

***ANALYZING FOREIGN DIRECT INVESTMENT DECISIONS  
OF MULTINATIONAL ENTERPRISES WITHIN  
COMPETITIVE FRAMEWORK: A VALUE CHAIN BASED  
PERSPECTIVE***

Dr. Pınar Büyükbacı<sup>1</sup>  
Yıldız Teknik Üniversitesi, İİBF,  
İşletme Bölümü,  
Yönetim ve Organizasyon ABD

**ABSTRACT**

Main aim of this study is to analyze foreign direct investments as a tool to trace the strategic actions of multinational enterprises within a value chain approach. The study is based on an integrative review of related literature and the development and tests of hypotheses focusing on the relationship between foreign direct investment decisions and type of competitive advantage pursued by the firm. Porter's "Value Chain Approach" and "Generic Strategies" are considered as important strategic tools in the study. In this sense, dispersion of foreign direct investment among upstream and downstream activities in the value chain is expected to affect the type of competitive advantage pursued by the firm in different ways, causing it to pursue either "cost leadership" or "differentiation" based competitive advantage.

**Keywords:** Cost Leadership, Differentiation, Foreign Direct Investment, Multinational Enterprise, Value Chain Analysis.

***ÇOK ULUSLU İŞLETMELERİN DOĞRUDAN YABANCI  
YATIRIM KARARLARININ REKABETÇİ ÇERÇEVEDE  
İNCELENMESİ: DEĞER ZİNCİRİ TEMELLİ BİR YAKLAŞIM***

**ÖZET**

Bu çalışmanın amacı, çok uluslu işletmelerin stratejik faaliyetlerini izleyebilmek için önemli bir araç olan doğrudan yabancı yatırımları, değer zinciri temeli bir yaklaşım kapsamında ele almaktır. Çalışma, ilgili literatürün bütüncül bir biçimde incelenmesine ve bu çerçevede doğrudan yabancı yatırım kararları ile işletmenin izlediği rekabet avantajı arasındaki ilişkiye odaklanan hipotezlerin geliştirilerek test edilmesine dayanmaktadır. Porter tarafından geliştirilen "Değer Zinciri Yaklaşım" ve "Temel Rekabet Stratejileri", çalışma kapsamında, önemli stratejik araçlar olarak ele alınmıştır. Bu bağlamda, doğrudan yabancı yatırımların değer zincirinde yer alan yukarıya ve aşağıya dönük faaliyetler temelindeki dağılımının, firmanın izlediği rekabet avantajı türünü, maliyet liderliği ya da farklılaştırma olarak değiştirmesi beklenmektedir.

**Anahtar Sözcükler:** Çok Uluslu İşletme, Değer Zinciri Analizi, Doğrudan Yabancı Yatırım, Farklılaştırma, Maliyet Liderliği.

## INTRODUCTION

Activities of multinational enterprises (MNEs) have been an issue of interest in international business literature since forces of globalization started to shape market conditions. Rapid economic growth of Japan was followed by newly industrialized countries (NICs) since 1970s, and international transactions boomed as a result of the dominance of a more liberal trade environment all over the world (Flaherty, 1996). Under these changing market conditions, the antecedents and outcomes of the activities carried out by MNEs are changing drastically as well, and in this change process, MNEs strongly affect and, in turn, are being affected by the strength of certain global forces.

With the increasing intensity of cross-border capital, and production and technology flows in the last few decades, direct investments made by foreign firms in host countries have gained importance as anchors of international business activities.

However, using a systemic framework is an obligation to trace these flows to be able to accurately interpret them. At this point, strategic management literature integrates harmonically with international business literature and provides the tools that are needed to uncover the reasoning behind certain strategies of MNEs.

In compliance with these, this study attempts to present a conceptual model that integrates foreign direct investment patterns of MNEs in Turkey with Porter's (1998) "Value Chain" framework and generic strategies of cost leadership and differentiation.

### 1. CONCEPT OF FOREIGN DIRECT INVESTMENT

Foreign direct investment (FDI) data are regarded as one of the most relevant indicators of multinational enterprise activity by scholars (Robock and Simmonds; 1989) as the territorial expansion of a firm's activities outside its national boundaries has been achieved mainly through making such investments (Dunning and Lundan, 2008; Wilkins, 2003). A brief definition of FDI has been put forth in a recent OECD report with the following words (Christiansen, Goldstein and Bertrand, 2007, p.20): "Foreign direct investment (FDI) 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)".

In the above stated definition, 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.

