Decision-Making Process and Strategic Foreign Direct Investment (FDI)

A Literature Review

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ABSTRACT

This paper is to uniquely explore the global competition in foreign direct investment [FDI] decision-making processes. The Global Competition in Strategic (GCS) is huge in the world and often do not have sufficient resources to fully investigate a major FDI decision. If learning to gain contextual competence is necessary for successful FDI decision-making, how do these firms manage their learning and competencies to invest successfully in different contexts? The main objective of this paper addresses the decision-making processes of Global Competition and Strategies in a different context, how this takes place and how needed competencies are developed and managed.

Two main research questions, addressing areas of managerial interest, are investigated in depth, namely: What is the decision-making process for foreign direct investment by Global Competition in Strategies? How do owners' managers of Global Competition in Strategies make such decision-making? The findings support a decision-making model that proposes and the marketing process is divided into phases.

These phases are of differing lengths and depths, largely depending on the type of management, and the decision-making speed can vary greatly between individual companies. The results indicate a distinction between Global Competition in Strategic managed directly by owners-managers and those managed by a board. The findings show current foreign direct investment and decision-making theory is at a watershed. Previously well-established theories are challenged as emerging markets, such as these countries "Turkey, Iran, northern Iraq, China, America, Abu-Dhabi, and so on", require different approaches and market-entry must be considered as a developmental process, which is individual to a company. Overall the decision-making type can also vary within the same company and among decision-makers. Knowledge available beds, and influences, competencies and results in "decision-making" and "global competition in strategic foreign direct investment" based on rationality or experience.

Keywords: Decision-making, Foreign Direct Investment, FDI, Global Competition GCS Strategies, Market-entry, Market Orientation.

1. INTRODUCTION

The global competition in strategic foreign direct investment decision-making process, in which the research took place, offers a scene to allow new insights into the decision-making processes in a dynamic environment. This review is motivated on the grounds that there is no similar research on market-entry decisions for the global competition in strategic foreign direct investment, which underlines its academic contribution and value for practitioners. Two main areas are investigated the process and the type of decision for foreign direct investment, which are found to be strongly related.

The type of decision-making process by owners-managers largely determines the decision process and the empirical findings helped uncover a series of determinants that propel strategic foreign direct investment into a market entry. These determinants reveal appreciable variations between the motivation for setting up a foreign direct investment, and the time span to reach a final decision for foreign direct investment, which cannot readily be compared between companies.

The view revealed the importance of the role of global competition in strategic foreign direct investment decision-making process owners-managers, mostly highly committed individuals, who have reached a point where entering an emerging market in the form of a foreign direct investment is a real option; a point of no return. The initial phases of business involvement or market exposure are informal but important; learning phases that clearly shape the concept of the entry mode to be pursued. This phase helps foster capabilities that speed up decision-making in subsequent phases

Overall, owners’ managers follow a route of risk management, with the objective of keeping control over their activities; materialized in undertaking a foreign direct investment. The findings of the research show there are two groups of global competition. The first group consists of strategic foreign direct investment decision-making where the owners are directly involved in managing the business and are shown to mostly be quick decisive-makers without the need for further approval of decisions.

The second group includes larger decision-making where managers have to consult a non-executive board for decision approval. The research results show that in the first group decisions,

as a tendency, are faster with the added observation that information gathering is less formal, whereas in the second group a more formal information gathering and decision-making style takes place. This largely explains why strategic foreign direct investment in the decision-making process set themselves broader guidelines for the implementation phase of the venture, thus giving room for reacting and adjusting during implementation.

In Review, it was deduced that different components of uncertainties shape the market entry decisions of firms. The environment and context setting of the world motivates the assumption that such an environment is loaded with various uncertainties, and strategic foreign direct investment will have to face, which influences the type of decision-making. The empirical observations show that owners-managers in practice are trying to make analytical decisions that are well grounded. Despite the initial assumption owners-managers do not feel there are many uncertainties that will threaten their investments. The attitude of least risk is reflected in the way owners-managers make their investments; not at a maximum business risk which may endanger the whole company if the foreign direct investment fails. Expert views on market-entry to the global are considered at the outset of this research. Reflecting now on these views there is a gap between the planned and the actual market-entry. The empirical findings mark considerable differences on how planned and actual market-entry is perceived and materialized. Firms and individuals planning their market-entry to the world approach this task quite carefully. The overall learning effects are shown after the actual decision process takes place and the type of decision-making develops from an analytical approach into an experienced-based approach.

Study method is the most suitable research method for this review that was based on the set of the KEYWORDS ”Decision-making, Foreign Direct Investment, FDI, Global Competition GCS Strategies, Market-entry, Market Orientation”. The researchers have gathered their suitable sources. During the progress of the investigation it became obvious that the chosen method is indeed a more suitable approach; a method that is especially appropriate for a novel and contemporary topics as dealt with in this research. An important aspect of the research findings is that the questions cases, albeit they allowed the development of the understanding that there are certain tendencies in how a global competition in strategic foreign direct investment decision-making process takes place in practice. Only the research method applied to allow the authors to

revisit each single case in an orderly manner, reflect on the findings, build and rebuild clusters of information and produce links between research findings in a cognitive way.

2. LITERATURE REVIEW

2.1 An Overview of the Literature Review

This study analyses decision-making processes for Foreign Direct Investment [FDI] into the world. This resembles a firm's development into any new territory; in this case an emerging market that appears to be risky and uncertain due partly to its novelty. The aim of the literature review is to deepen the understanding of the decision-making processes for global competition in strategic foreign direct investment and subsequently to draft the final research questions for the further directions.

The literature review is also the basis for the development of a conceptual, theoretical research framework, which is then used to analyze that has entered into global competition in strategic direct investment decision-making process. In chronological order the first section discusses decision-making theories. The second section elaborates on investment theories, in particular those on foreign direct investment. As sub-groups the literature view discusses global competition in strategic foreign direct investment decision-making and environment factors met in the internationalization process. In essence the literature review reflects the condition of entrepreneurial activities in the context of a firm's development.

2.2 Analysis and New Decision-Making Problems

As various decision models have developed, knowing their differences is important when analyzing new decision problems; decision problems in environments shaped by uncertainty. The selection of an appropriate decision strategy is important and such selection must not detach the decision problem from the latter process. It is argued that strategic decisions by companies are not normally only based on one process, but can depend on a number of processes. Normative, descriptive and prescriptive aspects of decision-making are simultaneously relevant within a

decision process. Mintzberg et al's. (1976) strategic decision-making process, sub-divided into identification, development and selection phases, shows the process contains rational as well as less rational elements.

Explicitly the model includes feedback loops based on learning by doing, building an increasing stock of inherent knowledge and assisting a possible rational approach to decision-making. Implicitly the model shows the decision process is an involvement over time built on information needs. In earlier times explicit formulation of information under time constraints was not common. Rather, strategic behavior was shaped by rational approaches and based on unlimited resources such as information and time. The continued appreciation of new information in the decision process is crucial to revalidate the process on the way forward. This helps measure the decision-making performance while an incremental development allows corrections to the process.

The implementation of final decisions has been largely ignored in most decision models, but decisions have a significant implementation phase over time, which touches on the point that authorization, modeled after Mintzberg et al. (1976), and implementation must not be detached from the decision process. The context in which the decision process takes place, such as in a dynamic environment of an emerging market, must be considered and only proof that a decision taken is accepted by its agents, and is workable, renders the process acceptable. Most decision models are thus static and rather descriptive in nature, and fail to explain how decision processes are performing. These findings bear relevance for further research. The characteristics of strategic management relate strongly to decisions by groups of people, and although the aspect of individual decision-making is discussed, many different individuals or groups are actively involved in, or influence, strategic decision-making.

