir and Larimo (2002) also mention scholars (Benito and Gripsrud, 1992) that found that high cultural distance does not always have a negative effect on firm’s FDI decisions.

In this paper, cultural distance will not be studied further in detail. It will merely remain a determinant factor in order to identify differences in social behaviour patterns based upon the replies from the responding firms.

- **Geographic position**
  As mentioned above, geographic proximity and FDI are often claimed to be positively related (Grosse and Trevino, 1996; Terpstra and Yu, 1988), mostly because it is assumed that the closer geographically two countries are, the higher the possibility is for them to share a similar culture (Terpstra and Yu, 1988). However, in Turkey’s case, geographic position has a specific value due to its positioning on the crossroads between Europe and Central Asia, Middle East and North East Africa which is why it should be of interest to study this factor further.

- **Infrastructure and Agglomeration Benefits**
  Infrastructure is a location-specific factor that is mentioned by Dunning (2001). In this study, Turkey’s infrastructure level is considered in terms of transportation (air, land and sea) and in terms of telecommunications (fax, landline telephone, mobile telephone network and Internet). A country’s infrastructure level affects the firm’s transportation and communication possibilities with its mother country as well as its customers and employees within the country.

  Dunning (1998, 2001) also mentions agglomeration benefits as a location-specific factor. Agglomeration benefits imply the concentration of a certain industry in a specific geographic location, such as Silicon Valley, California. According to Dunning (2001), agglomeration benefits and FDI are positively related.

- **Market potential**
  Market potential comprises a number of factors related to the market in which the firm has decided to invest in. The market’s size and growth are two of the most common factors that are mentioned in relation to this context. Agarwal and Ramaswami (1992) state that market size and growth offer a greater long-term profitability to the firm. Together with Tahir and Larimo (2002) and Terpstra and Yu (1988), Agarwal and Ramaswami (1992) prove market size and growth to be positively related with FDI. Competitor intensity is mentioned by Dunning (2001) as an important location-specific factor. The authors have also added country GDP and target customer buying power as important location-specific factors when firms decide to invest abroad.

- **External actors**
  When investing abroad, the assistance of external actors such as trade councils, chambers of commerce, private consultants, legal councils or other parties knowledgeable in the certain market can often be of great relief to the firm. This is why it should be of interest to observe how the presence or absence of these parties has affected the firms’ decision to invest in Turkey.
- **Labour cost**
  Labour cost as a location-specific factor is brought up by both Dunning (2001) and Tahir and Larimo (2002). Labour costs may vary immensely between different countries due to government policies and they should therefore be taken into consideration by firms when deciding to invest abroad.

- **Educational Level**
  The access to highly educated personnel is a location-specific factor that Dunning (2001) brings up. High educated personnel is often required by firms that invest in technology and have assets in skills, such as abilities to develop differentiated products (intangible assets). The access to highly educated personnel in interaction with labour cost affects the firm’s decision to go abroad in the sense that it either will find high-skilled labour on location or has to bring its own personnel from its home location. This involves a large amount of cost for the investing firm which is why it should be taken into consideration.

- **Business Climate: Corporate Tax Rates and Trade agreements, Laws and Regulations**
  Corporate tax rates, trade agreements and laws and regulations are location-specific factors involving the county’s business climate. These factors are mentioned by many scholars (Dunning, 2001; Tahir and Larimo, 2002; Agarwal and Ramaswami, 1992) since they are aspects that most firms have to consider when starting up their businesses.

- **Economic Climate: Inflation and Exchange Rate Fluctuations**
  Tahir and Larimo (2002) as well as Agarwal and Ramaswami (1992) mention economic variables such as inflation and exchange rate fluctuations as investment risks. Fluctuations in both variables can involve large amounts of financial loss as well a general notion of instability which may affect the firm’s decision to invest abroad.

- **Other Variables**
  Agarwal and Ramaswami (1992) refer to investment risk as the uncertainty over present economic and political conditions, i.e., the business- and economic factors mentioned above. Nonetheless, there are other location-specific factors that may have an impact on a firm’s decision to invest abroad. In the case of Turkey, there are a few variables that should be cited. Turkey is a country with a history of natural disasters, mainly earthquakes. Given that this situation is quite uncommon to the Swedish population, it may have a negative effect on the Swedish firm’s decision to invest in Turkey. Another factor is Turkey’s history of political instability, which may affect laws and tax regulations. In this study, the “Other variables” field in the survey has been left open to the respondents in order for them to interpret or add their own ideas without the influence of the authors.

### 3.2.3 Internalisation-specific Factors

As mentioned earlier, the internalisation advantages in Dunning’s Eclectic paradigm implies that it must be in the best interest of firms possessing ownership advantages to transfer them across national boundaries within the own organisation, rather than selling them, or the right to use them, to foreign firms (Dunning, 1988). In so doing,
the internalisation of the organisation creates added value to the firm (Dunning, 1998, 2001).

In the beginning of the Eclectic paradigm, Dunning (1980) considered that “the internalization aspect of the OLI theory has been most seriously neglected by trade and international investment literature”. Throughout the years, he reviewed and developed the paradigm further, but still with a focus on the O and L characteristics of the theorem. After the paradigm received criticism for being too general and the explanatory variables (here; the determinant factors) being too numerous, Dunning (2001) gave examples of variables belonging to the above mentioned ownership- and location-specific factors.

However, Dunning (2001) never gave any examples of internalisation-specific factors. He merely explained the I advantages to “make the third leg of the OLI tripod in explaining the scope and geography of value added activities by MNEs.” (Ibid.). On other occasions in the same study, Dunning (2001) refers to the I advantages in the OLI paradigm as “a market replacement activity which conferred its own hierarchical advantages” (Ibid.). Later in the same text, Dunning states that “The I-specific variables all relate to the costs and benefits of different modalities of coordinating multiple economic activities” (Dunning, 2001). This is the closest the readers get to Dunning’s definition of internalisation-specific factors. Each of Dunning’s explanations of the internalisation advantages show that he is implying a sort of activity, whether it is of a value-adding, a market replacing or an economic character. This, obviously, leaves the final part of the model open for individual interpretations.

An example of interpretations of the I advantages is Tahir and Larimo (2002) and their study where Country Risks and Exchange Rate Fluctuations are chosen as internalisation-specific factors, although they might be seen as factors specific to the location in which the firm has decided to invest. In Tahir and Larimo’s paper (2002), country risk comprises political instability, which in this study is found under the location-specific factor ‘Other Variables’. Exchange rate fluctuations are also found among the location-specific factors in this paper.

A second example of interpretations of the I advantages is Agarwal and Ramaswami (1992) that have chosen Contractual Risk as an internalisation-specific factor. With contractual risk, Agarwal and Ramaswami (1992) imply “the relative costs (or risks) of sharing assets and skills with a host country firm versus integrating them within the firm”. Agarwal and Ramaswami’s interpretation, contractual risk, is so far a variable that is closest related to Dunning’s actual internalisation factor. Contractual risk is, however, quite difficult to estimate, and given the descriptive character of this study, it is left out from this paper due to lack of time and resources to measure this somewhat abstract internalisation factor.

To summarize, this paper does not include any internalisation-specific factors due to the authors belief that internalisation, the last factor in the Eclectic paradigm, according to Dunning (1988, 2001), implies that it must be in the best interest of firms possessing ownership advantages to transfer them across national boundaries within the own organisation, rather than selling them, or the right to use them, to foreign firms (Dunning, 1988). Internalisation should therefore refer to the activity, whether it is of a value-adding, a market replacing or an economic character, when the firm’s
ownership advantages are transferred across national boundaries within the own organisation. As mentioned above, Dunning suggests no variables in order to measure this explained activity. Hereby, the internalisation advantage is merely an expression of the first two advantages. The closest variable (*contractual risk*) found by Agarwal and Ramaswami’s (1992) being too abstract and difficult to estimate, the authors will merely focus on the above named ownership- and location-specific factors of the Eclectic paradigm, believing that internalisation already is comprised within the ownership- and location-specific variables, as illustrated in Figure 3.1.
Figure 3.1 Summary of the Selected FDI Determinant Factors for Swedish Firms in Turkey.

**Ownership-specific Factors**
- Firm Size
- R&D Intensity
- International Experience

**Location-specific Factors**
- Cultural Distance
- Geographic Position
- Infrastructure
- Agglomeration Benefits
- Market Potential
- External Actors
- Labour Cost
- Educational Level
- Business Climate
- Economic Climate
- Other Variables

**Internalisation** – the activity to transfer the firm’s ownership advantages to a foreign location

Source: Authors
This chapter presents the research process as well as the data analysis process of the study. It discusses and explains the advantages and the disadvantages of the used methods and why these methods were found to best suit the study.

4. Research Methodology

4.1 Research process

4.1.1 Scientific Approach
Given the fact that FDI theory has remained without any substantial changes during the last two decades, the theoretical framework came to rest mainly on a foundation of Dunning’s Eclectic Paradigm, with complements from recent research performed both by Dunning himself and by other scholars. This gives the study a deductive approach.

The main part of the literature was collected from JSTOR and EconLit, reliable business and economics databases on the Internet. The survey is further a result of the theoretical framework and constitutes the main part of the data collection. The survey is therefore directly related to the framework, constructed to distinguish patterns in regard to the ownership-specific and location-specific factors affecting the investment decision.

4.1.2 Selection of Population
The purpose of the study was, as mentioned, to identify the determinant factors behind Swedish firms’ investments in Turkey. In order to accomplish our purpose, we needed to collect data from all Swedish firms present in Turkey, specifically the persons responsible during the entry process. On an early basis, contact was established with the Swedish Trade Council in Istanbul, mainly with Ms Ekin Ergün, Project Leader. We were provided with a list of Swedish subsidiaries in Turkey which constituted the population selection. We are aware of the fact that there, most certainly, must be Swedish firms present in Turkey without the Swedish Trade Council’s knowledge. Because of the limited time to track these down they have, however, not been considered relevant for the study’s selection. Nonetheless, this fact has been taken into account in the critical review Section 9.1.

Almost immediately, the information we received indicated that the correct respondents for the survey, in many cases, opposite to our previous beliefs, were situated in Sweden. We also received replies indicating that some of the firms on the list provided by the Swedish Trade Council were not completely in correlation with our selection. Some of the firms had not carried out any investments in Turkey and some were no longer owned by the Swedish group. All of the above mentioned factors, together with a poor response rate resulted in an adjustment of the data collection strategy.
4.1.3 Selection of Method

Given the belief that the selected population was situated in Turkey, an email survey was the natural choice of data collection. However, surveys also present other advantages when collecting data that were suitable for this study. First, it allows a high level of standardisation which simplifies the data analysis and the comparison (Patel, 2003). A strict structure also helps avoiding different interpretations and misunderstandings of the questions, which is of great importance since surveys offer no possibilities to explain the questions further to the respondent (Denscombe, 2000). However, to avoid missing out on information that was not covered by the survey but still might be relevant to the study, the respondents were given the possibility to include information in addition to the primary questions. Knowing that surveys offer limited possibilities to receive supplementary information in cases when answers are inadequate (Patel, 2003), it was added in the presentation letter that we would contact the respondents again if additional information would be needed. In cases when a respondent chose not to answer a particular question, they were re-contacted through email in order to collect the missing information or to understand why the respondent had chosen not to reply to a particular question.