For a company, one of the two ways of making FDI is through making a "greenfield investment", which means the creation of a local production unit by setting up a new facility that fully complies with the corporate's structural needs in the host country, while the other is through a "merger or acquisition", which means taking over an existing facility

and thus presenting the benefit of strengthening the existing ownership advantages by combining them with the assets of the foreign entity (Morsink, 1998). Whatever the type is, today, many countries are competing to attract FDI by providing certain incentives for investing companies, making attempts to develop human resources, maintaining a higher degree of liberalization, and trying to set the right balance between restrictive policies comprising tight reins over the economic and industrial power of foreign investors and enlightened control (Spar, 2003; Sagafi-Nejad, 1998).

## **2. PORTER'S GENERIC STRATEGIES AND THEIR RELATION TO VALUE CHAIN FRAMEWORK IN INTERNATIONAL BUSINESS (IB) LITERATURE**

### **2.1. Generic Strategies**

To many authors, the most important way for managers and organizations to learn if they are to reach and remain at the top of the competitive environment of business is the use of organizational resources to build a competitive advantage (George and Jones, 2006). A long-term strategy designed for this purpose must be based on a core idea about creating and exploiting such a competitive advantage and leading the firm compete in the marketplace.

According to Michael Porter (1998), there are two basic types of competitive advantage a firm can possess: low costs or differentiation. Thus, the long-term strategy used by the firm is based mainly on these two types of competitive advantages. These combine with the scope of a firm's operations (the range of market segments targeted) and lead to "three generic strategies" for achieving above-average performance in an industry: cost leadership, differentiation and focus strategies.

Main motive in "cost leadership strategy" has been pointed out as "striving to achieve lower overall costs than rivals and appealing to a broad spectrum of customers, usually by underpricing rivals", while the main motive in "differentiation strategy" has been emphasized as "seeking to differentiate the company's product offering from rivals' in ways that will appeal to a broad spectrum of buyers". Focus strategies of both types adopt the same motives, but concentrate on a narrow buyer segment (Thompson, Strickland and Gamble, 2007).

The requirements for each generic competitive strategy differ from each other. To state in a more specific way, strategies based on cost-leadership advantages focus on cost reductions and efficiencies by attempting to maximize economies of scale, maintaining operational efficiency, implementing cost cutting technologies, stressing reductions in overhead and in administrative expenses. A low-cost leader is able to use its cost advantage to charge lower prices or to enjoy higher profit margins. On the other hand, strategies dependent on differentiation are designed to appeal those customers with a special sensitivity for a particular product/service attribute, and thus require skills such as strong marketing abilities, new product development, building corporate reputation for quality and technological leadership and maintaining strong coordination in marketing channels. Finally, a firm pursuing a focus strategy should have the skills to serve isolated geographic

areas and to tailor the product to the somewhat unique demands of the small-to-medium-sized customer (Pearce and Robinson, 2003; Akan, Allen, Helms and Spralls, 2006).

Particularly in global markets, the firms' ability to integrate the means of competition necessary to implement the cost leadership and differentiation strategies is thought to be critical to developing competitive advantage. More specifically, firms may choose to internationalize to gain more cost advantages by, (1) increasing sales to realize economies of scales, (2) gaining access to low-cost labor, and (3) gaining access to low-cost raw materials. On the other hand, firms may choose to invest in foreign markets to implement a product/service differentiation strategy by being locally responsive in certain respects (Barney and Hesterly, 2008).

## 2.2. Value Chain Framework and Its Relation to Generic Strategies

Porter (1998) states the goal of any generic strategy as "to create value for buyers at a profit". Building on this "value" concept, he created "Generic Value Chain" and defined it as a systemic way of examining all the activities a firm performs and how they interact for analyzing the sources of competitive advantage. According to Porter (1998), such a chain, and how it performs individual activities, reflects a firm's history, its strategy, its approach to implementing its strategy, and the underlying economies of the activities themselves.

According to Porter (1998), value chain activities can be divided into two broad types: primary activities and support activities. Primary activities are the activities involved in the physical creation of the product and its sale and transfer to the buyer as well as after-sale assistance. On the other hand, support activities support the primary activities and each other by providing purchased inputs, technology, human resources, and various firm-wide functions.

Regarding the spread of activities in the value chain, Porter (1986) describes primary activities in the chain as consisting of "*upstream activities*" and "*downstream activities*". "Upstream activities" (inbound logistics activities, operations activities, some outbound logistic activities) are those economic activities which are performed in the early stages of the value adding process and which occur close to the firm's suppliers but far away from the buyer; while "downstream activities" (some outbound logistic activities, marketing and sales activities, service activities) are those activities that occur closer to the buyer but far away from the firm's supplier.