Global competition in the strategic decision-making process in particular, where levels of management may not even exist, sometimes with only one decision-maker, who is the owner/manager, and where firms might have limited resources, have not been the broad focus of investigation. Pertinent characteristics of global strategic in decision-making must be considered in further research. The decision makers' characteristics, including past experience, knowledge, attitude, motivation and cognitive ability, play a key role in international decision-making of a firm. The attitudes of owner managers in Global strategic in the decision-making process rather

than environmental factors only, propel them into international. To attain international success, a firm must not only have the appropriate product and strategy, but its decision-makers must also have appropriate attitudes.

These attitudes determine how decision-makers perceive the benefits, costs and risks of international strategy. International strategy, and thus its process, rests heavily on leadership styles and an understanding of decision-making theories. It is recommended that a holistic analysis model for decision-making processes, especially for global strategy in decision-making, must be developed. The model must be applied from several viewpoints, for example, dynamic and unstable environments, small firms and their resources, owner-manager characteristics and learning ability. The model must consider that the decision process can have an incremental development. The wider context should include the decision pre-phase and implementation phase, and a decision process must have the capability of evolving, with learning and cognition taking place, to develop an effective decision process.

A decision process should be acknowledged as open-ended, and not be limited to the immediate debate on whether the decision-making process is more rational or more intuitive. More importantly, it must incorporate the different strands of theories without limiting itself to only a few concepts.

2.2.1 Motivational studies and Risk in Decision process

Motivational studies and Risk in Decision process affects motivation and to understand the full impact of risk it is necessary to consider the concept of risk. The decision-making behavior of individuals in the presence of motivational studies and risk in the decision process is influenced by their attitude to risk. Risk and decision process are inherent in all decision-making (Radford, 1989; Caroll and Johnson, 1990; Hammond, 1999). These aspects have received considerable attention in academic decision-making literature (Knight, 1921; Arrow, 1953; Borsch and Mossin, 1968; Murtha, 1997; March, 1997; Atrill, 2000; Buckley, 2000).

There is much confusion in the decision-making literature over the definitions of risk and decision (Davidson, 1982 and 1991; Murtha, 1997; Simpson et al. 1999 and 2000; Macmillan,

2000), and there is no conceptual basis for agreement on clear definitions of 'risk' and 'decision' (Brunsson, 2000; Dwyer and Minnegal, 2006). In the management literature, many authors often use the terms risk and decision interchangeably (Thurner, 2005: p41). The empirical literature argues that investment decision-makers apply methods of decision-making that are affected by the decision-makers own conceptualization of risk and decision (Grandori, 1984; Milliken, 1987; Butler, 1991; Lipshitz and Strauss, 1997). Such literature reflects the difficulties in explaining and separating the notions of risk and decision, while the difficulties are seen as:

(i) Scale,

(ii) The position of a particular player is-à-this particular situations and.

The problem of strategic interpretation. As a consequence the assignment of probabilities is difficult (Douglas and Wildavsky, 1982).

2.2.2 Risk theories

Risk theories may be quantified and it applies to contexts in which players are able to assess the likelihood that events will occur. In estimating risk, the estimation of risk is systematically biased by the experience decision-makers have in the organization. Risk reduces the motivation for a given action by providing a 'contra motivation', that is a motivation to not undertake the action (Brunsson, 2000). Individuals can be elevated to positions of decision-making authority by virtue of their past success (March, 1997). As decision-makers have difficulty in recognizing the successful role of luck in past incidents, current and future events often ignore risks encountered in previous decision-making situations (Langer, 1975; Taylor and Brown, 1988).

Risk-averse decision-makers may thus actually be risk-seeking in behavior (Keyes, 1985; March and Shapira, 1987; Kahneman and Lovallo, 1993). The relationship between risk and return has received considerable attention from researchers (Fiegenbaum and Howard, 1988; March, 1988; March and Shapira, 1992; Shapira, 1995; Payne, 1997) and affects the market-entry mode into a new market. It is discussed that a firm's risk attitudes influence risk-return profiles, and most troubled firms may take greater risks. Companies might be risky-seeking when they experience losses or are below target aspiration levels. Conversely, they will tend to be risk-averse following

achievement of aspirations and targets (Payne1980 and 1981; Singh, 1986; Bromiley, 1991; March 1997). For an individual decision-maker it is shown that in practice most individuals exhibit a mixture of risk-seeking and risk-averse behavior and that the sought level of return largely influences the amount of risk-taking.

The findings are not conclusive since variations in risk behavior can be observed. It must be questioned how risk is conceptualized and in what organizational context decisions are made; whether based on individual or group decision-making. However, it can be deduced that the available resource level can lead to apparent and variable risk preferences and 'risk-shift' in a particular situation. This is best illustrated in the case of market-entry, and the different stages of internationalization a firm passes through, which highlights that an increasing international engagement shows an increased orientation to success and can be related to learning effects (Johanson and Vahlne, 1977; Bamberger and Evers, 1994; Haeusgen, 1997; Shraderet al. 2000).

2.2.3 Econometric studies on Influence of Tax Policy on Investment

Many theories of the decision-making process as the key to understand how organizations function. From strategy literature, strategy is characterized by long-term planning and an integrative pattern of decisions. Various analytical frameworks have been developed that describe decision-making as rational or sequential, while others describe it as random and anarchical (Eisenhardt and Zbaracki, 1992; Butler, 1997; Nilsson and Jiliberto, 2004). A focus on human problem solving, such as rationality and its different degrees, is found. Butler et al. (1993) argue that those decisions which manage to achieve an interaction between computation, bargaining, judgment and inspiration are the most effective in terms of objectives attainment and learning. This study focuses on strategic foreign direct investment market entry into the world and the decision-making processes for foreign direct investment; the processes which must be included consideration of human nature and how people make choices in different contextual settings.

This is even more relevant in the particular situation of small firms when considering the development of organizations and the incidence of single decision-makers, in contrast to organizations where decision-making can be made by a group of people.

2.2.4 Intuition

This study is talking about the researchers present a fairly common view on intuition and intuitive events that originate beyond consciousness. Holistic and automated information processing takes place and intuitive perceptions are frequently accompanied by emotion (Parikh et al. 1994; Shapiro and Spence, 1997; Ben-Ze've, 2000; Miller and Ireland, 2005). However, there is little research on intuition in strategic decision-making processes, and only recently has it been taken up by researchers (Simon, 1987; Parikh et al. 1994; Epstein et al. 1996; Khatriand Ng, 2000; Kukovetz, 2002; Klein, 2003; Sinclair and Ashkanasy, 2005).

