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Constructing a framework for empirical research of foreign direct investment (FDI) and fdi intent

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ABSTRACT

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Foreign Direct Investment has been linked with an extensive number of positive consequences both on micro and macro level. Still, firms of emerging economies have difficulties attracting FDI. Part of the problem may also lie in the lack of FDI intent on behalf of the firm management to attain FDI. In this study, we aim to construct a framework that would use for a future empirical research of FDI attraction and FDI intent on the organizational level. A systematic approach is described providing a strong foundation for an empirical study soon to come. The process encompasses research design, development of the measurement tool, data collection, preparation and analysis-planning phase. Additionally, we suggest the potential findings and benefits of research following the framework developed.

1. Introduction

A long history of Foreign Direct investment (FDI) contributing to development of emerging economies has been recorded in the evidence of world economy. Most prominent example and a development on a remarkable scale we may find in China's economic rise. Foreign direct investment in China has been one of the main breakthrough stories of the past twenty years. Starting from less than $19 billion in 1990, the stock of FDI in China soared to over $300 billion at the end of 1999 (Graham and Wada, 2001). Today China is preparing to overtake USA as a leading world economy in terms of national GDP. Nowadays, more firms are developing and expanding rapidly into foreign markets in order to reach the global and international scale promptly, and to achieve all potential advantages. This trend opposes to the traditional theory of gradual internationalization, which implies that firms maximize the advantages of learning from prior experience, therefore, minimizing the possibility of failure (Chang and Rhee, 2011).

Rapid FDI expansion intensifies firm performance in industries where globalization pressures are high, and when firms with superior internal resources and capabilities (Chang and Rhee, 2011) do it. In this rapid race multinational corporations (MNCs) are primarily driven by the quest for strategic resources and capacities, and that the underlying rationale for such asset-seeking FDI is strategic requirements. Firms use asset-seeking FDI to access and obtain strategic resources that are available in advanced foreign markets (Deng, 2007).

At the same time emerging countries still, have trouble attracting FDI, as well as perceiving FDI as more challenging to attain, thus, turning mostly to domestic resources, and missing on the opportunity of rapid economic development. In our study, we aim to construct a framework using ACM theory that would drive companies to form FDI intent that would consequently lead to increased FDI and economic development. The article explains a systematic approach on how the research will be conducted, as well as providing initial exploration of the context of our study, and the concepts that will we evaluated, discussed and explained.

2. Significance of Foreign Direct Investment (FDI)

Emerging economies aim to attain extensive amount of FDI as foreign investments with foreign direct investment bearing not only positive, but also negative economic effects for receiving countries. The positive foreign direct investment effects are connected with technology transfer, effective allocation of resources, and preparation and training of domestic workers. FDI prominently enhances both labor productivity and export volumes. Furthermore, there is statistical evidence that the levels of FDI in certain regional industries are correlated with higher performance indicators of firms' not receiving FDI in those same regional industries (Lutz and Talavera, 2003).

Given the positive consequences of FDI, plenty of studies have explored the relationship between various factors and attaining FDI. Firms' foreign direct investment decisions are interdependent and strategic motives for FDI relate not only to a company's foreign market profits but also to those from their domestic market (Leahy and Pavelin, 2014). Initial FDI, as well as the growth of FDI are affected by policy incentives. FDI investments may reach a threshold where other firms are interested due to geographic density in the area or region (Fatehi and Englis, 2012).

Governance and ownership also plays a role in attracting, and attaining FDI. Certain studies suggest that that for some reason foreign investors are discouraged from regions and areas where state -owned enterprises are prevalent and widespread (Graham and Wada, 2001). Furthermore, agglomeration and policy incentive have a constant influence on location choice during the entire FDI process. More FDI experience adds to a more intensive inter-investment time span as well (Chen and Yeh, 2012).

These are just few of many factors that have been reviewed in the literature on FDI. Our study will attempt to assess the FDI intent through ACM framework. Consequently, key factors that interact or affect FDI intent require further review and deeper study. Next, we provide a brief theoretical overview of FDI intents.