According to Porter (1986), a firm that competes internationally must decide how to spread the activities in the value chain among countries. He asserts that downstream activities, which are more related to the buyer, should be located at the buyer's location. Upstream activities and support activities, on the other hand, can be decoupled from where the buyer is located in most industries. Moving from this point on, he proposes that downstream activities create competitive advantages that are largely country specific (a firm's reputation, brand name, service network, etc.), while competitive advantage in upstream and support activities often grows more out of the entire system of the countries in which a firm competes rather than from its position in one single country. Also, in industries where

downstream activities are vital to competitive advantage, there tends to be a more multidomestic pattern of international competition (as in many service industries) is seen; while in industries where upstream and support activities such as technology development and operations are crucial to competitive advantage, global competition, in which the location and scale of value chain activities is optimized from a worldwide perspective, is more common.

### **3. DEVELOPMENT OF HYPOTHESES**

In studies on FDI, interpreting only the statistical figures is not enough to evaluate the nature, amount and type of FDI made by a company. Also, in international business literature, it is a widely accepted criterion that a company is expected to have value-added facilities in more than two countries, before being classified as a multinational (Cohen, 2007). Thus, studying the role of FDI in relation with value creating activities of a firm is highly desired in this sense.

Moreover, Kogut (1989) points out the need for a new perspective which combines the investments made overseas with the strategic purposes of the companies by basing on that, global competition has changed in 1980s and interest has shifted towards the decisions made on investing overseas to increase the strategic value of operating assets in multiple countries.

In this regard, the value chain framework designed by Michael Porter (1998) is considered to provide a useful analytical tool. To state more specifically; investment decisions of MNEs can be examined in terms of the activities that consists the “primary value chain” and which are divided into two parts as “upstream” and “downstream”. Such an approach is also regarded to provide a useful framework by many scholars, as well (e.g. Porter, 1986, 1998; Chakravarthy and Perlmutter, 1985). In the same vein; again Kogut (1984), points out the robustness of the concept of value-added chain as a tool to explain the advantages firms gain through international operations. While discussing these advantages, Porter’s generic strategies of “cost leadership” and “differentiation” have been highly referred to in international strategic management literature (e.g. Yip, 1992).

Regarding the investment decisions of MNEs, an argument took place in literature on making a strategic choice between “standardization” of products and services worldwide and “adaptation”; that is, staying responsive to local differences (Levitt, 1983; Prahalad and Doz, 1987; Bartlett and Ghoshal, 2002; Ghemawat, 2003).

However, Kogut (1984) emphasizes that it will be “misleading” if being adaptive is regarded as a similar concept to differentiating itself and thus, if the strategic moves of MNEs are put in the context of “standardized vs. differentiated products/services”. He implies that these concepts, being standardized and being differentiated, are not necessarily mutually exclusive and supports this by explaining the role of “international marketing” by stating that marketing may be highly differentiated in each country and in each market segment, but the firm may still exploit upstream competitive advantages by linking shared and standardized resources across product lines and countries. According to Kogut (1984),

the task of international marketing (and related functions) is to differentiate products/services (by using marketing tools and by adapting itself to country specific characteristics if necessary) which embody the shared resources across product lines and countries.

Departing from this point on, it can be claimed that a product or service may be globally standardized in a large sense but also be differentiated from its competitors at the same time, and the source of differentiation may come from upstream or downstream activities in the value chain; but the role of marketing activities become prominent in either case, as differentiation requires the ability to offer buyers something attractively different from competitors. To communicate this difference, marketing related activities become critically important and should be designed in accordance with the local environment's unique needs.

On the other hand, in terms of production activities, Porter (1986) puts forward that configuration issues deal largely with location of production facilities for components and end products mainly due to structural characteristics which represent concentration costs. Based on these, it is hypothesized that;

*H1a*: Firms with higher levels of FDI in upstream activities will gain competitiveness through exploiting cost leadership advantages.

*H1b*: Firms with higher levels of FDI in downstream activities will gain competitiveness through exploiting differentiation advantages.

#### **4. RESEARCH OBJECTIVES**

Main aim of this study is to analyze foreign direct investment patterns of MNEs in Turkey from a value chain perspective which presents a systemic framework for studying the activities of a company. Primary research questions within this framework can be stated as follows:

- Is it possible to analyze FDI flows with a value chain perspective?
- Which factors affect the relationship between FDI patterns and competitiveness?

#### **5. RESEARCH METHODOLOGY**

##### **5.1. Operationalization of Variables**

Level of FDI made in each primary value chain activity is measured by simply asking the respondents to indicate the ratio (dispersion) of their investments in a way that reflects their company's FDI position in Turkey.