The current level of research shows some confusion on the conceptualization, and, as a result, the measurement of intuition, while there are substantial differences between research approaches (Khatri and Ng, 2000; Sinclair and Ashkanasy, 2005). The earliest research was conducted with a qualitative orientation (Landry, 1991; Little, 1991; Ferguson, 1999; Petitmengin-Peugeot, 1999) and later approaches began to take on an exploratory approach in quantitative form (Parikh et al. 1994; Burke and Miller, 1999). Khatri and Ng (2000) show various relationships between the uses of intuition in decision-making and organizational performance. Remarkably, their research, to this author's knowledge, is the first that differentiates between stable and unstable environments, within different industries, and between financial and non-financial performance outcomes. Other research shows that intuition is positively associated with faster decisions and managers who react more quickly (Eisenhardt, 1989a; Wally and Baum, 1994). Management scientists more often adopt the psychological model of intuition and primarily deal with the aspects of the process, experience and prerequisites for intuitive information processing. But field research in a management context is basically nonexistent, albeit intuitive synthesis is assuming an important strategic process factor which managers often use in strategic decision-making.

Some researchers consider the theory of strategic decision-making has to take both rational and intuitive processes into account (Pondy, 1983; Simon, 1987; Kukovetz, 2002). Advances in cognitive science and artificial intelligence to support the value of intuition and note that intuitive processes stem from long experience and learning, and the mass of facts, patterns, concepts, techniques, abstractions and what can be called formal knowledge or beliefs, which are impressed on our minds (Prietula and Simon, 1989; Agor, 1990; Harung, 1993; Seebo, 1993;

Khatri and Ng, 2000; Hüllermeier, 2001). Although there are some contradictory research results, which make it difficult to compare and replicate the findings, intuition appears to have substantial face validity and can be considered relevant for strategic decision-making and solving ill-defined problems.

2.2.5 Eclectic Paradigm

Critics consider Hymer focuses too much on the market-power approach – control over activities – and ignores the Coase's transaction costs and how a firm operates efficiently in other countries (Dunning and Rugman, 1985; Yamin, 2000; Cantwell, 2000). According to Hymer elaborates on large companies and the main goal of achieving profits through expansion and gaining size, rather than through ownership advantages. But today not only oligopolistic firms invest abroad and increasingly strategic foreign direct investment decision-making process is entering the international arena. It is thought that scale, or market power, as the objective for strategy is outdated and ownership advantages are the keys to the creation of a successful man. Dunning (1979; 1980), influenced by the theories of Roland Coase, Hymer and Vernon, proposes the eclectic paradigm of foreign direct investment. The proposal integrates several strands of cross-border business activities with international trade theory, with a resource-based view and the transaction cost theory as its main pillars. The resulting eclectic theory paradigm can be considered as a bridge to the macro-level view on ownership advantages:

- (O) addresses why companies go abroad; the ownership advantages,
- (L) where to go and the micro-level view of internalization advantages, and
- (I) addresses how foreign direct investment is being carried out.

Dunning's eclectic paradigm of foreign direct investment states that a firm will only directly invest in a foreign country if it fulfills the three OLI conditions. The eclectic paradigm process a holistic framework to explain export and foreign direct investment behavior. Its strengths, compared to other theories, are in looking at the specific location, host country and factors of the

foreign direct investment. Dunning and others have continuously refined the eclectic paradigm over recent years and more recently expanded it with a cultural component and strategy considerations (Woodcock.1994; Jones, 1996; Dunning and Bansal, 1997). The strengths of the eclectic paradigm are characterized by its richness and creativity.

The strengths also, however, represent potential weaknesses since the basic theories can provide complementary but also overlapping explanations. It can be argued that a focus on internalization and location factors only can be sufficient. Ownership Advantages "OA" are derived from the possession of intangible assets and from internalization itself (Itaki, 1991). For Casson (1987) the possession of intangible assets is not a necessary condition while the second type of advantage, as an own advantage, is tautological. The creation of core competencies requires a focus on ownership advantages as a key element of competitive success (Cantwell, 2000). A narrow concentration on single advantages, for example, on firm-specific advantages, seen as the most important requirement to be successful in a foreign country, can prevent trade-offs between other location factors. This can result in a situation where a less appropriate market-entry mode will be selected. As a consequence the eclectic paradigm, to be fully utilized, means careful consideration of all the OLI factors, which increases the complexity of the analysis.

2.2.6 Behavioral and Organizational Decision-Making

Contributions to decision-making theory come from philosophy, economics, political theory, sociology and psychology disciplines (Dunn, 1994; Keeney and Raiffa, 1993; Sexton et al. 1999; Nilsson and Jiliberto, 2004). Behavioral decision-making is to understand how decision-makers, individual or unit, make decisions in an uncertain environment and how they can make the decision-making process more effective and efficient. Behavioral theories focus on the assumed behavior of the decision-maker in an organizational context, and originate from the organizational theory of Weber and findings of behavioral decision theory by Simon (Weber, 1947; Simon, 1957). CSR were mainly focused on macro perspective with their great emphasis on the relationship between CSR initiatives behaviors performance (Al Halbusi, H., & Tehseen, S. 2017). The development of heuristics and bias paradigms in the study of judgment under uncertainty and pursuit of prospect theory and framing in individual choice behavior greatly

contributes to the development of behavioral decision-making theory (Kahneman et al. 1982; Kahneman and Tversky, 1984; Kahneman, 1991). Individual and organizational decision-making overlap greatly because many decisions in organizations are made by individual managers. In this sense, the reference is to decisions made in organizational contexts. Behavioral decision theory, by contrast, deals primarily with judgment and decision processes of individuals, but not in an organizational or other context (Shapira, 1995: p4). Researchers of organization theory question the validity and relevance of behavioral decision theory to real life situations. As managers are not immune to judgmental biases and cognitive implications of organizational behavior this is relevant to strategic decision-making (Schwenk, 1984; Zajac and Bazerman, 1991; Bazerman, 1994).

Paramount is the recognition that rational decision-making models alone cannot explain the decision-making processes of a firm. It is more and more accepted that both qualitative and quantitative viewpoints enhance a stronger foundation for better decision-making (Gregory, 2000). As a consequence both theory frameworks are important to this thesis as they deal with the decision-making process of global competition in strategic decision-making and where individuals, most likely the owner-manager, can make isolated decisions, but also where the wider context of the organization is apparent.

2.2.7 Foreign direct investment as a strategic decision of the firm

There is a wide discuss in foreign direct investment as a strategic decision of the firm research if, and how, according to Nippa, strategic decision-making is differ from ordinary decisions. For the main categories of strategic research are a different into context, content and process of strategy as said Kitchen and Albania. Strategic decision-making has attracted considerable research attention and different models of decision-making have developed by (Ireland and Miller). The earlier models tend to be normative and prescriptive. Normative theories of decision-making, such as classical firm theory, propose that decision-makers follow a highly hierarchical and rational procedure for making-decision distinguished by different levels of decision-making (Von Neumann and Morgenstern). The normative models of management science have a significant influence on the routine work of the lower and middle levels of firms and almost no

influence on the highest levels. On the premise that a model links the theoretical world of our minds with the empirical world of our senses, different decision-making models have developed. They are the result of differing perceptions and the application of these perceptions to diverse decision-making situations.

The later models of decision-making are of a descriptive nature and characteristic levels of decision-making as more closely related to each other claiming rationality cannot be assumed in every decision-making strategic situation. Thus a generic view of the decision-making process has developed an understanding that strategic decision-making processes are not necessarily deterministic or programmable as a whole and take place indistinctive phases or intervals (Witte, Mintzberg, Gore, Nippa). Strategic decision-making has the notion of being at the discretion of top management, often with a long-term effect, affecting the application of the firm's resources to secure the survival of the firm. Strategic decision-making reflects the interaction between a firm and it's an environmental, often with a high level of uncertainty, and shows how a firm manages this relationship (Mintzberg, Ginsberg, Pettigrew, Dean and Sharfman, Nippa, Wilson). Elaborating on the notion of uncertainty Harrison discuss that strategic decision-making is not a textbook, decision-making under uncertainty where alternatives are given even if their consequences are not, but decision-making under ambiguity where almost nothing is given or easily determined.