An optional method to collect data could have been personal interviews with the respondents. Data collection through interviews has the advantage of giving more profound answers and minimizing the risk of the respondent getting caught in a routine pattern when answering the questions. However, interviews represent a risk of the interviewer influencing the respondent (Patel, 2003). This is avoided in a survey when the respondent is left to reply free from influences from the interviewer. Given the fact that many of the respondents were expected to have limited time for our questions, it also motivated the choice to use a survey, since the respondents would have the possibility to answer the survey whenever it suited their agenda. With this in mind, we hoped their potential replies would be more thorough.

4.1.4 Survey

The process of designing a survey covering all relevant areas and issues began with drawing an outline based on the theoretical framework. To each factor included in the framework, a number of adequate questions were formed. The questions were then evaluated and discussed in order to avoid bias or possible misunderstandings. The order in which the questions were placed was also gone through in detail.

During the first dispatch in early October 2005, e-mail addresses provided by the Swedish Trade Council were used. In most cases, the e-mail addresses belonged to management personnel within the Turkish subsidiary. In cases when no e-mail addresses were available, the Internet was used to find them.

In order to identify the correct respondent for each firm, we contacted each firm’s Swedish headquarters by telephone. In some cases, immediate contact was established with the correct respondents and the survey was then sent through e-mail. In other cases, we were not able to reach the concerned party due to various reasons. To reach an acceptable level of received responses, many companies had to be reminded again, using both e-mail and telephone contact.

After the first dispatch and the telephone contact with the headquarters, the subsidiary list was updated to fit our selection criteria. The total amount of firms in our
population became 50 firms, instead of the earlier 80. The final number of respondents reached a total of eleven firms, i.e., a response rate of 22%. It should be noted that one additional response had to be disregarded due to the fact that the firm recently had changed the nature of the Swedish ownership and now only pursued a non-equity partnership with the Turkish firm.

4.1.5 Validity
To ensure that the survey was not going to be misunderstood by our respondents, it was initially sent to Ms Ekin Ergün, Project Leader at the Swedish Trade Council in Istanbul. Ms Ergün suggested a few minor changes that were made before sending the survey to the selected population. The final version of the survey and the presentation letter is found in Section 11.2. A Turkish version of the letter as well as the survey was also provided to increase the chances to get useful answers. All of these procedures were means to ensure the validity of the study.

4.1.6 Primary and Secondary Data
During the collection of primary data, secondary data, such as national statistics and economic indicators, were mainly collected from the Internet websites of public authorities and reliable non-governmental organisations as well as newspapers.

4.2 Data analysis process
The collected primary data was compiled in an excel sheet as well as in tables and diagrams in order to detect patterns or deviations. It should be noted that in one case, the respondent had left out the group turnover. Since this piece of information is a public figure, it was collected from the firm’s annual report. The findings from the primary as well as the secondary data are presented in Chapter 5.

4.2.1 Reliability
Due to the low response rate, we felt the need to verify our findings in additional sources in order to confirm whether or not our results were applicable on the general population. During the process of finding suitable resources, we discovered that the Swedish Trade Council in Istanbul recently had finalized a business climate study among Swedish firms in Turkey. This study, alongside with the secondary data, were used when verifying our results during the data analysis process. All of these procedures were conducted in order to increase the reliability of the results and conclusions.

It should be noted that the lack of personal communication in surveys disables the possibility to control the respondent’s identity. The impact of this fact was reduced by contacting the firms to receive necessary information about the potential respondent. Further, the respondents verified their identities by citing their name and title on the survey document.

The survey being in English might have affected the respondents that were mainly of Swedish origin. However, given that the respondents have experience in international business activities, we expected their English skills to be sufficient enough to understand the survey questions. The survey being in English also facilitated the
data analysis process by avoiding translation of the responses and thereby risking misinterpretations.

All these factors put together ensures a high level of reliability for this study.
This chapter presents the results of our empirical findings as well as relevant background information about Turkey.

5. Empirical Findings

Given the general characteristics of the study, all Swedish firms present in Turkey (represented by the Swedish Trade Council’s subsidiary list) were included in our selection and hence belong to various business areas. In fact, all responding firms are active in separate business areas and therefore, the results of this study are not industry-specific. The empirical findings are presented below in order of appearance in the survey, found in Section 11.2.

5.1 Ownership-specific factors

5.1.1 Firm Size

In order to measure firm size, the respondents were asked to specify both the group’s and the Turkish subsidiary’s turnover in 2004. The employee amount in the group and the subsidiary was requested as well.

The group turnovers ranged from 9.3 million SEK to 201 billion SEK. The Turkish subsidiaries’ turnovers represent between 0.2% and 2.6% of the group’s turnover except for one firm, whose turnover in Turkey counted for 21% of the group turnover. It should be noted that three firms did not respond to the Turkish subsidiary turnover due to confidentiality reasons.

Table 5.1 Turkish subsidiary turnover / Group turnover

<table>
<thead>
<tr>
<th>Turkish subsidiary turnover / Group turnover</th>
<th>0%-0.8%</th>
<th>0.8%-1.6%</th>
<th>1.6%-2.4%</th>
<th>2.4%-3.2%</th>
<th>…</th>
<th>&gt;20%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>4</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>36%</td>
<td>18%</td>
<td>-</td>
<td>9%</td>
<td>9%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors

The employee amount in the groups varied from 29 to 90,000 employees. 0.3% to 1.5% of the group’s employee amount was represented by the Turkish subsidiary personnel. However, one of the firms had 31% of their personnel situated in Turkey. It should also be noted that two responding firms could not specify the employee amount in Turkey due to the nature of presence in the Turkish market through joint venture partnerships.
5.1.2 Research and Development Intensity
The majority, 55%, of the responding firms spend 1-4% of the group’s turnover on R&D. 18% spend 5-8% and 9% spend 9-15%. One firm spends 0.6% while another firm replied that it does not focus on R&D since it is production oriented.

Table 5.2 R&D expenditure / Group Turnover

<table>
<thead>
<tr>
<th>R&amp;D expenditure / Group Turnover</th>
<th>N/A</th>
<th>0.6%</th>
<th>1-4%</th>
<th>5-8%</th>
<th>9-15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>9%</td>
<td>55%</td>
<td>18%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Authors

5.1.3 International Experience
The oldest of the responding firms was founded in 1917 and the youngest has been active for 28 years. A majority of the firms, 55%, made their first foreign direct investment during the 1960s and 1970s while 27% engaged in FDI during the 1980s and the 1990s. Two of the responding firms made their first investment abroad in the late 1920s. 64% of the respondents chose another European country for this investment.

27% of the firms are today present in 4 to 25 countries while 55% are represented in 26 to 50 countries. The two companies that are present in Turkey through joint venture partnerships are both represented in approximately 130 countries.

Table 5.3 The number of countries in which the firm is present today

<table>
<thead>
<tr>
<th>Number of Countries</th>
<th>0-25</th>
<th>26-50</th>
<th>&gt;50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>55%</td>
<td>18%</td>
</tr>
</tbody>
</table>

Source: Authors

For the responding firms, the first FDI in Turkey was carried out during the 1960s, followed by another one in the 1980s. However, the 1990s was the decade when the majority, 64%, of the firms chose to enter the Turkish market. The early 2000s comprised another two investments. This shows that 36% of the responding firms invested in Turkey within 0 to 10 years after their first foreign direct investment. Another 36% waited between 21 and 30 years while it took between 31 to 40 years for 9% of the firms to enter the Turkish market.
27% of the companies used distributors for their first Turkish investment, while the others used various entry modes such as the following: agents, leasing, acquisition of shares in joint ventures, liaison offices, and wholly owned subsidiaries. Two firms chose not to specify in detail how they first entered the Turkish market.

Today, 73% of the responding firms are present as wholly owned subsidiaries. One firm is present with a liaison office and two are involved in joint ventures.

### 5.1.4 Main Reasons for Investing in Turkey

The main reason for investing in Turkey was for a vast majority, 91%, of the responding firms, the market potential expressed in terms such as the following: “huge”, “growing”/“increasing” or “belief in the market”. One firm even used the term “emerging market”. Together with the importance of Turkey’s market potential, some firms also mentioned other firm- or product specific reasons such as: to follow the industry, good local connections and production control. Turkey’s young population and its consumption patterns were specifically mentioned as an important variable by one of the respondents.

**Table 5.4 Main Reasons for Investing in Turkey**

<table>
<thead>
<tr>
<th>Main Reasons for Investing in Turkey (Open question with the possibility to choose several options)</th>
<th>Market Potential</th>
<th>Production Control</th>
<th>Follow the Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>10</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: Authors
5.2 Location-specific factors

5.2.1 Cultural Distance

The respondents were asked if they experienced any cultural distance between Sweden and Turkey and, in the cases that they did, how that cultural distance was distinguished. Further, they were asked in what way the perceived cultural distance affected the investment decision.

All, but one, of the responding firms reported that they did experience a cultural distance between Sweden and Turkey. 36% of the respondents specifically mentioned religion as one factor to represent this distance. One respondent, however, specified that Turkey, despite of this, bears lot of western influence. Other terms like social and political differences, different mentality, values, consumption patterns and ways of doing business were also used to describe the cultural distance.

36% of the responding firms did not consider the cultural difference to have any affect at all on their investment decision. None of the firms considered it to have had a negative affect while 18% felt that it had a slightly negative impact. 18% were of the opinion that the cultural distance had a positive impact and 9% considered the impact to be slightly positive. It should be noted that one of the firms chose not to answer and another did not have an opinion about this issue.

Figure 5.2 The effect of cultural distance on the investment decision

Source: Authors
5.2.2 Geographic Position

Turkey’s geographic position had a positive impact on the investment decision in 45% of the cases. An additional 45% considered the impact of the geographic position to be slightly positive. One respondent considered the geographic position to be slightly negative while no one had the opinion that the geographic position had a negative affect when taking the investment decision.

Figure 5.3 Map of Turkey


5.2.3 Infrastructure

To get an overall picture of how Turkey’s infrastructure had affected the responding companies investment decision, the questions were divided into two sectors; one concerning the transportation infrastructure (such as air, land and sea), and one concerning the telecommunication infrastructure (such as fax, landline and mobile telephone network, Internet).