Following this, a fifteen-item, six-point rating scale ranging from “1 = does not affect at all” to “6 = affects totally” is used to measure competitiveness. The items have been adapted from Nayyar (1993). Among these fifteen items, nine attempted to measure differentiation-based-competitiveness, while six of them attempted to measure cost-based-competitiveness.

## **5.2. Research Sample**

The target population of the study consists of firms that have foreign direct investment in Turkey. To follow a systemic process, 2009 member list of International Investors' Association of Turkey (YASED) is chosen as the sampling frame, as it includes firms with profiles directly fitting the purposes of this study. To state more specifically, YASED consists of member firms having a share of foreign capital in their capital structure and are thus subject to Foreign Direct Investment Law.

The sampling procedure adopted a firm-level approach as the unit of analysis is the organization itself. Data were collected through a six month period starting from September 2009 and ending on February 2010. Respondents holding managerial positions in their companies were asked to fill out the questionnaires as they are more capable of providing adequate information on strategy related questions.

The member list of YASED included 213 firms in total. Out of these, questionnaires were sent to 148 randomly chosen firms via e-mail. In total, 107 questionnaires were collected (with a response rate of 72.29 %). However, 12 of these questionnaires were found to be invalid, as they included missing data. In the end, number of valid questionnaires totaled 95, with a percentage of valid questionnaires being 88.78 %.

## **5.3. Data Collection Method**

In this study, a structured questionnaire has been employed as data collection tool. The questionnaire items were translated to Turkish by the author. They are then back translated to English by a linguistic professional and necessary wording modifications were carried out. Also, to further clarify the expressions, a pilot study was conducted with a sample consisting of three executives, four PhD students and one management consultant. The participants in the pilot sample were asked to identify any ambiguities regarding the terms, concepts, or issues in the questionnaire. Final modifications were made by taking the feedback information into account, an introduction part explaining the main purpose of the study and emphasizing confidentiality issues has been included in the questionnaire, and, subsequently, the questionnaire form was started to be sent to the respondents.

The questionnaire was sent to respondents via e-mail, and the filled forms were returned to the author through the same channel. Therefore, the method of administration adopted in the study is self-administration method.

In addition to the items related to the variables stated in the previous section, certain questions regarding the name, age, sector and size of the firm have been added to the questionnaire to reveal the profile of participating firms. Also questions regarding the individual respondents' work experience, gender, level of education and position in the firm have been included in the questionnaire to get the individual respondents' profiles.

## 6. RESEARCH FINDINGS

### 6.1. Firm and Respondent Demographics

Certain findings regarding firm characteristics and respondent demographics should be presented before moving on for further analysis as they provide a baseline view on which the subsequent comments on study findings could be built on.

In terms of their sizes, firms are almost equally dispersed, 33.7 % of them being small firms, 31.6 % being medium-sized firms and 29.5 % being large firms (with a 5.3 % missing values). In terms of industry, "Manufacture of Chemicals and Chemical Products" (including petroleum, pharmaceuticals, cosmetics, etc) has the highest share in the sample (24.2 %), followed by "Financial Intermediation" firms (13.7 %), and next by "Transport, Storage and Communications" firms and "Manufacture of Food Products and Beverages" firms with an equal share of 11.6 %. Overall, 57.9 % of the firms are manufacturing firms, while 42.1 % of them are service firms. Finally, of the participating firms, 23.9% have been operating in Turkey for less than 10 years, 59.0 % between 10 and 50 years, and 12.9% have been operating between 51 and 106 years.

In terms of respondent demographics, one of the most important positive aspects turned out to be the position respondent holds in that company. As most questions in the questionnaire required high level of information regarding firm strategies, operations and corporate network – wide relationships, the position of respondents was considered to be an important issue throughout the research. Largely satisfying this requirement; 24.2% of the respondents in the sample are CEO or General Manager, 21.1% are Assistant Manager or Director, 35.8% are manager, 17.8% are specialist or expert, and 1.1% hold other positions in the company.

### 6.2. Exploratory Factor Analysis

For the purposes of this study, principle components analysis was chosen as the method of extraction since the main aim here is to "re-express the multivariate data" by making the necessary purifications and reductions.

In determining the number of factors to be extracted, *eigenvalues* and *scree test* results have been used as major criteria. Regarding the overall measures of intercorrelation, which indicate the appropriateness of factor analysis, Bartlett test of sphericity and Keiser-Meyer-Olkin Measure of Sampling Adequacy (KMO – MSA) have been referred to.