2.2.8 Summary on Decision-Making

As various decision models have developed, knowing their differences is important when analyzing new decision problems; decision problems in environments shaped by uncertainty. The selection of an appropriate decision strategy is important and such selection must not detach the decision problem from the latter process. It is argued that strategic decisions by companies are not normally only based on one process, but can depend on a number of processes. Normative, descriptive and prescriptive aspects of decision-making are simultaneously relevant within a decision process. Mintzberg et al's. (1976) strategic decision-making process, sub-divided into identification, development and selection phases, shows the process contains rational as well as less rational elements. Explicitly the model includes feedback loops based on learning by doing,

building an increasing stock of inherent knowledge and assisting a possible rational approach to decision-making. Implicitly the model shows the decision process is an involvement over time built on information needs. In earlier times explicit formulation of information under time constraints was not common. Rather, strategic behavior was shaped by rational approaches and based on unlimited resources such as information and time. The continued appreciation of new information in the decision process is crucial to revalidate the process on the way forward. This helps measure the decision-making performance while an incremental development allows corrections to the process.

The implementation of final decisions has been largely ignored in most decision models, but decisions have a significant implementation phase over time, which touches on the point that authorization, modeled after Mintzberg et al. (1976), and implementation must not be detached from the decision process. The context in which the decision process takes place, such as in a dynamic environment of an emerging market, must be considered and only proof that a decision taken is accepted by its agents, and is workable, renders the process acceptable. Most decision models are thus static and rather descriptive in nature, and fail to explain how decision processes are performing. These findings bear relevance for further research. The characteristics of strategic management relate strongly to decisions by groups of people, and although the aspect of individual decision-making is discussed, many different individuals or groups are actively involved in, or influence, strategic decision-making.

Strategic decision-making in particular, where levels of management may not even exist, sometimes with only one decision-maker, who is the owner/manager, and where firms might have limited resources, have not been the broad focus of investigation. Pertinent characteristics of strategic decision-making must be considered in further research. The decision-makers characteristics, including past experience, knowledge, attitude, motivation and cognitive ability, play a key role in international decisions of a firm. The attitudes of owner-managers in strategic decision-making, rather than environmental factors only, propel them into international.

To attain international success, a firm must not only have the appropriate product and strategy, but its decision-makers must also have appropriate attitudes. These attitudes determine how decision-makers perceive the benefits, costs and risks of international. International strategy, and thus its process, rests heavily on leadership styles and an understanding of decision-making

theories. It is recommended that a holistic analysis model for decision-making processes, especially for strategic decision-making, must be developed. The model must be applied from several viewpoints, for example, dynamic and unstable environments, small firms and their resources, owner-manager characteristics and learning ability. The model must consider that the decision process can have an incremental development. The wider context should include the decision pre-phase and implementation phase, and a decision process must have the capability of evolving, with learning and cognition taking place, to develop an effective decision process. A decision process should be acknowledged as open-ended, and not be limited to the immediate debate on whether the decision-making process is more rational or more intuitive. More importantly, it must incorporate the different strands of theories without limiting itself to only a few concepts.

2.3 Major foreign direct investment theories

According to Hymer, he claims the expansion of a firm beyond its boundaries and into a new country does result in internal movement of finance and resources, specifically from the mother company to its new subsidiary; which was not considered in earlier theories. Global competition in strategic direct investment decision-making process where is the investor wishes to gain control over the production activities of the foreign enterprise, which is the basis of Hymer's theory. A stronger focus on organizational theory and a firm's development must be considered on the micro-economic level. Since earlier foreign direct investment decision-making process concepts stem from a macro-economic view, this is the initial position the following sections are based on, with a subsequent shift into discussing the micro-theories and macro-economic theory's level of global competition in strategic direct investment decision-making process.

2.3.1 Explanation of foreign direct investment

Globalization increases cross-border commercial activities, with these activities encompassing investment, international trade, capital flows and the migration of labor (Nicholas and Maitland, 2002; Jones and Wren, 2006). Consequently the worldwide flow of foreign direct investment has

increased tremendously, with the largest part of foreign direct investment in developing economies. Foreign direct investments, according to the International Monetary Fund [IMF], are divided into Foreign Direct Investment [FDI] and Foreign Portfolio Equity Investment [FPEI]. Until the 1960's economic theory did not differentiate much between FDI and FPEI and considered international companies as mere arbitrageurs of capital seeking to maximize their returns internationally (Ronge, 2001).

Then a new point of view developed based on Hymer's findings (Hymer, 1960) that asserted Multinational Enterprises [MNE] transferred an entire bundle of resources across borders rather than just capital, which can only be explained by considering firm-specific characteristics. As a consequence today the internationalization process of firms is mostly explained in terms of economics (Buckley, 1996). If the current OECD's definition of foreign direct investment is considered, it is understood that the target of the investor is to gain part or all of control in the invested company in the host country. Hence the OECD's definition is synonymous with Hymer's definition (Hymer, 1960). As the foreign direct investment process reflects the strategic direction of the firm, an understanding of foreign direct investment must pre-suppose an understanding of internationalization as a strategic process (Edwards, Kukovetz) and thus how to place a firm in its host environment. It is thus appropriate to consider foreign direct investment on a macro-economic and micro-economic level.

2.3.2 Types of investment

This study is taking a more practical view of global competition in strategic foreign direct investment decision-making process; it is possible to distinguish various kinds of investment types based on such issues as the target market, strategic motives, internal structure, industry, the way of growth, ownership, and others. The types are partly overlapping reflecting the multidimensional nature of the investment decision. The following, types will be over viewed. The basic division of direct investment into two is made according to the final market for the produced item or service. The global market-oriented investment refers to the case in which the output of the production site in the host country is directed to fulfill the demand in the host

country. Seriously, the global market-oriented investment refers to the case in which the host country is used as an export platform and the final product is directed at the global market.

The latter is also called export-oriented investment. It is obvious that a firm makes its investment decision-making to meet the general motives of corporate strategy, especially economic performance. Investment literature has studied global competition in strategic foreign direct investment motivation to invest abroad widely from different viewpoints: different firms, different industries, different host countries, and different periods. As a result, greater numbers of type's motives have been listed. Nevertheless, investment literature (e.g. Behrman 1981; Buckley 1988; Dunning 1993) has been able to define the five main types of direct investment in terms of strategic motives, although investment is usually not engaged due to the one single specific motive, but a combination of various motives (Eiteman et al., 1992).

1. Resources of seeking investment are based on tradition allocation advantages, such as costs of inputs, and transaction costs. This type of investment usually extracts raw material for export or for further processing and sale in the host country. Typical representatives of this kind of investment are the extractive industries.

2. Market seeking investment is based on strategic location advantages in order to increase a company's market power. The aim is to find better opportunities to enter and expand new markets either by satisfying local demand or by exporting to third markets. The investment is usually motivated by such reasons as market size, growth prospects of the market, market share, or competitive situation. This type of investment is nowadays the most common type of investment. In it, engagement with the host market is the greatest. A typical example is foodstuffs, which cannot be exported but have to be produced on the spot.