The transportation infrastructure had a slightly negative impact on the investment decision for 55% of the responding firms and a negative impact on 9% of the respondents. 27% considered the impact of Turkey’s transportation infrastructure to be slightly positive while 9% of the responding firms considered it to be positive.
In order to give the readers a background of the transportation infrastructure in the two countries it should be noted that the total length of highways in Sweden is 98,304 km (The Swedish National Road Administration, 2005) compared to 428,543 km in Turkey (Turkish State Institute of Statistics, 2003). The same number for the railway net is 11,697 km in Sweden (The Swedish National Rail Administration, 2003) and 10,984 km in Turkey (Turkish State Railways, 2004). In 2004 Turkey had 119 airports and Sweden had 254 airports (CIA World Fact Book, 2005). The merchant marine ship amount (1,000 gross tonnage or over) was in 2005, 526 in Turkey and 205 in Sweden (Ibid.).

The telecommunication infrastructure in Turkey did not have a negative impact on any of the responding firms but 55% considered it to have a slightly negative impact. 27% considered the impact to be slightly positive and 18% answered that it had affected their investment decision in a positive way.

In Turkey, the number of telephone main lines in use was 18,916,721 in 2003 (Turkish State Institute of Statistics) while the same figure for Sweden in 2002 was 6,579,200 (CIA World Fact Book, 2005). The number of mobile phone contracts in Turkey in 2004 was 34 million (Turkish Ministry of Transportation and Communication, 2004) while the same number in Sweden in 2002 was 7,949 million (CIA World Fact Book, 2005). The amount of Internet hosts in 2004 was in Turkey 355,215 and 945,221 in Sweden (Ibid.).

5.2.4 Agglomeration Benefits

Four of the responding firms had experienced agglomeration benefits. They were asked to specify the area and industry in which these agglomeration benefits had been experienced. One respondent mentioned industrial parks in Izmir and in Istanbul; another respondent brought up the car industry and plastic moulding industry in Istanbul and West Anatolia; a third firm referred to the ministries and the social security in Ankara; last, the car industry in Bursa was pointed out. Of these four firms three considered the agglomeration benefits to have had a positive affect on their investment decision, the fourth one considered the agglomeration benefits to have had a slightly positive affect.
5.2.5 Market Potential

To understand the respondents’ opinions of the Turkish market potential they were first asked to define variables they considered being of importance when evaluating a market’s potential. The respondents had the opportunity to check several variables. The given variables were: Country GDP, Market Size, Target Customer Buying Power and Competitor Intensity. There was also room for the respondents to specify any other variables that they found were important. Secondly, they were asked what observations they had made of these variables in Turkey before the investment and finally how these observations had affected the investment decision.

The variable that was considered important to the majority, 82%, of the responding firms was the Market Size. The Target Customer Buying Power was important to 73% of the firms, Competitor Intensity to 64% of the firms and 45% of the firms considered the Country’s GDP to be important when evaluating a country’s market potential. In addition to the given variables, factors such as the cost situation and the market’s/ industry’s growth potential and structure were mentioned as being important. One respondent also mentioned the reimbursement on the firm’s provided services as being of importance to their firm’s investment decision.

Regarding the observation made of Turkey’s GDP the respondents’ replies were unanimous stating that it had had a positive or slightly positive affect on their investment decision. In 2004 Turkey’s GDP growth rate reached 9.9% which was the highest among the OECD countries (Swedish Foreign Ministry, 2005).

The size of the Turkish market was mainly described as large and growing. One of the respondents, however, described it as “big but not very developed”. The main part of the respondents considered Turkey’s market size to have had a positive affect on the investment decision; three respondents considered the affect to have been very positive and an other two considered the affect to have been slightly positive.
In order to illustrate the difference in Market Size between Sweden and Turkey, it should be noted that the number of inhabitants per square kilometre in Sweden is 19.7 while the same figure for Turkey is 86.2 (Hudson, 2003). Turkey’s target consumer buying power was described as increasing; one of the respondents described it as “Low but growing”; another respondent experienced that it was “Bigger than expected”. Overall the target consumer buying power in Turkey was considered to have had a positive or slightly positive impact on the investment decision, no matter in which business area the responding firm was active.

According to the Swedish Trade Council (2005), 20% of Turkey’s population is assumed to have Western purchasing power and 8 million people are considered having strong purchasing power.

The apprehension of the competitor intensity in Turkey differed between business areas. One respondent answered that it was high and this was also the only respondent that expressed that the competitor intensity had a slightly negative impact on the investment decision. Other respondents used terms such as “low”, “weaker” and “still possibilities” to describe the experienced competitor intensity in Turkey. The respondents using these terms also expressed that it had a positive or slightly positive impact on the investment decision.

5.2.6 External Actors
73% of the respondents consulted or received help from external actors prior to their investment in Turkey while the remaining 27% did not receive any external help. It should be noted that some of the respondents receiving help consulted several different external actors. Five respondents consulted private actors and four respondents consulted the Swedish Trade Council. Other sources to receive help from were: business contacts, legal advisors and a Belgian export organisation. One respondent also received help from a confidential source.

The external help did, in four of the cases have a positive impact on the investment decision, in two of the cases the impact had a slightly positive impact, and in one case the help was considered to have a very positive impact. None of the respondents considered the help to have had a negative affect while one felt that the help did not have any affect at all on the firm’s investment decision.

5.2.7 Labour Costs
All, but one, of the responding firms considered the labour cost to be lower in Turkey than in Sweden. The remaining respondent considered the labour costs to be slightly lower in Turkey than in Sweden.

To illustrate that there are differences in labour costs between Sweden and Turkey it should be mentioned that in 2003 the labour cost per hour (in USD) for production workers was 24.89 (The Economist, 2004) in Sweden and 1.81 in Turkey (The Economist, 2005). This figure includes pay for the time worked, other direct pay (e.g. holiday pay), employer expenditures on legally required insurance programmes and other labour taxes.

55% of the responding firms considered the relatively lower labour cost in Turkey to have a positive affect on their investment decision while 27% considered it to have a
slightly positive affect. One of the responding firms was of the opinion that the difference in labour cost did not have any affect on their investment decision. One firm chose not to specify how the relatively lower labour cost affected their decision to invest in Turkey.

![Figure 5.6 The effect of labour cost on the investment decision](image)

Source: Authors

### 5.2.8 Educational Level

The firms were asked how they experienced the access to highly educated personnel in Turkey. 27% responded that the access was poor, 45% was of the opinion that the access was good while 27% experienced the access to highly educated personnel in Turkey as very good. It should be noted that 56% of Turkey’s 20-to-24-year olds have at most only lower secondary school qualifications and are not in education (OECD, Education at a Glance, 2004) which was the second highest figure in the OECD report (Ibid.).

![Figure 5.7 Perceived access to highly educated personnel](image)

Source: Authors
In the matter of how the access to highly educated personnel affected the firms’ decisions to invest in Turkey, 27% answered that it had affected them very positively. Further, 27% was influenced in a positive way and 18% in a slightly positive way. In the cases when companies experienced the education level as poor, 27%, responded that the lack of access to highly educated personnel had affected their investment decision in a slightly negative way.

5.2.9 Business Climate

In order to investigate the business climate in Turkey, the firms were requested to cite their opinions about certain variables and how they affected their decision to invest in Turkey. The variables were: Laws & regulations, Corporate taxes and Trade agreements.

![Figure 5.8 Perceived effect of business climate](image)

Source: Authors

Turkey’s laws and regulations were considered to be very unfavourable by 18% of responding firms, 18% felt that they were unfavourable but 64% considered the laws and regulations to be favourable. Regarding how the firms’ investment decision was affected by this apprehension of the laws and regulations 36% responded that they had been slightly negatively affected and 9% answered that they had been negatively affected; 27% considered the laws and regulations to have had a slightly positive affect and an additional 27% considered the influence to have been positive.

As an example of the differences in laws and regulations, between Sweden and Turkey, the payment procedures can be mentioned. In Turkey the credit period is quite long compared to Sweden (Swedish Trade Council, Rooth, 2005).

The corporate taxes in Turkey were experienced to be very unfavourable by 9% of the respondents, unfavourable by 45% and favourable by 36%. It should be noted that one firm chose not to specify their opinion in this matter. The corporate taxes in Turkey affected the responding firms in a slightly negative way in 45% of the cases and negatively in 9% of the cases. One firm felt that Turkey’s corporate taxes had a very negative impact on their decision to invest in Turkey. 18% of the responding firms were affected in a slightly positive way while 9% were affected positively. One firm chose not to mention in what way they had been affected by this factor.
The basic corporate income tax rate levied on business profits is 30% in Turkey (Foreign Economic Business Board, 2004). However Turkish economic officials reported recently that corporate tax rates will be cut to 25% next year, as part of a plan to align the country with rival emerging economies (Turkish Daily News, 2005).

9% of the responding firms responded that Turkey’s trade agreements were very unfavourable while 18% considered them to be unfavourable. 55% did, however, respond that the trade agreements were favourable. One respondent replied that the corporate taxes were neither unfavourable nor favourable and one firm chose not to specify their opinion in this matter. The trade agreements in Turkey had a slightly negative affect on 18% of the responding firms and a negative affect on 9% of the firms. 27% were, respectively, affected in a slightly positive and in a positive way by the trade agreements.

It is often stated that “A customs union involves trading goods between countries without any customs duties and tariffs, the application of a common external tariff on imports from third countries and the application of common trade policies” (Delegation of the European Commission to Turkey, 2005). However, Turkey’s customs union does not cover some essential economic areas, such as agriculture (EU Online, 2005). Nevertheless, Turkey has also signed Free Trade Agreements with EFTA (European Free Trade Association), Israel, Romania, Bulgaria, the former Yugoslav Republic of Macedonia, Croatia, Bosnia-Herzegovina and Morocco (Ibid.).

5.2.10 Economic Climate
To identify the respondents’ opinion about the economic climate in Turkey, their observations of the exchange rate fluctuations and the inflation level fluctuations were requested.

Concerning the exchange rate fluctuations all respondents responded that it had influenced the investment decision in a negative way. The answers were divided as follows: 45% slightly negative, 36% negative and 18% very negative. Table 5.2 shows how the Turkish exchange rate (TL) in relation to SEK has fluctuated during 2000-2004.

Table 5.5 Exchange rate fluctuations 2000 – 2004 (TL/SEK)

<table>
<thead>
<tr>
<th>TL/SEK</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buying</td>
<td>69 766</td>
<td>135 513</td>
<td>184 825</td>
<td>191 222</td>
<td>201 800</td>
</tr>
<tr>
<td></td>
<td>(+94%)</td>
<td>(+36%)</td>
<td>(+3.5%)</td>
<td></td>
<td>(+5.5%)</td>
</tr>
<tr>
<td>Selling</td>
<td>70 492</td>
<td>136 923</td>
<td>186 749</td>
<td>193 212</td>
<td>203 900</td>
</tr>
<tr>
<td></td>
<td>(+94%)</td>
<td>(+36%)</td>
<td>(+3.5%)</td>
<td></td>
<td>(+5.2%)</td>
</tr>
</tbody>
</table>


Regarding the inflation level fluctuations the responses were equally negative when asking about the influence on the firms’ investment decisions. The division of the answers was here: 45% slightly negative, 36% negative and 18% very negative. Turkey has had a economic history of hyperinflation but the last two years have been historical as the inflation level has reached 8.4% and is forecasted to attain a record low of 6.9% in 2006 (IMF).
5.2.11 Other Variables

This section was open to the respondents to highlight any country risks or other obstacles that were of importance when deciding to invest in Turkey. Three of the respondents mentioned the political situation as a variable that had a *negative* or a *slightly negative* influence on the firm’s investment decision.