The results of the analysis for *Differentiation Based Competitive Advantage* and *Cost Based Competitive Advantage* can be found in Table 1. As can be seen in Table 1, results revealed two factors for both *Differentiation Based Competitive Advantage* and *Cost Based Competitive Advantage*.

**Table 1. Factor Analysis Results**

<i>Factor Name</i>	Variance Explained
<b>Differentiation Based Competitive Advantage</b>	
<i>Factor 1 – Image and Operations Differentiation</i>	27.763 %
<i>Factor 2 – Product and Service Differentiation</i>	27.005 %
KMO Measure	0.792
Bartlett's Test	230.436*
<b>Cost Based Competitive Advantage</b>	
<i>Factor 1 – Direct Cost Factors</i>	32.945 %
<i>Factor 2 – Indirect Cost Factors</i>	30.585 %
KMO Measure	0.731
Bartlett's Test	138.544*

\*Significant at 0.01 level.

Among these factors, “*Image and Operations Differentiation*” includes items such as; having high influence over distribution channels, targeting high-priced segment(s), building/maintaining brand equity, building/maintaining brand reputation, and spending a high amount of money on advertising activities. “*Product and Service Differentiation*” includes items such as; providing product(s)/services with many differentiating features, creating premium product/service quality, providing extensive customer/consumer service, and new product/service development.

On the other hand, “*Direct Cost Factors*” consist of items such as; providing high operating efficiency/cost control, managing raw materials cost and availability, and product/ service cost reduction; while “*Indirect Cost Factors*” consist of such items as; making improvements and innovation in manufacturing/ service processes, pricing below competitors, and having highly skilled functional personnel.

### 6.3. Scale Reliabilities

Reliabilities of the scales measuring study variables were examined by computing Cronbach's Alpha coefficients and Hotelling's T-Squared values. Reliability values, all of which are above threshold levels, are presented in Table 2.

**Table 2. Reliability Values of Scales**

	Cronbach's Alpha	Hotelling's T-squared Sign.
Image and Operations Differentiation Based CA	0.745	0.000
Product and Service Differentiation Based CA	0.765	0.001
Direct Cost Based CA	0.755	0.000
Indirect Cost Based CA	0.560	0.003

#### 6.4. Summary Statistics of Study Variables

Table 3 shows means, maximum and minimum values, and standard deviations of study variables.

**Table 3. Summary Statistics of Study Variables**

Variables	N	Min.	Max.	Mean	SD
Upstream FDI	95	.00	100	39.09	30.83
Downstream FDI	95	.00	100	60.91	30.75
Direct Cost Based CA*	95	1.67	6.00	4.40	1.01
Indirect Cost Based CA*	95	2.00	6.00	4.25	0.89
Image and Operations Differentiation Based CA*	95	1.40	6.00	4.17	0.93
Product and Service Differentiation Based CA*	95	1.75	6.00	4.84	0.77

\* The variable is measured on a 6-point scale where the maximum is 6 and the minimum is 1. For the subscales, which contained "reverse coded items", necessary recoding is made.

#### 6.5. Results of Regression Analyses

Several regression analyses are run to test the relationships between the independent (Upstream FDI and Downstream FDI) and dependent variables (Image and Operations Differentiation Based CA, Product and Service Differentiation Based CA, Direct Cost Based CA, Indirect Cost Based CA) of the study. Additionally, firm characteristics such as age, size and type of industry were included in the models as control variables.

Regarding the relationship between "Upstream FDI" and "Cost Based Competitive Advantage" two analyses are carried out.

The results of the analysis regarding the relationship between Upstream FDI and Direct Cost Based Competitive Advantage are depicted in Table 4. The first model, in which only the control variables are regressed against the dependent variable, explains 9.6 % of the variance in the importance attributed to Direct Cost Based Competitive Advantage by the

firm ( $F_{(3,82)} = 2.889$ ,  $p < 0.05$ ). Also, the firm size is not fully controlled ( $\beta_i = 0.291$ ;  $p < 0.05$ ). Thus, it should be mentioned that, the findings are prevalent especially for large firms.

In the second step, with the inclusion of Upstream FDI in the model, the variance explained significantly increases ( $\Delta R^2 = 0.053$ ;  $\Delta F_{(1,81)} = 5.075$ ,  $p < 0.01$ ). According to regression results, Upstream FDI ( $\beta_i = 0.277$ ;  $p < 0.01$ ) is identified as a predictor of Direct Cost Based Competitive Advantage in the expected positive direction.