3. Production efficiency seeking investment aims to find the product factor that is cheap relative to their productivity. The investment may be motivated by labor cost advantages, low raw-material cost, low transportation cost, low energy cost, or the availability of a skilled labor force. It refers often to offshore production, which uses the special economic zones of the host countries. Typical representative is thus the sourcing industries.

4. Knowledge seeking investment (strategic asset seeking investment) aims to gain access to technology or managerial expertise in the host country. It has specific vocational needs (e.g. Technical knowledge, learning experiences, management expertise, and organizational competence) and is mainly concentrated in advancing industrial economy. The increase of mergers and acquisitions (M&A) emphasize the increasing role of knowledge seeking investment. (Dunning 1998)

5. Political safety seeking investment aims to minimize expropriation risks and is undertaken either in the form of investment in countries unlikely to interfere with global competition in strategic foreign direct investment process of operations, or in the form of divestment from politically unsafe countries. (Behrman 1981; Buckley 1988; Dunning 1993, Eiteman 1992)Different types of investments can also be classified according to the investor's internal structure. This classification distinguishes between horizontal, vertical, conglomerate and concentric investments.

In horizontal investment, which is the most common type of investment, a company duplicates the whole production decision-making process, except the headquarter activities, in its subsidiary location in the host country. Through the local production, the investor is able to penetrate the global market and increase its reputation with customers as products can be modified for the special requirements of a particular market. Differently, the vertical types of investment refer to the establishment of a subsidiary in the host country to serve at different stages of the value added serious of the investor, notably the next stage forward or backward in production and sales. (Larimo 1993)Concentric investment, in its turn, involves foreign units serving the same customers as the investing company through different production methods and research and development (R&D).

It may also involve foreign direct investment units serving different customers through the same production methods and R&D. (Larimo 1993) concentric investments may also be called horizontal diversification. This is still different from the conglomerate investment, which occurs when a company manufactures an internationally diversified range of products so that the foreign unit differs from the investing firm in terms of all major characteristics, including production, technology, customers and distribution channels (Larimo 1993). Discuss to the differences,

conglomerate investment usually takes place by acquisition. In the case of mergers and acquisitions (M&A) the above-mentioned terms get a slightly different content.

In addition, it is possible to divide investment simply into related and unrelated types of investments. Related types of investments include horizontal and vertical types, which are related to the investor's industry or customers, while unrelated types include conglomerate and concentric types of investments, which are driven by a firm's risk dispersion. Basically, unrelated types of investment cause more risk for the investor as the field of industry or target market are unfamiliar for it (Larimo 1993). Therefore, firms engaged in related types of investment more often than unrelated types (ibid.). Moreover, they tend to engage in unrelated investment in a familiar market and remain in related investment in a more distant and unfamiliar market (Borsos-Torstila 1999). Investment can be seen either as an internal or external process depending on the firm's way of growth. Internal growth, or green field investment, means investment in a new plant and equipment, which builds up knowledge and capability inside the firm, while external investment means the acquisition of existing plant and equipment. (Luostarinen & Welch1997).

The green field strategy is applicable if the product or the production process demands unique technology, which forms the company's competitive edge and thus, cannot be endangered by technology transfer to global firms in the host country. The green field strategy is also applicable if the host government's incentives are valid in a particular geographic area where suitable partners are not available. Consequently, a particular environment may be the process somehow important production factors, which results in a foreign direct investment to adapt the green field strategy if there is no suitable partners, (ibid., 166) Greenfield investment is a dominating way of foreign direct investment in developing countries (UNCTAD 2004). Buying an existing company in the host economy, or cross-border M&A, is the most rapid way to enter a new market.

It may solve the difficulties of hiring global personnel and penetrating global distribution channels, and it brings a readily-built market share and customer group with it. Based on these facts, the time needed to pay back the investment is relatively short. However, acquisitions usually face serious problems in integrating two previously separate organizations together. (Route 1994, Luostarinen & Welch 1997) M&A is the most common type of foreign direct investment in the developed countries (UNCTAD 2004). With regard to ownership, a global

competition in the strategic decision-making process may set a wholly-owned subsidiary or a joint venture. The advantages of a wholly-owned subsidiary include the total control of operations, decision-making, profits, management and production decisions, and the security over the technology assets and knowhow. The constraints are mainly related to the capital requirements and the shortage of management personnel with international experience. Success in a distant market without a global partner may also be difficult to discuss the different cultural backgrounds, different corporate or industry cultures, not to mention different legal, economic and political aspects (ElKahal2001).

In the form of a joint venture, the investor has access to global partners' special skills, knowledge of a global market, and government contacts. Thus, a joint venture with a well-connected global partner is often considered as the best way of investment. In many cases, however, the contribution of partners has been disproportionate, as the global partner has provided only labor and global facilities while the investor has to provide capital, training, technology, equipment, and know-how, (ibid., 227) A joint venture can be set with one or more global partners. Sometimes, the partner or one of the partners are from the home country or a third country. If at least one of the partners is a government's owned firm, the joint venture is called a mixed venture.

A strategic foreign direct investment may set a majority joint mixed venture, or a minority joint mixed venture (Luostarinen & Welch 1997). The entry mode is not always possible to decide according to the global competition in strategic foreign direct investment decision making's own will, but may be regulated by the host country. Investment can be classified by its function as a foreign direct investment, production operation (FDIPO), which include assembling and manufacturing subsidiaries, or a foreign direct investment marketing operation (FDIMO), which includes sales promotion subsidiaries, warehousing units, service units, and sales subsidiaries (Luostarinen 1979). Again, the functions are overlapping and can be utilized separately but also together. In addition to the above mentioned classifications, the size and industry of the investment firm, as well as its earlier experience in internationalization are factors which can be used to make a difference between foreign direct investment situations. Among them, the size of the firm is usually measured by the turnover and number of employees.

According to Harvard criteria, a multinational enterprise (MNE) is a firm that has a turnover of more than USD 200 million and at least six production units abroad (Vaupel&Curhan 1969), while the smaller firms can be classified as strategic foreign direct investment decision-making process. These two groups differ in their investment behavior in a sense that MNE have much larger resources than strategic foreign direct investment to fulfill their strategies in the host economy (Larimo 1993). Similarly, firms having broad earlier international experience have better starting points to operate in the host economy than firms without such experience (ibid.). Finally, FDI experiences may be different between firms representing different industries.

2.3.3 The Nature of Foreign Direct Investment

The extant literature on the reasons why foreign direct investment occurs is explanatory in nature, and takes a macro-economic view when the impact of foreign direct investment is explained, with foreign direct investment attributed to several factors:

- Increased levels and changes in technology,
- Greater liberalization of trade and changing trade flows,
- Effects of exchange rates and taxes,
- Investment,
- Ownership and de-regulation, and
- Privatization of markets in many countries (Strange, 1997; Blonigen, 2005).

Yet international of a firm, which can lead to equity participation in a foreign country, is a process of increased involvement in international operations; which requires adapting a firm's strategy, resources, structure and organization in an international environment (Graham, 1978; Welch and Luostarinen, 1988; Calof and Beamish, 1995; Dunning, 2002). Early international business scholars argued that international diversification for firms is important because it is based on exploiting foreign market opportunities; international increases the firm's competitive

position (Ansoff, 1965; Rugman, 1979; Mintzberg, 1987) and expands a firm's development beyond its local boundaries.