It should be mentioned that Turkey, during the last decades, has experienced political and economic instability, an interfering army and a record of human rights abuses (The Economist, Leader, 2004).
In this chapter the empirical findings, presented in Chapter 5 will be analysed with the purpose to detect possible patterns.

6. Analysis

6.1 Ownership-specific Factors

6.1.1 Firm Size

According to our conceptual framework, large firms and FDI are positively related due to their large resource base, their larger abilities to commitment and risk-taking as well as exploiting benefits of economies of scale.

In this study, the relation between the Turkish turnover and the group turnover proved to be quite low for all firms, despite the varying range of turnovers among the responding firms. This indicates that the Turkish market is not of great significance to the group’s turnover. This is in correlation with the Swedish Trade Council’s business climate survey (2005).

The above result was also found when looking at the low employee amount in Turkey in relation to the group’s total amount of employees.

The above results show that larger firms have not made use of economies of scale when investing in Turkey. This indicates that there must be other factors superior to economies of scale that have restrained them from more extensive investments in Turkey.

6.1.2 Research and Development Intensity

In order to protect and increase its competitiveness, a firm with intangible assets, will according to Dunning (2001), have the goal to internalise by coordinating existing assets with new assets.

In this study, the responding firms showed a somewhat uniform profile concerning the level of R&D intensity within the group. The majority of firms invested at least 1-4% of their total turnover on R&D which confirms, in accordance to Dunning (2001), that the firms must possess intangible assets that they prefer to internalise.

6.1.3 International Experience

As mentioned in Chapter 3, international firms intensify their commitment toward foreign markets as their experience in international operations grows, hence a firm’s international experience and FDI are, in theory, positively related.

A majority of the responding firms have a long international experience both through the number of years that the firm has been involved in international operations as well as the number of countries in which it is present today. This is illustrated by the fact that the majority of the firms chose to wait for a relatively long time period before investing in Turkey. Possible motives behind this carefulness could be lack of knowledge about the market, perceived investment risk or other uncertainty factors.
This is also accentuated when looking at the firms’ first entry mode choices for Turkey having a low ownership and risk characteristic. Nevertheless, for a majority of the firms, these semi-ownership forms have later been replaced by wholly owned subsidiaries which indicate that increasing knowledge of the Turkish market motivates full ownership.

However, the most striking event was the fact that the majority of the firms chose to enter the Turkish market during the 1990s. A reason behind this could be Turkey signing the Customs Union agreement with the EU in 1996 after two decades of negotiations. It could also be of interest to keep in mind that the early 1990s in Sweden was characterized by a severe recessionary period.

6.2 Location-specific Factors

6.2.1 Cultural Distance
Cultural distance is a complex issue that can be defined in various ways and will not be studied further in detail in this thesis. Our focus will instead be on how cultural distance is perceived by the responding firms and if this in any way has affected their choices to invest in Turkey.

It has earlier been stated that the closer geographically two countries are, the higher the possibility is for them to share a similar culture. It should thereby be easier to invest in a geographically close country. This was later illustrated when the majority of responding firms chose another European country for its first foreign investment.

91% of the responding firms confirmed that they did experience a cultural distance between Sweden and Turkey. This cultural distance was mainly related to differences in religion which is verified given that 99.8% of the Turkish population being Muslim while 87% of the Swedish population is Christian (CIA World Fact Book, 2005).

Despite the perceived distance in culture, 36% of the responding firms emphasized that the cultural difference had no affect at all on their investment decision, although the possibility to reply “no affect at all” deliberately was left out from the survey. The fact that high cultural distance does not always have a negative effect on firms’ FDI decisions was earlier mentioned in Chapter 3. In fact, 27% of the firms even considered the cultural distance to have had a slightly positive or a positive affect on their investment decision. This indicates that the presence of cultural distance only had a minor role on the firms’ investment decisions.

6.2.2 Geographic Position
91% of the responding firms being positively affected by Turkey’s geographic position clarifies the earlier statement that this variable being an important determinant factor for Swedish firms when choosing to enter the Turkish market. This was also verified by the earlier mentioned Business Climate Study (Swedish Trade Council Istanbul, 2005).

6.2.3 Infrastructure
The impact of the transportation infrastructure on the firms’ investment decisions seems to have had a slightly more negative affect. However, this factor is highly
dependent on in which sector the firm is present since different sectors have varying needs of transportation.

When comparing the two countries’ land transportation infrastructures one can see that Turkey has a considerable longer net of highways while the railway network in Sweden is slightly higher than in Turkey. However, one should not forget that Turkey has a population that is almost 8 times greater than Sweden’s. Another important feature to keep in mind is that the lengths of the highway and railway networks do not say anything about their quality and therefore its usefulness to the country’s inhabitants.

As mentioned in Chapter 5, it can be seen that Sweden has over twice as many airports as Turkey. On the other hand, Sweden has less than half the number of merchant marine ships than Turkey. Possible explanations to these differences could be the country’s geographic position and technological development. However, it should be noted that these figures are merely to illustrate that there are existing differences between the countries and any further research around this issue is beyond the scope of this thesis.

The impact of the telecommunication infrastructure on the firms’ investment decisions seems to have had a slightly more negative than a positive affect. In Sweden, the majority of the population are connected to landline telephones while in Turkey, around a quarter of the population are connected to landline telephones. Moreover, the number of mobile phone contracts and internet hosts in Sweden are twice as large than in Turkey. These considerable differences put together and given the fact that Turkey’s population is about eight times larger than Sweden’s population, the underlying reasons to why Swedish firms find the Turkish telecommunication infrastructure slightly insufficient should be obvious.

To sum up, infrastructure remains an important determinant factor, but not a conclusive one.

6.2.4 Agglomeration Benefits
Among the companies that benefit from agglomeration areas the general opinion is that it had a positive impact on their investment decision in Turkey. This confirms Dunning’s (2001) claims that agglomeration benefits and FDI are positively related.

6.2.5 Market Potential
In this study, market potential has been measured through variables such as Market Size, Target Customer Buying Power, Competitor Intensity and Country GDP. The responding firms were also asked to specify any additional variables that had an impact on their decision to invest in Turkey.

Market Size is a variable specific for each business sector and therefore different for each of the responding firms. However, Market Size was the variable that was important to the highest majority of the responding firms. No matter business area, the Market Size was of great importance to a unanimous group of responding firms. All respondents that specified their observations of their markets in Turkey at the time of the investment stated that it were either “big”, “large”, “growing”, “bigger than expected” or “huge” and these observations had nothing but a positive impact on
their investment decision. This is in accordance with earlier statements by scholars (see Chapter 3) that Market Size and growth is positively related with FDI.

Another important variable, after Market Size, is the Target Customer Buying Power that was added to the conceptual framework by the authors. A considerable majority of the responding firms regarded it to have been “increasing”, “bigger than expected” and “low but growing” in their respective business sectors in Turkey and its main affect on the investment decision had been positive or slightly positive. This indicates that the buying power of the target customers is a determinant factor that is positively related to the firms’ FDI decisions.

Competitor Intensity is another variable that is business sector specific. After Market Size and Target Customer Buying Power, this variable proved to be important to many of the responding firms. The results showed various observations which was expected due to each of the responding firms belonging to different business sectors. However, the observations made by the respondents showed that the market, in several business sectors, was far from saturation at the time of the investment. Most of the responding firms were also positively influenced by their observations of this variable. The above results show that Competitor Intensity as well is negatively related to FDI decisions, the lower intensity of competitors, the higher the incentive for FDI.

GDP was a determinant factor that was added by the authors. Nevertheless, a scarce half of the responding firms did consider GDP to be an important factor to their investment decision. Among the respondents that specified their observations of the GDP in Turkey, the overall opinion was that it had a growth potential and that this had slightly positive or positive affect on the firms’ investment decision. This indicates that GDP was not a determinant factor that was the firms’ main priority when choosing to enter the Turkish market.

In the Swedish Trade Council’s business climate study (2005), economic growth and high level of market potential in Turkey were two factors that were considered to be strong incentives for firms to start producing in Turkey. This verifies that market potential is a key determinant factor when choosing to invest in Turkey. This was also verified by the firms’ main reasons to invest in Turkey shown in Section 5.1.4.

The respondents were requested to specify any additional factors concerning market potential that were of importance to the investment decision. No specific patterns could be discerned from the replies, for which reason no other general determinant factor could be found.

6.2.6 External Actors

Among the companies that received help from external actors, the general opinion was that it had a positive impact on their investment decision in Turkey. The responses can therefore be interpreted as a strong and positive relationship between receiving help from external actors, such as the Swedish Trade Council, and FDI decisions.
6.2.7 Labour Costs

All responding firms had an overall opinion about the labour costs being lower in Turkey than in Sweden. This was also verified by the figures mentioned in Chapter 5. All firms, but one neutral firm, considered this to have had a positive impact on their decision to invest in Turkey. The result is in accordance with Dunning (2001) and the Swedish Trade Council’s business climate study (2005) showing that labour costs is an important determinant factor and that it is negatively related to FDI decisions, the lower the labour costs, the higher the incentive for FDI.

6.2.8 Educational Level

After studying OECD’s report on education (2004), it could be expected that the responding firms would have had a negative experience regarding the access to highly educated personnel. Nevertheless, a majority of the responding firms considered the access to highly educated personnel to have been good or very good. This is in accordance with the Swedish Trade Council’s business climate study (2005). An explanation to this result could be that most of the responding firms in both this study and Swedish Trade Council’s business climate study, received assistance from external actors which most probably also included recruitment of human resources.

The overall opinion about how the access to highly educated personnel affected the firm’s investment decision was \textit{positive or slightly positive}. This confirms Dunning’s (2001) statement that the access to highly educated personnel is an important determinant factor and is positively related to the firms’ decision to invest in Turkey.

6.2.9 Business Climate

To investigate the responding firms’ opinion about the business climate in Turkey the following aspects, that most firms have to consider when starting up their businesses, were assessed: Laws & regulations, Corporate taxes and Trade agreements.

The respondents regarded the laws and regulations in Turkey to have been more \textit{favourable} than \textit{unfavourable} at the time of the investment and that this had a more positive than negative affect on their investment decision.

The firms considered the corporate taxes in Turkey to have been more \textit{unfavourable} than \textit{favourable} at the time of the investment and that this had a more negative than positive affect on their investment decision.

The responding firms had the opinion that the trade agreements, relevant for their business, were more \textit{favourable} than \textit{unfavourable} and that this had a more positive than negative affect on their decision to invest in Turkey.