3. Exploring the concept of FDI intent

During the literature review, the existence of many objectives, which stipulates motives of FDI, were revealed. However, the difference of FDI intensions and objectives stipulates the choice of particular strategy in marketing behavior, emphasizing of distinctive features of the organizations to be more compatible and growth stable. Therefore, four objectives can be considered as the major ones and namely seeking of: 1) natural resources; 2) efficiency; 3) markets 4) strategic assets (Buckley et al., 2007; Dunning, 1998; Makino et al., 2002).

The main feature of seeking natural resources is to provide a stable and secure firm’s supply of resource inputs, minimizing the costs and maximizing their efficiency. Furthermore, organizations involved in this type of seeking are aiming not only the goal of production in own country, but also to increase sales to business partners abroad, thus it increases the supply reliability, strengthening competitive position in the market. (Ramasamy, Yeung, & Laforet, 2012). However, during FDI seeking of this goal the firm can enface institutional challenges in obtaining the licenses and permissions. Moreover, such a strategy is useful as a short-term goal as it does not modify the core features of additional value of resources and their utilization.

When it comes to the market seeking, the firm is aiming either to fortify its current position in the host market or to expand its influence to the new (foreign) markets. After marketing study the organization accumulate its assets and strong features, which can help it to take compatible and winning marketing position. However, within this strategy, the organization emphasizes the existing features without upgrading or great modification of the investing parent organization, thus the actions can be restricted by the host country.

Another strategy that is close to market seeking intension is efficiency seeking. This strategy involves the strengthening of the current position by increasing the scope and scale and making them more efficient. The combination of the core competence and integration in several new markets are serving as the tools in achieving this objective (Dunning & Lundan, 2008). Nonetheless, efficiency seeking cannot be considered in long-term perspective as modification of the major features like firm competitive advantages extension, is considered only in short-medium term. Summarizing, neither natural resource, market nor efficiency seeking objectives cannot be transformed into company’s core competence, which can guarantee its long-term competitiveness; these are not enough, at least, to equally compete with global leaders who are superior in terms of strategic assets.

Table 2: Comparison of primary FDI intents

FDI intents	Main objectives	Targets in host country	Managerial challenges
Natural resource seeking	To secure stable, low cost, and high quality natural resource supply	Supply of natural resources • As commodities • As internal production inputs	Overcoming institutional barriers to legitimize resource seeking activities
Market seeking	To sustain or protect existing markets (by circumventing trade barriers), or to exploit or promote new markets	Host country market conditions • Market size • Market growth prospect	Simultaneously exploiting existing core competence and achieving local responsiveness to develop host market based capabilities
Efficiency seeking	To achieve economy of scale and scope, and risk diversification	Low cost and availability of: • Labor • Natural resources • Capital	Protecting and extending existing core competence by global integration of foreign operations
Strategic asset seeking	To pursue long-term strategic objectives – especially that of sustaining or advancing global competitiveness	Unique, intangible, and organizationally embedded assets: • Advanced technology • Brand assets • Managerial know-how	Transforming and upgrading core competence by identifying, acquiring, and reverse transferring intangible strategic assets

Source: Cui et. al (2014)

SAS FDI intent is unique in a sense that it serves as a foundation to competitive attempts which intends to achieve long-term competitive catch-up and it also possesses asset-exploring nature which intends to change the investor’s core competency and competitive position (Kogut & Chang, 1991; Dunning & Lundan, 2008; Makino et al., 2002). SAS FDI also uses knowledge-based resources acquired from the outside of firms’ boundaries like brands, technology and management tools. In the process of acquisitive learning, there happens experimental learning meaning that the firm adjusts the acquired strategic assets to create its specific advantages (Zahra, Nielsen, & Bogner, 1999). In short, SAS FDI serves to renew company’s core-competences and markets by bringing radical changes to its current capabilities. Compared to other types of FDI intents, SAS intent helps company to better achieve its objectives to transform its core-competences and catch-up and compete well in par with international market leaders in the long run by its aggressive and long-term oriented competitive actions (Luo & Tung, 2007; Rui & Yip, 2008).