Following the same vein, another series of regression analyses are conducted to explore the relationship between Upstream FDI and Indirect Cost Based Competitive Advantage. As can be seen in Table 5, in the first model, control variables explain only 2 % of the variance in the dependent variable ( $F_{(3,82)} = 0.567$ ). When the independent variable, Upstream FDI is entered the equation in the second model, it causes a nonsignificant increase in the variance explained ( $\Delta R^2 = 0.010$ ;  $\Delta F_{(1,81)} = 0.848$ ).

**Table 4. Regression Results for Upstream FDI and Direct Cost Based CA\*\*\***

	Model 1			Model 2		
	Regression Coefficient	Standard Error	Std. Coefficient	Regression Coefficient	Standard Error	Std. Coef.
<i>Control Variables</i>						
Firm Size	0.346	0.260	0.291*	0.297	0.125	0.250*
Sector	-0.100	0.214	-0.051	0.168	0.240	0.086
Firm Age	-0.004	0.004	-0.112	-0.004	0.004	-0.127
<i>Independent Variables</i>						
Upstream FDI				0.009	0.004	0.277**
Adjusted R Square	0.063			0.107		
R Square	0.096			0.149		
$\Delta$ in R Square	0.096			0.053		
F for $\Delta$ in R Square	2.889*			5.075**		
F for ANOVA	2.889*			3.543**		
* $p < 0.05$						
** $p < 0.01$						

\*\*\* Provided in the table are the results of two sequential regression runs. Model 1 regresses Direct Cost Based CA against the control variables only, and the following model includes Upstream FDI.

**Table 5. Regression Results for Upstream FDI and Indirect Cost Based CA\*\*\***

	Model 1			Model 2		
	Regression Coefficient	Standard Error	Std. Coefficient	Regression Coefficient	Standard Error	Std. Coefficient
<i>Control Variables</i>						
Firm Size	0.135	0.121	0.123	0.115	0.123	0.106
Sector	0.151	0.204	0.084	0.258	0.235	0.144
Firm Age	-0.001	0.004	-0.023	-0.001	0.004	-0.029
<i>Independent Variables</i>						
Upstream FDI				0.004	0.004	0.121
Adjusted R Square	-0.016			-0.017		
R Square	0.020			0.030		
$\Delta$ in R Square	0.020			0.010		
F for $\Delta$ in R Square	0.567			0.848		
F for ANOVA	0.567			1.343		
*p<0.05						
**p< 0.01						

\*\*\* Provided in the table are the results of two sequential regression runs. Model 1 regresses Indirect Cost Based CA against the control variables only, and the following model includes Upstream FDI.

Regarding the relationship between “Downstream FDI” and “Differentiation Based Competitive Advantage”, again, two analyses are run.

As a result of the regression analyses carried out to examine the relationship between Downstream FDI and Image and Operations Differentiation Based Competitive Advantage, results depicted in Table 6 are obtained. Among the control variables, again the firm size cannot be controlled ( $\beta_1 = 0.332$ ;  $p < 0.01$ ), as revealed in the first model ( $R^2 = 0.126$ ;  $\Delta F_{(3,82)} = 3.953$ ,  $p < 0.01$ ). Downstream FDI is included in the equation in the second model, however it does not cause any significant increase in the variance explained ( $\Delta R^2 = 0.003$ ;  $AF_{(1,81)} = 0.234$ ).

As can be seen from Table 7, the analyses of the relationship between Downstream FDI and Product and Service Differentiation Based Competitive Advantage put forth that the first model controlling for the effects of firm size, sector and firm age is nonsignificant indicating that the effects of these variables were controlled ( $R^2 = 0.085$ ;  $\Delta F_{(3,82)} = 2.539$ ).

In the second model, when Downstream FDI is entered the equation, again no significant increase in the variance explained is observed.

**Table 6. Regression Results for Downstream FDI and Image and Operations Differentiation Based CA\*\*\***

	Model 1			Model 2		
	Regression Coefficient	Standard Error	Std. Coefficient	Regression Coefficient	Standard Error	Std. Coefficient
<i>Control Variables</i>						
Firm Size	0.358	0.113	0.332**	0.368	0.115	0.341**
Sector	0.044	0.191	0.025	-0.009	0.220	-0.005
Firm Age	0.004	0.003	0.114	0.004	0.003	0.116
<i>Independent Variables</i>						
Downstream FDI				0.002	0.004	0.060
Adjusted R Square	0.094			0.086		
R Square	0.126			0.129		
$\Delta$ in R Square	0.126			0.003		
F for $\Delta$ in R Square	3.953**			0.234		
F for ANOVA	3.953**			2.996**		
*p<0.05 **p< 0.01						

\*\*\* Provided in the table are the results of two sequential regression runs. Model 1 regresses Image and Operations Differentiation Based CA against the control variables only, and the following model includes Downstream FDI.