Even though the above findings pointed towards a certain direction they were not of a distinct nature. This could be the result of the firms being active in diverse business sectors, but also in which way their Turkish subsidiary is influenced by these variables.

The selected variables are important determinant factors when deciding to invest abroad, since they involve many various aspects of how the firms carry out their businesses and often include considerable costs. Due to the general nature of the
study, any profound conclusions can not be made about the way in which the business climate variables have affected the investment decision.

6.2.10 Economic Climate
All the responding firms state that the exchange rate fluctuations and the inflation level fluctuations in Turkey had a negative effect on their investment decision. The figures presented in Chapter 5 show that there has been substantial fluctuations in both the exchange rate and the inflation level in Turkey. Given Turkey's economic past, these results were predictable, and are also in accordance with the statements in Chapter 3 claiming that fluctuations in exchange rate and inflation level involve investment risks. However, the past year both the exchange rate and the inflation level have been stable, which might be seen as a good sign for future investors.

6.2.11 Other Variables
Among the respondents that chose to specify any country risks or other obstacles, all mentioned the political situation in Turkey to have had a negative effect on their investment decision. An underlying reason behind this opinion could be the fact that Sweden in recent times, in relation to Turkey, has not experienced such turbulence in the political and economic fields.
This chapter presents the analytical results of the empirical findings. Thereby, the questions developed in the problem discussion in Chapter 1 are answered.

7. Results

As a reminder, the problem of this study (Section 1.3), was to find out the following:

1. What is the nature of the ownership advantages of Swedish firms in Turkey?

2. What kinds of location advantages does Turkey provide Swedish firms and how does it affect the location decision?

The results presented below will answer the above questions from the respondents’ point of view.

7.1 Ownership-specific Factors

Table 7.1 The Results of the Ownership-specific Factors

<table>
<thead>
<tr>
<th>Ownership-specific Factor</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Firm Size</td>
<td>Regardless of the group’s size, the Turkish subsidiary only represents a small percentage of the group’s turnover and personnel.</td>
</tr>
<tr>
<td>Research &amp; Development Intensity</td>
<td>A minimum of 1-4% of the group’s turnover is spent on research and development.</td>
</tr>
<tr>
<td>International Experience</td>
<td>The firms are internationally experienced but have chosen to wait for a relatively long time period before investing in Turkey.</td>
</tr>
</tbody>
</table>

Source: Authors

7.2 Location-specific Factors

Table 7.2 The Results of the Location-specific Factors

<table>
<thead>
<tr>
<th>Location-specific Factors</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural Distance</td>
<td>There is a cultural distance between Turkey and Sweden. However, it has not affected the investment decision.</td>
</tr>
<tr>
<td>Geographic Position</td>
<td>Turkey’s geographic position affects the investment decision in a positive way.</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Turkey’s infrastructure in terms of transportation and telecommunications has a slightly negative affect on the investment decision.</td>
</tr>
</tbody>
</table>
**Agglomeration Benefits**

Agglomeration benefits exist in certain business sectors and have a positive impact on the investment decision.

**Market Potential**

- The Turkish *market size* is large and growing which has a positive affect on the investment decision.
- The *buying power* of target customers is growing which has a positive affect on the investment decision.
- The *competitor intensity* is low in many business sectors which has a positive impact on the investment decision.
- Turkey’s *GDP* has a continued growth potential and it has a positive affect on the investment decision even though it is not a main priority.

**External Actors**

The assistance from external actors, such as the Swedish Trade Council, is commonly used and has a positive affect on the investment decision.

**Labour Costs**

Labour costs are lower in Turkey and has a positive affect on the investment decision.

**Educational Level**

The access to highly educated personnel is good and has a positive affect on the investment decision.

**Business Climate**

- *Laws and regulations* are favourable which has a positive affect on the investment decision.
- *Corporate taxes* are unfavourable which has a negative affect on the investment decision.
- *Trade agreements* are favourable which has a positive affect on the decision to invest in Turkey.

**Economic Climate**

Considerable fluctuations in exchange rate and inflation level have had a negative affect on the investment decision. However, the recent stabilization in both variables predicts better investment conditions for the future.

**Other Variables**

Political instability has had a negative affect on the investment decision.

Source: Authors
This chapter will conclude the main results in order to verify whether or not the purpose of the study has been accomplished.

8. Conclusions

As a reminder, the purpose of the study was to:

1. Identify the determinant factors behind Swedish firms' investments in Turkey.
2. Find the advantages that Turkey provides for Swedish firms.

The determinant factors and advantages form a proposal for how to best promote Turkey as an attractive market for Swedish firms interested in FDI.

8.1 Determinant Factors

- **Ownership-specific Factors**
  When looking at the Swedish firm’s ownership-specific advantages, the *firm size* is irrelevant to the investment decision, while *research and development intensity* as well as a long *international experience* is a condition.

- **Location-specific Factors**
  When looking at Turkey’s location-specific advantages, *market potential*, in terms of market size, the buying power of target customer, competitor intensity and GDP, is an important determinant factor alongside with the country’s *geographic position*, *labour costs* and *educational level*. In business areas where *agglomeration benefits* exist, they too represent an important determinant factor. Moreover, the possibility the receive assistance from *external actors*, such as the Swedish Trade Council, is also an important determinant factor.

  Turkey’s *business climate*, defined by its laws and regulations, corporate taxes and trade agreements, together with its *economic climate*, in terms of fluctuations in exchange rate and inflation level, constitute important determinant factors.

  Furthermore, *infrastructure*, in terms of transportation and telecommunications, is an important determinant factor, but is not of a conclusive significance to the investment decision.

  In addition to the specified variables, the political situation in Turkey was cited as an important determinant factor.

  The *cultural distance* between Turkey and Sweden was the only location-specific factor that proved not to be a determinant factor at all.
8.2 Turkey’s Advantages

Given that the cultural distance between Turkey and Sweden has proved not to be of importance, what advantages can the Turkish market provide Swedish firms that are interested in engaging in FDI?

First, Turkey’s strategic geographic position offering proximity to many other markets should be highly attractive for firms aiming to expand even further.

Second, the Turkish market potential is alluring with a large and growing market size and a country GDP growth rate typical for an emerging market. The customer buying power is also increasing, and put together with low competitor intensity in general, Turkey offers opportunities of long term growth.

Third, the possibility to receive assistance from external actors facilitates overcoming probable obstacles that might occur when entering the Turkish market.

Fourth, labour costs being lower in Turkey than in Sweden and with a good access to highly educated personnel, the process of establishing a labour force should be freed from complications.

Last, developments in Turkey’s business and economic climate, such as ongoing EU negotiations and the recent year’s historical stabilization of the exchange rate as well as the inflation level, decreases the investment risk involved when entering the Turkish market.
In this chapter we will discuss the validity and reliability of the study based on the methodological choices made for both the research and the data analysis process. Possible areas for future research will also be covered.

9. Discussion

9.1 Critical Review

As mentioned earlier, in order to fulfil the study purpose, all Swedish firms present in Turkey had to be studied. A list of these firms was supplied by the Swedish Trade Council which constituted the selected population. In review, the list should have been gone through more thoroughly from start since it was revealed, during the study, that it was not entirely corresponding to the selection criteria. However, the list was adjusted subsequently and doing this on an earlier basis would maybe have saved time but would not, however, have affected the results to any greater extent.

Nevertheless, had we known on an earlier basis that the right respondent for many of the firms were present in Sweden, a combination between the e-mail survey and some semi-structured interviews might have been possible and thus had possibly given us a deeper understanding for the studied phenomenon.

For an extensive time period during the data collection process, we encountered difficulties due to a low response rate. A low response rate can result in distortion and consequently, incorrect results. However, the distortion magnitude depends on the grounds behind the low response rate. The purpose of this study demanded relatively specific questions which, in many cases, caused problems with identifying the right respondent in each firm. This is why the response rate most probably would not have been able to increase any further due to limited resources when conducting the study.

The fact that the received responses mainly were unanimous and that they showed almost identical patterns despite the low amount of responding firms made it possible to draw conclusions about the empirical findings. However, the reliability of the results and conclusions was further increased by several secondary sources that were examined and compared to primary data. Both primary and secondary sources indicating the same outcome proves that the reliability of this study is high.

A data analysis process is often influenced by the authors’ backgrounds and previous knowledge. This consequently and necessarily affects the results and conclusions of the study. In this study, one of the authors being of Turkish origin has given a deeper knowledge and understanding for the country and its culture. The other author having no previous connection to Turkey complemented and balanced to the interpretation of the data and thereby prevented bias.

As mentioned in Chapter 4, there may be Swedish firms present in Turkey without the Swedish Trade Council’s knowledge. Their potential responses could have been different from the responding firms’ but they might as well have been similar. This issue will remain unanswered due to lack of resources but has been taken into
consideration. The results and conclusions of this study are therefore applicable only on the Swedish firms in Turkey represented on the Swedish Trade Council’s subsidiary list.

9.2 Future Research

The results and conclusions of this study indicate that Turkey is an attractive market for Swedish firms interested in engaging in FDI. This area had not been covered extensively in the past which is the main reason for the wide scope of this study. However, the determinant factors now being identified, future research should focus on the depth of each factor and its influence on the investment decision. Examples of such deeper studies could be cross-referencing different factors, either ownership-specific or location-specific and how they correlate with the investment decision.

A more tangible example of this would be the affect of cultural distance in relation to the international experience of the firm. Cultural distance was cited not to be of any importance to the investment decision. Still, almost all firms waited for a substantial period of time between their first FDI, and their investment in Turkey. The motives behind this fact may be numerous which is why it would be of interest if it was studied further.

Other possibilities of future research include studies that are business area-specific, and to what extent they, e.g., benefit from agglomeration factors. This shows that are still many unexplored areas of study.

Given that this field of study had not been covered extensively in the past, the results and conclusions in this paper thus constitute a significant platform for future scholars by giving them the opportunity to further extend the international business research between Sweden and Turkey.
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Statistiska Centralbyrån
http://www.scb.se
http://www.scb.se/templates/tableOrChart 124098.asp
Link used 2005-11-04
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http://www.svt.se

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Utrikesdepartementet, Ambassaden Ankara
Landrapport Turkiet
Svedberg, Karin
2005-04-19

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Banverket
http://www.banverket.se
Link used 2005-12-05

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Vägverket
http://www.vv.se
Link used 2005-12-05
http://www20.vv.se/vdb/webb-sidor/vagtyp.htm, dated October 31, 2005

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http://www.swedishtrade.com
http://www.swedishtrade.se/turkiet/
Link used 2005-08-24
http://swedishtrade.se/I_utlandet/landrapporter/turkiet.htm
Link used 2005-08-24


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http://www.turkishdailynews.com
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Turkish Ministry of Transportation and Communication
T.C. Ulaştırma ve İletişim Bakanlığı
http://www.ubak.gov.tr
Transportation and Communication 1995-2005
Link used 2005-12-04

Turkish State Institute of Statistics
T.C. Devlet İstatistik Enstitüsü
http://www.die.gov.tr
Statistical Year Book 2004
Link used: 2005-12-01

Turkish State Railways
T.C. Devlet Demir Yolları
http://www.tcdd.gov.tr
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Link used 2005-12-01

Turkish Treasury Department
http://www.treasury.gov.tr
Foreign Investment Report 2004
Link used 2005-08-24

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http://www.unctad.org
http://www.unctad.org/Templates/Page.asp?intItemID=3146&lang=1
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http://www.unctad.org/Templates/Page.asp?intItemID=3147&lang=1
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**World Bank**  
http://www.worldbank.org  
http://www1.worldbank.org/economicpolicy/globalization/  
Link used 2005-09-02
11. Appendices

11.1 Definition of Concepts

11.1.1 EFTA
Abbreviation for European Free Trade Association.

‘Iceland, Liechtenstein, Norway and Switzerland are members of EFTA. The EFTA Convention established a free trade area among its Member States in 1960. In addition, the EFTA States have jointly concluded free trade agreements with a number of countries worldwide.’ (EFTA, 2005).