These factors have led to increased competition between firms; in turn leading to cross border mergers and acquisitions, joint agreements and establishment of new companies as firms seek to reduce costs and increase competitiveness in the global economy. This has supported the phenomenon of internationally-active companies, with the term multinational enterprise [MNE] traditionally used to describe larger companies or other entities established in more than one country, and so linked that they can co-ordinate their operations in various ways (OECD, 2000: p17; Dunning, 2002: p2; Bora, 2002: p8).

Although multinational enterprise is a commonly accepted term to describe larger firms, it is not explicitly related to the effective size of a company, albeit some scholars treat multinational enterprises and foreign direct investment, related to larger firms, as one and the same thing (Dunning and Pearce, 1995; John et al. 1997). A significant stream of research on macro-level foreign direct investment focuses on host and home country impact and country development, and on institutional development of the countries involved (Peng, 2000; Child and Tse, 2001; Meyer, 2001; Xu and Shenkar, 2002; Trevino and Mixon, 2004). Topics on technology transfer and impact, development of legal systems, trade and employment and the effects on industrials are widely discussed. A common belief is that the attraction and settlement of foreign companies in host countries bring an increase in capital income and skilled labor, higher technology and greater productivity (Hanson, 2001).

At the same time productivity and market-access 'spill-over' can take place (Markusen, 1998). Such a spill-over has a positive impact on the host economy and should be taken into account during investment decisions (George and Greenway, 2004). Recent research on spill-over effects is not conclusive as it is more and more evident that negative spill-over, or reverse spill-over, surfaces, as in the case of 'technology sourcing' of foreign firms in a host country (Jones and Wren, 2006: p89). Foreign direct investment brings dynamic institutional framework conditions that may be acceptable for larger and stronger firms, but may have a bigger, less acceptable, impact on firms. The phenomenon of why foreign direct investment occurs is of significance for the individual firm and for environment development in the host country. It is imperative this be

considered in the environmental analysis of any firm and its influence in the decision-making process.

2.3.4 Strategic Approach and Type of Foreign Direct Investment

There are two broad issues of relevance in foreign market-entry decisions:

1. The motivation for firms, or why enter a foreign market, i.e. the entry decision itself. Broadly speaking, entry into a particular product-market is to either exploit an advantage a firm possesses; to strengthen an existing product-market; or to develop a new, though normally related, product-market.

2. The means by which firms choose to participate in the particular product-market, or how to enter a foreign market, i.e. The decision regarding the mode of entry. Theoretical contributions are more advanced in the area of foreign entry mode than in other topics on a firm's international process (Kim and Hwang, 1992; Andersen, 1997; Kumar and Subramanian, 1997; Bradley, 1995). The choice of entry mode is a key strategic decision in a firm's international process.

Using a seemingly safe, or convenient, way of market development will not automatically be the most suitable strategy (Root, 1994). As an entry mode is a core component of the international concept; the choice of the correct entry mode for a particular foreign market is a critical decision for firms. Not surprisingly, there has been considerable research into the patterns and determinants of foreign market-entry. Some researchers have focused on ownership and control issues, implied by various modes of entry (Davidson and McFetridge, 1984, 1985; Gomes-Casseres, 1989; Contractor, 1990; Agarwal and Ramaswami, 1992, Hennart and Park, 1993; Hennart and Reddy, 1997; Chang and Rosenzweig, 2001).

An extensive stream of research has included cultural (Kogut and Singh, 1988; Gatignon and Anderson, 1988; Chou and Radmanabhan, 1995; Ghemawat, 2001) and performance aspects (Ghoshal, 1987; Kogut, 1989; Arni, 2003; Ruigrok and Wagner, 2003). The entry mode choice is contextual in the sense that the intention to enter a given host country can already limit the choice of the entry mode. Restrictions can apply in terms of the size of equity and the industrial

field, whereas the two can also be in combination. Sets out three broad categories of factors on the host country determinants of foreign direct investment, namely

i) Policies of host countries,

ii) Proactive measures countries adopt to promote and facilitate investment, and

iii) The characteristics of their economies.

To find certain host-country criteria, and the characteristics of the host-country economy, dunning (1993, 2001) identifies four main strategic types of foreign direct investment for firms, namely: Market-seeking, efficiency-seeking, knowledge-seeking and risk-reduction seeking. The policy framework of the host-country will offer different types of equity entities for foreign direct investment to the investment firm, and, as a consequence, the foreign company is often limited in its choice. Considering such framework conditions several studies have taken on a particular country focus on foreign direct investment entry mode selection, such as for global. For the world an extensive stream of research on Joint Ventures [JV] and Wholly Foreign Owned Enterprises [WFOE] can be identified. A major research stream covers the choice of entry mode (Tse et al. 1997; Vanhonacker, 1997; Pan and Tse, 2000; Chen and Hu; 2002) whereas another stream of research looks at operational and performance factors for such equity entry (Beamish, 1988; Yan and Warner, 2001; Yang and Lee, 2002).

It is concluded that the decision on the type of entry mode, in particular for the world, is a decision that must not be made in isolation. For such a strategic decision an overall alignment with the firm's strategy is necessary (Tahir and Larimo, 2005). These insights help support further research as they give the necessary information founder standing the vehicles for foreign direct investment in the world. Although this is not the core of this dissertation, since the intention is to show the decision-making process of global strategic in foreign direct investment decision-making, the research mentioned on the world entry modes support this study project.

2.3.5 Theories of Foreign Direct Investment

Decision-making theory as an academic discipline has attracted continuing interest in the literature on business and management. In earlier times business and management emphasized the rational processes of decision-making (Simon, 1957; March and Simon, 1958; Lindblom, 1959). The more or less formal economic decision-theory that forms the foundation of the firm, that is transaction cost or principal agent theory, inspired this development. The traditional decision-making perspectives maintain that uncertainty leads executives to search for additional relevant information to increase certainty (George, 1980; Milliken, 1987; Simon, 1987; Eisenhardt, 1989a).

As decision-making has more and more been seen as a central management activity, the center of this activity is the problem of choosing a course of action under conditions of ambiguity and uncertainty and in the process reducing these (Mintzberg et al. 1976; Janis and Mann, 1977; Gore et al. 1992). According to Cyert and March (1963) establish a strong link between the psychological theory of the decision-making and the economic and organizational theories of how organizations, as opposed to individuals, learn and adapt to changing conditions. Behavioral sciences – sociology and psychology – contribute to this body of knowledge. Further contributions come from philosophy and political theories.

The different paradigms all make up decision-making and there is no clear and distinct set of criteria that defines an overall theory (Harrison, 1987: p8; Brauchlin and Heene, 1995: p24; Butler, 1997: p308; Nilsson and Jiliberto, 2004: p27). The combination of the different theoretical contributions includes consideration of human nature and how people make choices, taking into account contextual setting (Mintzberg, 1975; Mintzberg et al. 1976; Hickson et al. 1986; Butler et al. 1993).

Such complexity gives rise to substantial implications on how managerial decision-making is characterized and how it can be developed. As noted by Bell et al. (1988), to prescribe procedures and rules for decision-making, in the interest of improving organizational decision-making, one needs to simultaneously consider normative, descriptive and prescriptive aspects of decision-making (Nilsson and Jiliberto, 2004: p26). If decision-making is viewed from a ‘procedural’ aspect then automatically it becomes the notion of being normative and quantified;

tending to be rather mathematical. The descriptive view attempts to explain how decisions are actually made in practice, which may substantially differ from the norm type. As a result behavioral decision-making can be grouped, according to different characteristics, into qualitative and quantitative approaches, noting that there are programmed, routine or more rational decisions and non-routine decisions.