**Table 7. Regression Results for Downstream FDI and Product and Service Differentiation Based CA**

	Model 1			Model 2		
	Regression Coefficient	Standard Error	Std. Coefficient	Regression Coefficient	Standard Error	Std. Coefficient
<i>Control Variables</i>						
Firm Size	0.257	0.100	0.273	0.271	0.102	0.289**
Sector	-0.062	0.170	-0.040	-0.138	0.196	-0.089
Firm Age	0.001	0.003	0.048	0.001	0.003	0.052
<i>Independent Variable(s)</i>						
Downstream FDI				0.003	0.003	0.100
Adjusted R Square	0.052			0.047		
R Square	0.085			0.092		
$\Delta$ in R Square	0.085			0.007		
F for $\Delta$ in R Square	2.539			0.627		
F for ANOVA	2.539			2.053*		
*p<0.05 **p< 0.01						

\*\*\* Provided in the table are the results of two sequential regression runs. Model 1 regresses Product and Service Differentiation Based CA against the control variables only, and the following model includes Downstream FDI.

## CONCLUSION

This study attempts to develop a framework to understand the relationship between foreign direct investment made in upstream and downstream value chain activities and type of competitive advantage pursued.

Throughout analyses aiming to explore the relationship of independent variables with type of competitive advantage pursued by the firm, support was found only for the relationship between FDI made in upstream activities and Direct Cost Based Competitive Advantage. This finding can be justified by the fact that, when a firm invests in activities such as inbound logistics and operations, it means that this investment is channeled to processes related to obtaining raw materials, parts components, etc. from suppliers, along with production, assembly, and other manufacturing operations. Accordingly, Direct Cost Based CA items tell us that the firm finds it important to provide operating efficiency, raw material cost control and product/service cost reduction for creating competitive advantage.

Apart from above stated relation, no significant relations have been revealed. Therefore, overall, H1a, which states that “firms with higher levels of FDI in upstream activities will gain competitiveness through exploiting cost leadership advantages” is partially supported, while no support is provided for H1b, which states that “firms with higher levels of FDI in downstream activities will gain competitiveness through exploiting differentiation advantages”.

Findings of this study should be interpreted within a wider framework. To put it in a more specific way, by moving on from these findings, it can be proposed that several possible moderating and mediating variables exist within the relationship between type of FDI and competitive advantage pursued by the firm. As the literature suggests (i.e. Ghoshal and Bartlett, 1990; Martinez and Jarillo, 1991; Ghoshal and Nohria, 1993; Moon and Kim, 2008; Birkinshaw, 2001) dynamics related to international corporate network and degree of subsidiary autonomy might pose alternative explanations for the hypothesized relationships in this study. With the inclusion of these dynamics in further research, the hypothesized relationships can be interpreted in a more comprehensive manner.

To sum up, this paper should not be considered as a reductive attempt to explain all possible relationships between the study variables. Rather, by presenting such perspective, this paper will hopefully provide researchers and practitioners an insight to revisit the phenomenon and bring new lines to the field of international business and management.

**REFERENCES**

- AKAN, Obasi, ALLEN, Richard S., HELMS, Marilyn M., and SPRALLS, Samuel A., 2006, “*Critical Tactics for Implementing Porter’s Generic Strategies*”, *Journal of Business Strategy*, Vol: 2, No: 1, pp. 43-53.
- BARNEY, Jay B., HESTERLY, William S., 2008, **Strategic Management and Competitive Advantage**, New Jersey, Prentice Hall.
- BARTLETT, Christopher A., GHOSHAL, Sumantra, 2002, **Managing Across Borders: The Transnational Solution**, Boston, Harvard Business School Press.
- BIRKINSHAW, Julian, 2001, “Strategies for Managing Internal Competition”, *California Management Review*, Vol: 44, No: 1, pp. 21-38.
- CHAKRAVARTHY, Balaji S., PERLMUTTER, Howard V., 1985, “*Strategic Planning For A Global Business*”, *Columbia Journal of World Business*, Vol: 20, No: 2, pp. 3-10.
- CHRISTIANSEN, Hans, GOLDSTEIN, Andrea, BERTRAND, Ayşe, **OECD Report Series**, Trends and Recent Developments in Foreign Direct Investment, 2007.
- COHEN, Stephen, 2007, **Multinational Corporations and Foreign Direct Investment**, New York, Oxford University Press.
- DUNNING, John H., LUNDAN, Sarianna M., 2008, **Multinational Enterprise and the Global Economy**, Northampton, Edward Elgar Publishing.
- FLAHERTY, Therese M., 1996, **Global Operations Management**, New York, McGrawHill.
- GEORGE, Jennifer, JONES, Gareth, 2006, **Essentials of Contemporary Management**, New York, McGrawHill.
- GHEMAWAT, Pankaj, 2003, “*The Forgotten Strategy*”, *Harvard Business Review*, Vol: 81, No: 11, pp. 76-84.
- GHOSHAL, Sumantra, BARTLETT, Christopher A., 1990, “The Multinational Corporation as an Interorganizational Network”, *Academy of Management Review*, Vol: 15, No: 4, pp. 603-625.
- GHOSHAL, Sumantra, NOHRIA, Nitin, 1993, “Horses for Courses: Organizational Forms for Multinational Enterprises”, *Sloan Management Review*, Vol: 34, No: 2, pp. 23-35.
- HITT, Michael A., IRELAND, R. Duane, HOSKISSON, Robert E., 2005, **Strategic Management: Competitiveness and Globalization Concepts**, Mason, Thomson-SouthWestern Press.