11.1.2 Emerging Markets
In the New York Times Financial Glossary (2005) emerging markets are defined as “The financial markets of developing economies.” However, Erdal and Tatoğlu (2002, p.2) claim that emerging markets are meant to present “the greatest commercial opportunities due to the high economic growth and rapidly growing population”.

11.1.3 Entry Modes
When engaging in international trade, a firm can choose between different entry modes. The different entry modes vary in risk, control and flexibility and are therefore suitable for different kinds of markets. They are explained in detail below:

Export modes give the firm a low degree of control, and involve a low level of risk and give the firm a high amount of flexibility. Export modes are therefore 100% externalized (Hollensen, 2001). There are three modes of export, all depending on the number and the degree of the involvement of intermediaries:

- **Indirect export** occurs when the manufacturing company leaves the exporting activities (the foreign sales of its product) to a domestic company such as export buying agents, trading companies or brokers.
- **Direct export** takes place when the producing enterprise takes care of exporting activities (handling documentation, pricing policies) and is in direct contact with the first intermediary (distributor or agent) in the foreign target market.
- **Co-operative export** involves collaborative agreements with other enterprises such as export marketing groups regarding the performance of exporting functions.

(Cullen, 2002; Hollensen, 2001)

Intermediate modes involve shared control and risk as well as split ownership. The different existing intermediate modes of entry are the following:

- **Contract manufacturing** occurs when the firms is given the possibility to have foreign production without making a final commitment. R&D, marketing, distribution etc all are in the hands of the firm except for the final production step that is left to a local enterprise.
- **Licensing** is where a firm (the licensor) agrees to sell the intellectual property rights to another producer (the licensee) in exchange for an agreed fee. In return,
the licensee agrees to produce and market the products on the target market and to pay the licensor a percentage commission on sales.

- **Franchising** is similar to licensing, the target market company is licensed to sell the franchiser’s products but the franchiser also gives the right to make use of its trading name, branding, promotional methods and corporate image and also supports the franchisee with training and technical support.

- **Joint venture** or a strategic alliance is a partnership between two or more parties. The joint venture can be either non-equity or an equity joint venture. In an equity joint venture, a new firm is created where foreign and local investors share ownership and control. In a non-equity joint venture, the parties do not invest in the alliance. The collaboration options within the joint venture can vary; it can occur on the R&D, marketing or production level, all depending on the interest of each party and the nature of the alliance.

(Cullen, 2002; Hollensen, 2001; Kim et al, 2002; Marshall, 2003)

**Hierarchical modes** have a high level of control and risk, but give the firms a low level of flexibility. Hierarchical modes are 100% internalized; the foreign market entry mode is solely controlled by the firm itself. The question is more where the control is located within the firm. The MNE is the hierarchical mode (or internalization mode) that is the most common entry mode for the Swedish firms in Turkey, but other types of hierarchical modes do exist as well and they will therefore be presented:

- **Domestic based sales representatives** reside in one country and travels abroad to execute the sale directly to the customers.
- **Resident sales representatives / sales subsidiary** are used by the firm when the concrete sales performance is transferred to the foreign target market.
- **Sales and production subsidiary** occur when both sales and production are transferred abroad.
- **Region centres or Regional headquarters** can take place in two ways; either by R&D and production being present in the home country and marketing and sales being transferred to the foreign market or, all of the value chain functions of the firm (R&D, production, marketing and sales) are moved to the foreign market.
- **The Multinational enterprise (MNE)** represents the final stage of internationalization and includes the establishment of a wholly owned subsidiary. This can take place through either an acquisition of an already existing enterprise on location, or by starting up a firm from scratch, also called Greenfield investment.

(Cullen, 2002; Hollensen, 2001; Marshall, 2003)

**11.1.4 FDI**

Abbreviation for Foreign Direct Investment.

There are different definitions of this concept. One of them is OECD’s (1996) quite extended definition:

“Foreign direct investment reflects the objective of obtaining a lasting interest by a resident entity in one economy (“direct investor”) in an entity resident in an economy other than that of the investor (“direct investment enterprise”). The lasting interest implies the existence of a long-term relationship between the direct investor and the
enterprise and a significant degree of influence on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated."

A discussion about the definition used in this thesis can be found in 2.1 Definition of FDI.

11.1.5 GDP
Abbreviation for Gross Domestic Product.

The New York Times Financial Glossary (2005) defines GDP as the market value of goods and services produced over time. The income of foreign residents and companies active in the country are included but the income of the country’s residents working abroad is excluded.

11.1.6 IMF
Abbreviation for the International Monetary Fund.

IMF (2005) presents itself as “…an organization of 184 countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty.”

11.1.7 MNE or MNC
Abbreviation for Multinational Enterprise or Multinational Corporation.

Kogut and Zander (1993, p. 625) define a multinational corporation as “…an economic organization that evolves from its national origin to spanning across borders.” They (Kogut & Zander 1993, p. 625) continue by claiming that: “The multinational corporation arises not out of the failure of markets for the buying and selling of knowledge, but out of its superior efficiency as an organizational vehicle by which to transfer this knowledge across borders.”

11.1.8 OECD
Abbreviation for the Organisation for Economic Cooperation and Development.

“The OECD groups 30 member countries sharing a commitment to democratic government and the market economy….The OECD produces internationally agreed instruments, decisions and recommendations to promote rules of the game in areas where multilateral agreement is necessary for individual countries to make progress in a globalised economy.” (OECD, 2005)

11.1.9 UNCTAD
Abbreviation for the United Nations Conference on Trade and Development.

UNCTAD is a “…knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development.” (UNCTAD, 2005)
The organisation works to fulfil this mandate by carrying out three key functions:

- It functions as a forum for intergovernmental deliberations, supported by discussions with experts and exchanges of experience, aimed at consensus building.
- It undertakes research, policy analysis and data collection for the debates of government representatives and experts.
- It provides technical assistance tailored to the specific requirements of developing countries, with special attention to the needs of the least developed countries and of economies in transition. When appropriate, UNCTAD cooperates with other organizations and donor countries in the delivery of technical assistance.

(UNCTAD, 2005)
11.2 Survey

Foreign Direct Investment (FDI) Motives and Determinant Factors for Swedish Firms in Turkey.

Dear Sirs,

We are two students at Södertörn University College in south Stockholm, Sweden, currently writing our master thesis in International Business Administration, with the purpose to identify determinants and examine motives of Swedish firm's foreign direct investments (FDIs) in Turkey.

We are now in the position of sending surveys to Swedish firms already existing in Turkey in order to accomplish the purpose of our thesis. We would be most grateful if you and your firm would give us your time and answer a number of questions in a survey attached to this email.

Given the amount of Swedish firms present in Turkey, your replies are of great importance to us. After the reception of your reply, we take the liberty of re-contacting you in case of any need for supplementary information, hoping that this will not be of large disturbance to you. As a token of our appreciation, we will send you a copy of our thesis when finished in early January 2006.

We are grateful for your assistance. Please do not hesitate to contact us in case of any questions.

Thank you in advance!

Best regards,

Asligül Sungur
asligul01.sungur@student.sh.se
Camilla Hellström
camilla01.hellstrom@student.sh.se

Company:

Respondent's name:

Position>Title: Since (year):

Ownership-specific Factors

1. In what line of business is the firm active?
2. In what year was the mother company founded?
3. What turnover did the mother company have in 2004?
4. What is the amount of employees within the mother company?
   a) If there is a subsidiary in Turkey, how many of them are situated in Turkey?
   b) What was the turnover in Turkey 2004?
5. In what year did the mother company make its first foreign investment, which country?
   a) In how many countries is the mother company represented today?
6. In what year did the mother company make the first investment in Turkey and what entry mode was chosen?
7. What was the mother company’s main reason for investing in Turkey?
8. In what form (e.g. joint venture, wholly owned subsidiary) is the mother company present in Turkey at this moment?

9. What percentage of the mother company's turnover is spent on Research and Development?

| None | 1-4% | 5-8% | 9-15% | >15% |

Location-specific Factors

10. Cultural distance

   a) In your opinion, is there a cultural distance between Turkey and Sweden?

   | Yes | No |

   b) If yes, how would you illustrate that cultural distance?

   c) In what way did the cultural distance affect your decision to invest in Turkey?

| Very negative | Negative | Slightly negative | Slightly positive | Positive | Very positive |

11. Geographic position

   d) In what way did Turkey's geographic position affect your decision to invest in Turkey?

| Very negative | Negative | Slightly negative | Slightly positive | Positive | Very positive |

11. Infrastructure

   a) In what way did Turkey's infrastructure level in terms of transportation (air, land and sea) affect your decision to invest in Turkey?

| Very negative | Negative | Slightly negative | Slightly positive | Positive | Very positive |

   b) In what way did Turkey's infrastructure level in terms of telecommunications (fax, landline telephone, mobile telephone network and internet) affect your decision to invest in Turkey?

| Very negative | Negative | Slightly negative | Slightly positive | Positive | Very positive |

12. Agglomeration benefits

   a) In your opinion, have you experienced any agglomeration benefits (the concentration of a certain industry in a specific geographic location, such as Silicon Valley) in Turkey?

   | Yes (please specify geographic area and industry) | No |
b) If yes, in what way did the agglomeration benefits affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th></th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
</table>

13. Market potential

a) When evaluating the potential of a market, what variables are the most important to your firm? If necessary, please check several variables or add other variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Important variable to the company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country GDP</td>
<td></td>
</tr>
<tr>
<td>Market size</td>
<td></td>
</tr>
<tr>
<td>Target customer buying power</td>
<td></td>
</tr>
<tr>
<td>Competitor intensity</td>
<td></td>
</tr>
<tr>
<td>Other(s) (please specify)</td>
<td></td>
</tr>
</tbody>
</table>

b) What observations did you make of these variables in Turkey at the time of the investment?