4. Conceptualizing the research study

4.1. Design of the study

As a part of our research design, we choose to do a quantitative study. This implies that all of the items and all of the variables of our model will be numerically represented. All the variables will be properly quantified in order to establish the relationship between the variables to see if it is a negative or positive and the impact factor between the variables. In a quantitative method, there is a need to find out and discover what is being measured using operational definition. With the study of a specific variable that is operationally defined, the final result can be applied to a larger population and this results in the findings being generalizable.

The deductive approach will be utilized in research process. This approach has a goal of developing a hypothesis, which is mainly based on the existing theory, which is then followed by a design of the research strategy in order to test the hypothesis of the research. This approach will be valuable for this research because it is concerned with detecting the conclusion of the theory. The process of induction begins with various observations and it seeks to find a pattern within those specific observations.

After the implementation of the deductive research design, a set of hypotheses will be formulated that require to be tested. Furthermore, through the implementation of appropriate methodology, the research will prove formed hypotheses to be right or wrong.

4.2. Creating a measurement tool

As for the survey method research, respondents will be asked to answer questions administered through questionnaires. The questionnaire will be composed and inserted into Survey Monkey - an online software tool that enables an easy and accessible statistical analysis and gives a thorough description of the results. In order for the survey to be both reliable and valid it is vital that the questions are envisioned and formed in a proper manner. All the questions included in the survey should be written and composed, so that they are clear and easy to understand. Before composing the questions, it is important to determine the type of questions that is going to be used in this specific study. Therefore, it is the researcher's task to analyze and determine whether to include open-ended, closed-ended, partially open-ended or rating-scale questions. Each of these types of questions contains numerous advantages and disadvantages. For example, open-ended questions support a greater variety of responses from participants but can prove to be difficult to analyze statistically because the data must be reduced in some manner. Closed-ended questions are much simpler to analyze statistically, but they severely limit the responses that participants can give. Many researchers favor using a Likert-type scale because it is easy to analyze the outcome statistically. This particular research employs closed-ended questions and a seven-point Likert scale will be used to weigh the items of the scale.

Our research will be explanatory in its nature because we aim to determine cause and effect. The term explanatory research suggests that the research in question meant to explain, rather than simply describe and report, the phenomena to be studied. This type of research has had a conflicted history in qualitative inquiry, and different views of the suitability of such goals. Generally, it is indicated by the term explanatory research that our current study is quantitative in nature and will be typically tested prior to hypotheses by measuring relationships between variables and the data will be analyzed applying statistical techniques. In the narrowest sense, this expression is sometimes used simultaneously with experimental research, with the implication that only experiments are competent of answering causal questions.

Questionnaire development

There are various steps included in developing a survey questionnaire. The first step is identifying what topics will be included in the survey - constructing a survey instrument is an art by itself. There are numerous small decisions that must be made when constructing a questionnaire. It is important to determine the content, wording, format, placement – all, in the end, have crucial consequences for the entire study.

The aim of the questionnaire survey is to examine and test the use of a particular system by employees and staff in various companies. Furthermore, the objective is to attempt and capture an overview of the current situation in the comprehensive market and comprehensive business operations of a specific country. A questionnaire enables us to collect the information from the respondents using practical and efficient means of collecting information taking into consideration the respondent's perception about the industry in this aspect. The first section of the questionnaire analyzes the current job responsibilities of the employees: their operative area, their position and current occupation within the firm and their job title. The second part of the questionnaire including all the variables, using various item-scales adopted from multiple sources from previously performed study. The questionnaire will be prepared in the English language for scales pertaining to previous studies and prior author's knowledge, which will be then validated by experts in the relevant field of study. It is important to highlight that certain modification will be made in order for the questionnaire to best suit this specific context of the study.

Operationalization of Variables

All the variables included in the current research model will be measured with scales that will be included from previously conducted research and prior knowledge from various authors. All the utilized scales exhibit sufficient level of reliability exceeding the level of 0.7 in all the studies. Language and vocabulary changes will be made in order to fit the context of our study.