JAFFEE, David, 2001, **Organization Theory: Tension and Change**, New York, McGraw-Hill Sociology Series.

KOGUT, Bruce, 1989, “*Research Notes and Communications: A Note on Global Strategies*”, *Strategic Management Journal*, Vol: 10, No: 4, pp. 383-389.

KOGUT, Bruce, 1984, “*Normative Observations On The International Value-Added Chain And Strategic Groups*”, *Journal of International Business Studies*, Vol: 15, No: 2, pp. 151-167.

LEVITT, Theodore, 1983, “*The Globalization of Markets*”, *Harvard Business Review*, Vol: 61, No: 3, pp. 92-102.

MARTINEZ, Jon I., JARILLO, J. Carlos, 1991, “*Coordination Demands of International Strategies*”, *Journal of International Business Studies*, Vol: 22, No: 3, pp. 429-444.

MOON, Hwy-Chang, KIM, Min-Young, 2008, “*A New Framework for Global Expansion: A Dynamic Diversification – Coordination (DDC) Model*”, *Management Decision*, Vol: 46, No: 1, pp. 131-151.

MORSINK, Robert L.A., 1998, **Foreign Direct Investment and Corporate Networking**, Cheltenham, Edward Elgar Publishing.

NAYYAR, Praveen R., 1993, “*On the Measurement of Competitive Strategy: Evidence from a Large Multiproduct U.S. Firm*”, *Academy of Management Journal*, Vol: 36, No: 6, pp. 1652-1669.

PEARCE, John A., ROBINSON, Richard B., 2003, **Strategic Management**, New York, McGrawHill-Irwin.

PORTER, Michael E., 1986, “*Changing Patterns of International Competition*”, *California Management Review*, Vol: 28, No: 2, pp. 9-40.

PORTER, Michael E., 1998, **Competitive Advantage: Creating and Sustaining Superior Performance**, New York, The Free Press.

PRAHALAD, C.K., DOZ, Yves L., 1987, **The Multinational Mission: Balancing Local Demands and Global Vision**, New York, The Free Press/MacMillian Press.

ROBERTS, Peter W., GREENWOOD, Royston, 1997, “*Integrating Transaction Cost and Institutional Theories: Toward a Constrained-efficiency Framework for Understanding Organizational Design Adaptation*”, *Academy of Management Review*, Vol: 22, No: 2, pp. 346-373.

ROBOCK, Stefan H., SIMMONDS, Kenneth, 1989, **International Business and Multinational Enterprises**, Boston, Irwin Publishing.



SAGAFI-NEJAD, Tagi, 1998, “*World investment report series 1991-1997*”, *Journal of International Business Studies*, Vol: 29, No:3, pp. 647-651.

SPAR, Debora L., 2003, “*National Policies and Domestic Politics*”. In Alan M. RUGMAN and Thomas L. BREWER (Eds), **The Oxford Handbook of International Business**. New York, Oxford University Press.

THOMPSON, Arthur A., STRICKLAND, A.J., GAMBLE, John E., 2007, **Crafting and Executing Strategy: The Quest for Competitive Advantage**, New York, McGrawHill.

**UNCTAD: World Investment Report Series**, Transnational Corporations and Export Competitiveness, 2002.

WILKINS, Mira, 2003, “*The History of Multinational Enterprise*”. In Alan M. RUGMAN and Thomas L. BREWER (Eds), **The Oxford Handbook of International Business**, New York, Oxford University Press.