<table>
<thead>
<tr>
<th>Variables</th>
<th>Observations of variables in Turkey at the time of the investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country GDP</td>
<td></td>
</tr>
<tr>
<td>Market size</td>
<td></td>
</tr>
<tr>
<td>Target customer buying power</td>
<td></td>
</tr>
<tr>
<td>Competitor intensity</td>
<td></td>
</tr>
<tr>
<td>Other(s) (please specify)</td>
<td></td>
</tr>
</tbody>
</table>

c) In what way did these observations affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Variables</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country GDP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market size</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target customer buying power</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitor amount</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other(s) (please specify):</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
14. **External actors**

a) Did you consult and receive help from any external actors (e.g. the Swedish Trade Council, private consultants or others) prior to your investment in Turkey?

<table>
<thead>
<tr>
<th>Yes, the firm consulted and received help from the Swedish Trade Council in Istanbul.</th>
<th>Yes, the firm consulted and received help from private consultants.</th>
<th>Yes, the firm consulted and received help from other external actors (please specify):</th>
<th>No, the firm received no help from external actors.</th>
</tr>
</thead>
</table>

b) If yes, in what way did the assistance of external actors affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
</table>

15. **Labour costs**

a) In your industry, do you experience any differences in labour costs in Turkey compared to Sweden?

<table>
<thead>
<tr>
<th>Yes, lower in Turkey</th>
<th>Yes, slightly lower in Turkey</th>
<th>No</th>
<th>Yes, slightly higher in Turkey</th>
<th>Yes, higher in Turkey</th>
</tr>
</thead>
</table>

b) If yes, in what way did those differences in labor costs affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
</table>

16. **Educational level**

a) What is your experience from the access to highly educated personnel in Turkey?

<table>
<thead>
<tr>
<th>Very good</th>
<th>Good</th>
<th>Poor</th>
<th>Very poor</th>
</tr>
</thead>
</table>

b) In what way did the access to highly educated personnel affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
</table>

17. **Business climate**

a) How do you consider the business climate to be in Turkey in terms of:

- Laws and regulations

<table>
<thead>
<tr>
<th>Very unfavourable</th>
<th>Unfavourable</th>
<th>Favourable</th>
<th>Very favourable</th>
</tr>
</thead>
</table>
18. Economic climate
   a) In what way did the following economic variables affect your decision to invest in Turkey?

   - Exchange rate fluctuations:
     Very negative  Negative  Slightly negative  Slightly positive  Positive  Very positive

   - Inflation level fluctuations:
     Very negative  Negative  Slightly negative  Slightly positive  Positive  Very positive

19. Other variables
   a) Are there any other variables, country risks or other obstacles that have affected your decision to invest in Turkey?

      Yes  No

   b) If yes, could you please exemplify them and in what way each of them has affected your decision to invest in Turkey?

      Other variables (please specify):  Very negative  Negative  Slightly negative  Slightly positive  Positive  Very positive

20. Additional information and comments:
11.3 Survey Results

11.3.1 Ownership-specific Factors

1. In what line of business is the firm active?

<table>
<thead>
<tr>
<th>Firm Name</th>
<th>Business Line</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS Group</td>
<td>Industrial</td>
</tr>
<tr>
<td>Gambro</td>
<td>Manufacturing, selling and after sales service for dialysis products and</td>
</tr>
<tr>
<td></td>
<td>providing dialysis care.</td>
</tr>
<tr>
<td>HL Display</td>
<td>In-store communication and merchandising solutions for retail.</td>
</tr>
<tr>
<td>JC AB</td>
<td>Textile retailing</td>
</tr>
<tr>
<td>IKEA AB</td>
<td>Home furnishing</td>
</tr>
<tr>
<td>Oriflame</td>
<td>Cosmetics</td>
</tr>
<tr>
<td>SCA AB</td>
<td>Hygiene products, packaging and forestry products.</td>
</tr>
<tr>
<td>Scanrrotor</td>
<td>Electric assembly tool for car industry.</td>
</tr>
<tr>
<td>System 3R</td>
<td>Tooling systems for the engineering industry</td>
</tr>
<tr>
<td>V&amp;S Absolut Spirits</td>
<td>Sales of Spirits.</td>
</tr>
<tr>
<td>Volvo</td>
<td>Heavy duty trucks, over 16 tons.</td>
</tr>
</tbody>
</table>

2. In what year was the mother company founded?

<table>
<thead>
<tr>
<th>Years in Existence</th>
<th>0-30 years</th>
<th>31-60 years</th>
<th>61-90 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>2</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>18%</td>
<td>45%</td>
<td>36%</td>
</tr>
</tbody>
</table>

3. What turnover did the mother company have in 2004?

<table>
<thead>
<tr>
<th>Annual Turnover (2004, Million SEK)</th>
<th>&lt;1,000</th>
<th>1,000-25,000</th>
<th>25,000-50,000</th>
<th>50,000-100,000</th>
<th>100,000-150,000</th>
<th>&gt;150,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>36%</td>
<td>27%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

4. What is the amount of employees within the mother company?

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>&lt;1,000</th>
<th>1,000-50,000</th>
<th>50,000-100,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>4</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>36%</td>
<td>36%</td>
<td>27%</td>
</tr>
</tbody>
</table>

a. If there is a subsidiary in Turkey, how many of them are situated in Turkey?

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>N/A</th>
<th>0-20</th>
<th>21-40</th>
<th>41-60</th>
<th>&gt;60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>55%</td>
<td>9%</td>
<td>18%</td>
<td>9%</td>
</tr>
</tbody>
</table>

b. What was the turnover in Turkey 2004?

<table>
<thead>
<tr>
<th>Annual Turnover (2004, Million SEK)</th>
<th>N/A</th>
<th>0-100</th>
<th>&gt;100</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>45%</td>
<td>27%</td>
</tr>
</tbody>
</table>
5. In what year did the mother company make its first foreign investment, which country?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>18%</td>
<td>9%</td>
<td>36%</td>
<td>27%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>First FDI Country</th>
<th>N/A</th>
<th>EU</th>
<th>US</th>
<th>South East Asia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>18%</td>
<td>64%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

a. In how many countries is the mother company represented today?

<table>
<thead>
<tr>
<th>Number of Countries</th>
<th>0-25</th>
<th>25-50</th>
<th>&gt;50</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>55%</td>
<td>18%</td>
</tr>
</tbody>
</table>

6. In what year did the mother company make the first investment in Turkey and what entry mode was chosen?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
<td>73%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>First Entry Mode in Turkey</th>
<th>Wholly Owned Subsidiary</th>
<th>Distributor</th>
<th>Joint Venture</th>
<th>Agent</th>
<th>Liaison Office</th>
<th>Leasing Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>27%</td>
<td>18%</td>
<td>9%</td>
<td>9%</td>
<td>9%</td>
</tr>
</tbody>
</table>

7. What was the mother company’s main reason for investing in Turkey?

<table>
<thead>
<tr>
<th>Main Reasons for Investing in Turkey (Open question with the possibility to choose several options)</th>
<th>Market Potential</th>
<th>Production Control</th>
<th>Follow the Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>10</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

8. In what form (e.g. joint venture, wholly owned subsidiary) is the mother company present in Turkey at this moment?

<table>
<thead>
<tr>
<th>Present Form of the Firm</th>
<th>Wholly Owned Subsidiary</th>
<th>Joint Venture</th>
<th>Liaison Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>8</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>73%</td>
<td>18%</td>
<td>9%</td>
</tr>
</tbody>
</table>

9. What percentage of the mother company’s turnover is spent on Research and Development?

<table>
<thead>
<tr>
<th>R&amp;D / Turnover</th>
<th>N/A</th>
<th>0.6%</th>
<th>1-4%</th>
<th>5-8%</th>
<th>9-15%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>9%</td>
<td>55%</td>
<td>18%</td>
<td>9%</td>
</tr>
</tbody>
</table>
11.3.2 Location-specific Factors

10. Cultural distance

a. In your opinion, is there a cultural distance between Turkey and Sweden?

<table>
<thead>
<tr>
<th>Perceived Cultural Distance</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>10</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>91%</td>
<td>9%</td>
</tr>
</tbody>
</table>

b. If yes, how would you illustrate that cultural distance?

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Illustration of Perceived Cultural Distance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Different environment socially and politically, but the Muslim Middle East environment in Turkey bears a lot of western influences.</td>
</tr>
<tr>
<td>2</td>
<td>Way of doing business, religion, values, etc.</td>
</tr>
<tr>
<td>3</td>
<td>Mostly religion which for us has not had any influence on our business.</td>
</tr>
<tr>
<td>4</td>
<td>Different mentality.</td>
</tr>
<tr>
<td>5</td>
<td>Many different ways.</td>
</tr>
<tr>
<td>6</td>
<td>Religion, consumption pattern.</td>
</tr>
</tbody>
</table>

c. In what way did the cultural distance affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Cultural Distance</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
<th>N/A</th>
<th>Not at All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>18%</td>
<td>9%</td>
<td>18%</td>
<td>-</td>
<td>18%</td>
<td>36%</td>
</tr>
</tbody>
</table>

11. Geographic position

a. In what way did Turkey's geographic position affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Geographic Position</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>9%</td>
<td>45%</td>
<td>45%</td>
<td>-</td>
</tr>
</tbody>
</table>

12. Infrastructure

a. In what way did Turkey's infrastructure level in terms of transportation (air, land and sea) affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Transportation Infrastructure</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>9%</td>
<td>55%</td>
<td>27%</td>
<td>9%</td>
<td>-</td>
</tr>
</tbody>
</table>
b. In what way did Turkey’s infrastructure level in terms of telecommunications (fax, landline telephone, mobile telephone network and internet) affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Telecommunications Infrastructure</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>3</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>55%</td>
<td>27%</td>
<td>18%</td>
<td>-</td>
</tr>
</tbody>
</table>

13. Agglomeration benefits

a. In your opinion, have you experienced any agglomeration benefits (the concentration of a certain industry in a specific geographic location, such as Silicon Valley) in Turkey?

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Specified Agglomeration Areas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Industrial parks in Izmir and Istanbul.</td>
</tr>
<tr>
<td>2</td>
<td>Istanbul area and west Anatolia: car industry, plastic moulding.</td>
</tr>
<tr>
<td>3</td>
<td>Ankara: ministries and social security.</td>
</tr>
<tr>
<td>4</td>
<td>Bursa: car industry.</td>
</tr>
</tbody>
</table>

b. If yes, in what way did the agglomeration benefits affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Agglomeration Benefits</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>25%</td>
<td>75%</td>
<td>-</td>
</tr>
</tbody>
</table>

14. Market potential

a. When evaluating the potential of a market, what variables are the most important to your firm? If necessary, please check several variables or add other variables.

<table>
<thead>
<tr>
<th>Important Market Potential Variables</th>
<th>Country GDP</th>
<th>Market Size</th>
<th>Buying Power</th>
<th>Competitor Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>5</td>
<td>9</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>45%</td>
<td>81%</td>
<td>73%</td>
<td>64%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Other variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cost situation. Industrial and market growth.</td>
</tr>
<tr>
<td>2</td>
<td>Reimbursement for dialysis treatment.</td>
</tr>
<tr>
<td>3</td>
<td>Industry potential and structure</td>
</tr>
</tbody>
</table>
b. What observations did you make of these variables in Turkey at the time of the investment?