Researchers have also challenged the traditional principles on the grounds that they fail to explain speed in decision-making (Eisenhardt, 1989a; Judge and Miller, 1991). It is argued that speed in decision-making is crucial and that the more successful companies are capable of making faster decisions in high-velocity environments. Such research results could not have been developed under consideration of purely rational decision-making models, as the traditional models consider the availability of unlimited time and emphasize the need to accumulate information and develop decision alternatives rather than limiting such necessities (Mintzberg, 1973; Nutt, 1976; Fredrickson and Mitchell, 1984). Similarly, other researchers have criticized the fact that traditional decision principles do not explain performance and quality in decision-making processes (Fredrickson and Mitchell, 1984; Dean and Sharfman, 1993; Majocchi and Zucchella, 2003), whereas it is seen as necessary to fully understand the decision problem and its context and formulation to materialize good decision-making (Caroll and Johnson, 1990: p19; Heller, 1992: p59).

2.3.5.1 Macroeconomic theories

The macro-economic aspects of foreign direct investment motivated various researchers in understanding the Export-FDI relationship (Kojima 1975; Mark Essen 1995; Egger and Pfaffermayr 2000; Markusen 2002; Helpman 2006). The interrelation between foreign direct investment and trade, and, as a consequence, the change of trade flow patterns are an early objective of research on the macro-level of foreign direct investment. Depending on individual country characteristics foreign direct investment can support, or even substitute, trade. Initially a country focuses on its comparative cost advantages. But these factors do not stay constant over time, influenced by transfer of capital, technology and management resources (Kojima, 1975).

Establishing international divisions gives rise to patterns of international trade flow (Daniels and Radebaugh; Heiduk and Prinz1999).

The product cycle of international trade (Vernon, 1966) combines the view of how products mature with the evolution in a firm's international activity, and shows patterns of trade and investment change over time. This explains why macro-level foreign direct investment and host country production is established as lower factor costs can be utilized, for example, in developing countries. Vernon's life cycle theory helps one understand the different stages a product occupies and, as such, indicates when production in another location is less costly. Vernon's product cycle theory, similar to the Uppsala model, seeks to focus on the long-term development of the firm and its environment.

The serious of establishment, or Uppsala model, is one of the earliest schools of thought sand draws on the assumption that market-entry into new markets is the result of a series of incremental decision-making. It theorizes the staged development of sales and export, to the subsidiary, and into production/manufacturing plants (Johanson and Wiedersheim, 1975; Johanson and Vahlne, 1977). The Uppsala model is mainly characterized as a firm's development over time from one phase into another, with progression through the stages driven by experiential knowledge accumulation. It explains why foreign direct investment happens as a logical development for the firm in incremental steps and as complementary to export. It has been discussed that if the chain of establishment is not too deterministic its own logic leads to incorrect predictions of the firm's development. Three exceptions to the incremental process (Johanson and Vahlne, 1990; Andersen, 1993) are:

(i) Large firms can take bigger internationalization steps,

(ii) When markets are stable, knowledge can be gained in ways other than through experience,

(iii) Experience in similar markets may allow a firm to generalize this experience.

More recently the model has been challenged when firm's started to leapfrog certain stages of the internationalization serious and showed an accelerated internationalization process (Rennie,

1993; Oviatt and McDougall, 1994; Madsen and Servais, 1997; Shrader, 2000; Andersson and Wictor, 2003). Under these circumstances foreign direct investment need not necessarily be viewed as complementary but can rather be considered as a substitute for export.

2.3.5.2 Micro-Theories

The internalization theory of foreign direct investment is based on Coase's theory of the firm (Coase, 1937), which examines the role transaction costs play in the formation of organizations and which have to be optimized due to market imperfections. Specific assets, the frequency of economic exchange of resources, represent the core dimensions of the transactions. The composition of these dimensions is decisive for the way in which cost efficient governance models are assigned to the transaction (Andersen, 1997; Coviello and McAuley, 1999; Dunning, 2002) and, more importantly, how they can create a competitive advantage. The process of internalization is developed to explain the international production and foreign direct investment (Buckley and Casson, 1976; Hennart, 1982; Dunning, 1988; Ietto-Gillies, 2005). Buckley and Casson take the approach that the subsidiary of the mother company takes on two roles:

i) The production of goods and services,

ii) The activities of marketing, training, research and development, management techniques and involvement with financial markets.

These activities are independent and connected by intermediate products, taking the form of material, products or knowledge and expertise. If the markets for the intermediary products are imperfect an incentive arises for the firm to internalize these, provided the benefits exceed the costs. When it occurs across national boundaries of a company global competition in strategic foreign direct investment decision-making process most likely occurs. According to Caves (1971), who made the link between industrial organization theory and Hymer's theory, a distinction between horizontal and vertical foreign direct investment has to be made:

- The horizontal foreign direct investment takes place when the firm possesses unique or intangible assets which others do not have, such as superior knowledge or information about its products and its markets. But horizontal foreign direct investment also takes place when profits

in the host country depend on successful global production. Horizontal integration can be understood as substituting export into global production and explains international development over stages (Johanson and Vahlne, 1977; Kamm, 2001).

- Vertical foreign direct investment occurs at different stages of production within the same industry and results in a high dependency between stages, often at high investment costs. Such dependency can be for technological and quality reasons, but is also influenced by cost reasons; such as transfer pricing or general factor costs (Bora, 2002; Jones and Wren, 2006). The existence of vertical foreign direct investment can be explained by the integration of intangible assets and imperfections of the market.

Additional safeguarding is needed to secure such vertical integration over time. The study into the differences between horizontal and vertical foreign direct investment is not yet conclusive (Bora, 2002) but an understanding of the differences is of great importance since it is also thought to be a matter of available resources.

2.3.6 Market-Entry and Foreign Direct Investment

The dynamics of today's market-entry and foreign direct investment and the trade foreign direct investment balance shows foreign direct investment is of increasing interest to firms. The theory of foreign direct investment developed from the viewpoint that larger firms with extensive resources to participate in international markets. Historically, these industries were largely characterized as being oligopolistic in nature. For global strategic in foreign direct investment decision-making process and their entrepreneurial and environment embodiment, as well as today's fragmentation of markets, expressed in product and market characteristics, the condition of oligopoly can no longer be supported.

Various researchers contend that large firm experience on the international of business operations does not necessarily represent an easily transferable model for the firm (Tse et al. 1997; Karagozoglu and Lindell, 1998; Coviello and McAuley, 1999; Brauchlin and Pichler, 2000; Dunning, 2002). Specific research on foreign direct investment by global strategic in foreign direct investment decision-making process is limited, but confirms that approaches by

larger firms cannot readily be transferred to global strategic (Oviatt and McDougall, 1995; Kohn, 1997; Apfelthaler, 2000; Lu and Beamish, 2006). Global strategy, international research has concentrated on management characteristics, such as knowledge, attitudes and motivation127 (Cavusgil, 1984; Blood good et al. 1996; Chetty, 1999), and underlines the importance of the past experience of managers for successful internationalization (Welch and Luostarinen, 1988; Zahra et al. 2000; Holbrook et al. 2000).