4.3. Data collection planning phase

The data collection process will be conducted using scales that have been already created in prior studies and with prior knowledge of different authors. There have already been previous multiple and various item scales concerning variables that are the object of our study. Furthermore, the goal is also to describe and specify the profile of the questionnaire respondents that are included in the study and indicate why they are selected in the data collection process. All the respondents will be expert in their field of study and will be currently working and holding job occupations relevant to this specific research. There is no random selection of interviewees to complete the survey instrument, because that will most likely lead to inconclusive and uncertain results. In this study, data collection will be conducted in order to verify and ascertain if the aforementioned systems is used in the specified companies and organizations.

Survey Sample

In the current study, the impact of a specific system on particular companies and organizations will be examined and analyzed. Various experts that proved to be relevant for this study will be included, and the questionnaire will be administered to them. These comprised different sorts of employees and staff. The vocabulary will be somewhat altered to best suit the context of the current study and the survey instrument will be translated from English into the targeted language Amharic a language native to Ethiopian citizens in order to avoid any ambiguities and confusions. Numerous employees and staff members, working in different company departments and sectors will be interviewed and asked to complete the questionnaire. The respondents, relevant managers and employees, which are working in the companies and relevant departments and sectors and will all get connected using the particular system-service. The survey instrument will be administered to those employees working in large companies and organizations, since it is crucial for the study that these companies have a large and sufficiently developed service-sector, in order to guarantee reliability and authenticity of the received statistical results. We will conduct a comprehensive study across various industry sectors in order to form a clear picture on FDI intent, realization and factors in the Ethiopian micro economy. The questionnaire will be administered to 500 people, expecting at least 300 individuals completing the questionnaire.

4.4. Data preparation phase

During the data preparation process, the questionnaire is presented online on Survey monkey and our survey will be presented utilizing closed-ended questions. The format that limits respondents with a list of answer choices from which they must choose to answer the question. These types of questions are configured as multiple choices; either with one answer or with all responses checked, but also can be in scale format, where respondent should decide to evaluate the situation along the scale. Concerning multiple questions, we will prepare our data by first determining the percentage of people who will answer in a certain way and offer a variety of customizable chart types to be made ready for presentation. The survey results will be then exported into SPSS (Statistical Package for the Social Sciences, software for managing data and determining a wide variety of statistics). The data is also exported to SPSS Amos, which enabled us to define, estimate, assess and present examples to show hypothesized correlation between variables used in the study. This software enables constructing models more accurately and correctly than with, for example, standard multivariate statistics methods. This software enables users to choose either the graphical user interface or non-graphical, programmatic interface. SPSS Amos provides building attitudinal and behavioral models that display complex correlation, and the software provides structural equation modeling (SEM) that is easy to use and allows quickly and easily analyzing, comparing and perfecting models.

5. Conclusion

Our future study aims at assessing FDI intents by utilizing the AMC framework often used in competitive catch-up context. We first introduced the concept of FDI and its significance, followed by four FDI intents which represent a theoretical base for studying FDI attainment and intent of FDI. The current article has focused on the methodology process of how the planned empirical study will be conducted. Further refinement of the research questions and objectives is required. The prospective result of the research and innovative points will encompass a quantitative analysis of factors contributing to FDI intents in emerging economies. In the process of quantitative analysis value of each factor for FDI intent will be determined, as well as a predictive value of FDI intent and realization will be found. The study will explain why FDI intents occur through determining the relationship between FDI intents and FDI realization. Explaining the link between various factors and FDI will represent a new notion that explains FDI occurrence from a firm management perspective, instead of a macroeconomic perspective. Consequently, the mechanism of FDI occurrence from the firm accepting FDI will be clearer.

Usage of psychological theories concerning intent will be a contributing factor to the literature, whereas identifying the levels of FDI, intent and other factors in Ethiopian firms will have practical implications for Ethiopian micro sector. Detailed description of situation in Ethiopian firms regarding the studies factors will provide necessary knowledge to create policy for attracting FDI on both macro and micro level.

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