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>GDP Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ok</td>
</tr>
<tr>
<td>2</td>
<td>Positive, potential.</td>
</tr>
<tr>
<td>3</td>
<td>Growing</td>
</tr>
<tr>
<td>4</td>
<td>Potential for an increase.</td>
</tr>
<tr>
<td>5</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Market Size Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Big</td>
</tr>
<tr>
<td>2</td>
<td>Large</td>
</tr>
<tr>
<td>3</td>
<td>Bigger than expected</td>
</tr>
<tr>
<td>4</td>
<td>Large and growing</td>
</tr>
<tr>
<td>5</td>
<td>Big but not very developed</td>
</tr>
<tr>
<td>6</td>
<td>Huge</td>
</tr>
<tr>
<td>7</td>
<td>Not specified</td>
</tr>
<tr>
<td>8</td>
<td>Not specified</td>
</tr>
<tr>
<td>9</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Target Customer Buying Power Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ok</td>
</tr>
<tr>
<td>2</td>
<td>Bigger than expected</td>
</tr>
<tr>
<td>3</td>
<td>Low but growing</td>
</tr>
<tr>
<td>4</td>
<td>Increasing</td>
</tr>
<tr>
<td>5</td>
<td>Not specified</td>
</tr>
<tr>
<td>6</td>
<td>Not specified</td>
</tr>
<tr>
<td>7</td>
<td>Not specified</td>
</tr>
<tr>
<td>8</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Competitor Intensity Observations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Low</td>
</tr>
<tr>
<td>2</td>
<td>Still possibilities</td>
</tr>
<tr>
<td>3</td>
<td>Weaker</td>
</tr>
<tr>
<td>4</td>
<td>High</td>
</tr>
<tr>
<td>5</td>
<td>Not specified</td>
</tr>
<tr>
<td>6</td>
<td>Not specified</td>
</tr>
<tr>
<td>7</td>
<td>Not specified</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Responding Firm</th>
<th>Observation of other variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Cost situation – Ok good.</td>
</tr>
<tr>
<td>2</td>
<td>Reimbursement for dialysis treatment – Yes.</td>
</tr>
<tr>
<td>3</td>
<td>Industry potential and structure – Industry size and diversification.</td>
</tr>
</tbody>
</table>
c. In what way did these observations affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of GDP</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>5</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>9%</td>
<td>-</td>
<td>45%</td>
<td>18%</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Affect of Market Size</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>18%</td>
<td>45%</td>
<td>27%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Affect of Buying Power</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>9%</td>
<td>27%</td>
<td>27%</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Affect of Competitor Intensity</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>18%</td>
<td>27%</td>
<td>27%</td>
<td>-</td>
</tr>
</tbody>
</table>

Other Variables

<table>
<thead>
<tr>
<th>The Affect of Other Variables</th>
<th>Cost situation / Industrial and market growth.</th>
<th>Positive / Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reimbursement for dialysis treatment</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>Industry potential and structure</td>
<td>Very positive</td>
<td></td>
</tr>
</tbody>
</table>

15. External actors

a. Did you consult and receive help from any external actors (e.g. the Swedish Trade Council, private consultants or others) prior to your investment in Turkey?

<table>
<thead>
<tr>
<th>Assistance from External Actors (Open question with the possibility to choose several options)</th>
<th>Yes, the firm consulted and received help from the Swedish Trade Council in Istanbul.</th>
<th>Yes, the firm consulted and received help from private consultants.</th>
<th>Yes, the firm consulted and received help from other external actors (please specify):</th>
<th>No, the firm received no help from external actors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>3</td>
</tr>
</tbody>
</table>

b. If yes, in what way did the assistance of external actors affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Assistance from External Actors</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>
16. Labour costs

a. In your industry, do you experience any differences in labour costs in Turkey compared to Sweden?

<table>
<thead>
<tr>
<th>Perceived Difference in Labour Costs</th>
<th>Yes, lower in Turkey</th>
<th>Yes, slightly lower in Turkey</th>
<th>No</th>
<th>Yes, slightly higher in Turkey</th>
<th>Yes, higher in Turkey</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>9</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>81%</td>
<td>9%</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>9%</td>
</tr>
</tbody>
</table>

b. If yes, in what way did those differences in labour costs affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>6</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>27%</td>
<td>55%</td>
<td>-</td>
<td>18%</td>
</tr>
</tbody>
</table>

17. Educational level

a. What is your experience from the access to highly educated personnel in Turkey?

<table>
<thead>
<tr>
<th>Perceived Access to Highly Educated Personnel</th>
<th>Very good</th>
<th>Good</th>
<th>Poor</th>
<th>Very Poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>5</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>45%</td>
<td>27%</td>
<td>-</td>
</tr>
</tbody>
</table>

b. In what way did the access to highly educated personnel affect your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>The Affect of Access to Highly Educated Personnel</th>
<th>Very negative</th>
<th>Negative</th>
<th>Slightly negative</th>
<th>Slightly positive</th>
<th>Positive</th>
<th>Very positive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>-</td>
<td>27%</td>
<td>18%</td>
<td>27%</td>
<td>27%</td>
</tr>
</tbody>
</table>

18. Business climate

a. How do you consider the business climate to be in Turkey in terms of:

- Laws and regulations

<table>
<thead>
<tr>
<th>Observations of Laws and Regulations</th>
<th>Very unfavourable</th>
<th>Unfavourable</th>
<th>Favourable</th>
<th>Very favourable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>2</td>
<td>2</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>18%</td>
<td>18%</td>
<td>64%</td>
<td>-</td>
</tr>
</tbody>
</table>
- Corporate taxes

<table>
<thead>
<tr>
<th>Observations of Corporate Taxes</th>
<th>Very unfavourable</th>
<th>Unfavourable</th>
<th>Favourable</th>
<th>Very favourable</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>5</td>
<td>4</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>45%</td>
<td>36%</td>
<td>-</td>
<td>9%</td>
</tr>
</tbody>
</table>

- Trade agreements

<table>
<thead>
<tr>
<th>Observations of Trade Agreements</th>
<th>Very unfavourable</th>
<th>Unfavourable</th>
<th>Favourable</th>
<th>Very favourable</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>2</td>
<td>6</td>
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<td>2</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>18%</td>
<td>55%</td>
<td>-</td>
<td>18%</td>
</tr>
</tbody>
</table>

b. In what way did these variables affect your decision to invest in Turkey?

- Laws and regulations

<table>
<thead>
<tr>
<th>The Affect of Laws and Regulations</th>
<th>Very neg.</th>
<th>Negative</th>
<th>Slightly neg.</th>
<th>Slightly pos.</th>
<th>Positive</th>
<th>Very pos.</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
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<td>0</td>
<td>1</td>
<td>4</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>-</td>
<td>9%</td>
<td>36%</td>
<td>27%</td>
<td>27%</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

- Corporate taxes

<table>
<thead>
<tr>
<th>The Affect of Corporate Taxes</th>
<th>Very neg.</th>
<th>Negative</th>
<th>Slightly neg.</th>
<th>Slightly pos.</th>
<th>Positive</th>
<th>Very pos.</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>9%</td>
<td>45%</td>
<td>18%</td>
<td>9%</td>
<td>-</td>
<td>9%</td>
</tr>
</tbody>
</table>

- Trade agreements

<table>
<thead>
<tr>
<th>The Affect of Trade Agreements</th>
<th>Very neg.</th>
<th>Negative</th>
<th>Slightly neg.</th>
<th>Slightly pos.</th>
<th>Positive</th>
<th>Very pos.</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>1</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>9%</td>
<td>-</td>
<td>18%</td>
<td>27%</td>
<td>27%</td>
<td>-</td>
<td>18%</td>
</tr>
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</table>
19. Economic climate

a. In what way did the following economic variables affect your decision to invest in Turkey?

- Exchange rate fluctuations:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>18%</td>
<td>36%</td>
<td>45%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

- Inflation level fluctuations:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>2</td>
<td>4</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>18%</td>
<td>36%</td>
<td>45%</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

20. Other variables

a. Are there any other variables, country risks or other obstacles that have affected your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Observations of Other Variables</th>
<th>Yes</th>
<th>No</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Firms</td>
<td>3</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Percentage of Total</td>
<td>27%</td>
<td>64%</td>
<td>9%</td>
</tr>
</tbody>
</table>

b. If yes, could you please exemplify them and in what way each of them has affected your decision to invest in Turkey?

<table>
<thead>
<tr>
<th>Other Variables</th>
<th>The Affect of Other Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Situation</td>
<td>Slightly negative</td>
</tr>
<tr>
<td>Political Situation</td>
<td>Slightly negative</td>
</tr>
<tr>
<td>Political Situation / Customs Regulations</td>
<td>Negative / Negative</td>
</tr>
</tbody>
</table>

21. Additional information and comments:

No additional information or comments.
## 11.4 List of Responding Firms

<table>
<thead>
<tr>
<th>Company</th>
<th>Respondent</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS Group</td>
<td>Peter Carlsson</td>
<td>Managing Director</td>
</tr>
<tr>
<td>Gambro AB</td>
<td>Jerker Rangström</td>
<td>Marketing Manager</td>
</tr>
<tr>
<td></td>
<td>P. Mellnert</td>
<td>Business Controller</td>
</tr>
<tr>
<td></td>
<td>Håkan Eriksson</td>
<td>Marketing and Development Director</td>
</tr>
<tr>
<td>IKEA</td>
<td>Vladislav Lalic</td>
<td>General Manager</td>
</tr>
<tr>
<td>JC AB</td>
<td>Niklas Odequist</td>
<td>Production Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Business Development Manager</td>
</tr>
<tr>
<td>Oriflame AB</td>
<td>Alexander af Jochnick</td>
<td>Manager</td>
</tr>
<tr>
<td>Svenska Cellulosa Aktiebolaget, SCA</td>
<td>Henrik Denker</td>
<td>Director M&amp;A Projects</td>
</tr>
<tr>
<td></td>
<td>Michael Schmidt</td>
<td>Board Member of Turkish JV</td>
</tr>
<tr>
<td>Scanrotor</td>
<td>Anders Olevik</td>
<td>General Manager</td>
</tr>
<tr>
<td>System 3R</td>
<td>Anders Graner</td>
<td>Senior advisor / VP Finance</td>
</tr>
<tr>
<td>V&amp;S Absolut Spirits</td>
<td>Rey Carlson</td>
<td>Area Manager Balkan, Baltics and Turkey</td>
</tr>
<tr>
<td>Volvo Group</td>
<td>Claes Claesson</td>
<td>Press Manager</td>
</tr>
<tr>
<td></td>
<td>Özlem Çopuroğlu</td>
<td></td>
</tr>
</tbody>
</table>