Another stream of research investigates the decision-making processes for the international of global strategy. The findings emphasis the difficulties of compiling and analyzing data from host countries and indicates a concentration on decision-making ability of managers, sometimes characterized by limited cognitive abilities (Luostarinen, 1979; Coviello and McAuley, 1999; Chetty and Campbell, 2003; Collinson and Houlden, 2005).Two streams of research explain more recent internationalization patterns for global strategy, namely organizational (Itami and Roehl, 1987; Peteraf, 1993; Madhok, 1997) and network capabilities of the firm (Axelsson and Easton, 1992; Sharma, 1992; Coviello and McAuley, 1999; Dunning, 2002). Both these research streams, identify that foreign direct investment decisions of firms cannot be explained in economic terms only, but are rather based on available resources, and, as a result, organizational capabilities and internal external network capabilities.

This is strongly supported by the findings on the significance of the preparation phase for international and the handling of experiential learning-commitment mechanisms of markets and relationships (Knight, 2000; Yip et al. 2000; Johanson and Vahlne, 2003). There is little research on global competitive strategy and their struggle to overcome a lack of resources and financial (Woodcock et al. 1994; Yeoh and Jeong, 1995; Coviello and McAuley, 1999; Bell et al. 2003). This bears some relevance since the resourcefulness of large firms, in contrast to firms, has been widely discussed as having an influence on market-entry mode decisions. It is shown that large firms can, by themselves, have an environmental impact, which smaller firms often do not have, which, in turn, influences the acceptance of investment risks (Calof, 1993; Westhead, 1995; Shraderetal. 2000).

2.3.7 Summary of Foreign Direct Investment

Studies on the international activities of firms tend to concentrate on the internationalization process (Barringer and Greening, 1998; Oviatt and McDougall, 1997; Wolff and Pett, 2000). Internationalization of a firm, that can finally lead to equity participation in a foreign country, has been argued by some researchers to be a process of incremental, increasing involvement in international operations (Johanson and Vahlne, 1977 and 1990; Root, 1994; Kumar and Subramaniam, 1997). This tendency is reflected in the underlying foreign direct investment and capital investment decision-making models, which largely indicate a linear pattern over time that shows risk minimization characteristics accompanied by learning effects (Aharoni, 1966; Bower, 1972; King, 1975; Wei and Christodoulou, 1997; Sykianakis and Bellas, 2005) Some researchers challenge the incremental development of international, and the involvement of a new research stream focuses on 'born global', where accelerated international of firms has been found. It is shown firms can quickly and successfully enter international markets by taking on an equity form of foreign market involvement, even at an early stage of the firm; often driven by the entrepreneurial spirit of decision-makers (Rennie, 1993; Oviatt and McDougall, 1994; Madsen and Servais, 1997; Shrader et al. 2000; Andersson and Wictor, 2003; Bell et al. 2003; Evangelista, 2005). Despite the environment constraints any firm can meet on its way forward and the importance of today's investment activities, foreign direct investment decision processes have attracted considerably less attention from researchers than have domestic investments (Boddewyn, 1983; Wilson, 1990; Larimo, 1995; Sykianakis and Bellas, 2005). This comes as a Surprise as empirical studies have revealed a gap between capital investment theory and the understanding of practice (Northcott, 1992; Pike, 1996; Arnold and Hatzopoulos, 2000; Sofian et al. 2004). Knowledge-intensive firms can ignore home markets altogether (Bell, 1995; Boter and Holmquist, 1996; Coviello and Munro, 1997; Madsen and Servais, 1997) and 'leap-frog' certain stages of the international process, which may indicate a missing, but important knowledge element.

International theory needs a broader base and trends show recognition of this aspect. One prominent approach to foreign direct investment, the OLI paradigm, criticized by some for its richness, is able to conceptualize different and relevant aspects. The OLI approach elaborates on different advantages, but the negative side is that 'disadvantages' are noted to a lesser degree.

The concentration of advantages can be questioned as the OLI approach elaborates on the exploitation of advantages – a characteristic of the transaction cost approach – rather than on developing competencies. The focus on firm-specific advantages must be broadened to conceptualize the relevant competencies of the firm for international.

While foreign direct investment approaches via organization capabilities, collaboration building and networks shed new light on the international processes of firms, and give the opportunity to include organizational behavior and social theories, they must not neglect the negative sides of these paradigms. Increased complexity of information finding, dealing with intangible assets, an understanding of values and not explicitly of costs, means the decision process can be lengthened. Overlapping issues can arise and, as a consequence, result in more confusion than anticipated. A general drawback in foreign direct investment theories is that they do not, as yet, explicitly conceptualize the factors of distance and country. An understanding of the concept of institutional distance between different companies and countries will help develop needed competencies. As noted by Johanson and Vahlne (2003: p98) the notion of distance can change due to experiential learning and trust building. A strong resemblance between the development of the foreign direct investment theory and global competition strategy market development is noted. Both need the acknowledgment of organizational behavior theory required for further research on decision-making for the international of firms.

2.4 Conclusion

Only a small number of researchers focus on the foreign investment decision-making process for firms. Global strategy in foreign direct investment decision-making processes for foreign direct investment needs to be carefully analyzed and it is not appropriate to adapt the decision models of large firms. Earlier researchers argue certain factors in the foreign direct investment decision-making process, rather than the decision-making process itself, are important (Aharoni, 1966; Pike and Dobbins, 1981), and emphasis must be laid on strategic analysis rather than following a normative and linear models of decision-making. This underlines the importance of the behavioral approach to decision-making (Aharoni, 1966; Larimo, 1995; Wei and Christodoulou, 1997; Kukovetz, 2002). Both the factors and the process of decision-making are important:

- Firstly, because of the nature of the decision problem,
- Secondly from the uniqueness of global strategy compared to their larger counterparts, and
- Thirdly the influence of the decision-making environment, which in the case of emerging markets, has many uncertainties as it evolves.

In contrast to normative decision-making models that see goal formulation and implementation as being outside the decision-making process (Hofer and Schendel, 1978)it is argued that any dichotomy between decision-making process, formulation and implementation is a false one (Sykianakis and Bellas, 2005; Elbanna, 2006). There is compelling evidence that the decision-making process of market-entry by global strategy must be more holistically analyzed. Traditional theories of trade, investment and internalization are of great value to explain the mechanisms that determine, and trigger, international business activities, but they fail to explain how to enter international markets.

They list reasons why firms eventually develop beyond their boundaries, with approaches which are normally quite rational. The author argues that although traditional models capture the dynamics of the markets they are rather static in acceptance of a firm's internationalization process. Organizational behavior and social aspects are issues that have not been fully considered within traditional internationalization theories, but are of increasing relevance for global strategy. It must be assumed that recognition of this will allow the consideration of less rational approaches to foreign direct investment and advance the decision-making theory. The inherent characteristics of global strategy, such as the owners-managers contexts, and network and organizational capabilities, have to be considered. Such characteristics are fundamental for an analysis as some researchers, specifically in the world context, show extremely successful and rapid cross-border venturing by local companies. Rapid strategy adjustment, as the outcome of a series of decisions in response to external motivations and environment changes, is fundamental for successful market-entry (Mintzberg, 1987; Huy and Mintzberg, 2003; Sykianakis and Bellas, 2005). The presumable easement Hong Kong or Taiwanese global strategy show in entering into the world may not be replicated by every firm (Wei and Christodoulou, 1997; Kukovetz, 2002), but the same unstructured external environment of the world can be used to analyze and compare the decision-making processes, and their decision behavior for market-entry.

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