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Abstract

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Where to, Odysseus? The quest of Greek firms to expand abroad

1. Introduction

Where to, Odysseus? Odysseus is the main hero in Homer's Odyssey. His invention of the Trojan Horse helped Greeks to win the final and crucial battle and conquer Troy. Leaving Troy after the successful end of the Trojan War marks the beginning of a long voyage, through many difficulties to reach his home land, Ithaca. Different challenges like the Sybligades stones, the attractive Sirens and the dangerous narrow pass between Scylla and Charibdi made his journey lengthy and intricate. It was his smartness and commitment to this purpose that helped him overcome all the problems and finally reach his destination. Like Homer's mythological hero, Greek firms in their quest to expand abroad face a number of difficulties. Similar to him, they have to use their ownership advantages to overcome obstacles and progress to the next phase where new challenges have to be overcome. Nowadays, in an international environment regarded as extremely competitive and constantly changing, where rapid technological progress, new production, organizational and management systems and a constantly growing role of competition constitute the main features, it is vital for countries and enterprises to be internationally competitive in order to survive and grow (UNCTAD, 2002).

According to Dunning, countries follow an investment development path by which they switch from being FDI recipients to becoming FDI generators with the increase in their GDP per capita. Greece has been until very recently a FDI recipient, and not a very successful one. On the other hand, outward FDI increased rapidly. In 2002, FDI in Greece was just 0,6% of its Gross Fixed Capital Formation (GFCF), whilst the outward FDI was 2,1% of GFCF (UNCTAD, 2003). Greek firms grabbed the opportunities and expanded rapidly in the newly opened markets so that during the last decade Greece has emerged as a regional player and one of the largest investors in the Central and Eastern and South Eastern European Countries (CESEECs) (Demos et al., 2004). Greek firms pursuit does not end here. Recent patterns show that Greek investments are also emerging with increasing volumes in other developing and developed countries as well.

Greece has thus changed from a peripheral European country to a regional centre, especially in its neighbouring South-European countries. This process was enhanced by Greek policies aiming to transform the country in a key player for the region. The 'Greek Balkan Reconstruction Plan', offering almost 500 million euros, is an indicative policy fulfilling that aim (Hellenic Centre for Investment, 2005). The financial improvement of Athens Stock Exchange (ASE) as a key source for generating funds has further facilitated this expansion. According to data from the Hellenic Ministry of National Economy (1998), Greek investment in the Balkan region accounts for almost 12% of the total FDI. More than 2,500 Greek companies have invested in Central, Eastern and South

Eastern European Countries (Hellenic Centre for Investment, 2005). On the other hand, Greek companies have also invested in developing countries such as India and China, which have recently become popular investment destinations or in developed countries with whom Greece has had historical, economic and cultural ties, such as the UK or the US.

This is the first paper to empirically evaluate the determinants of entry mode decisions of Greek firms participating in the Athens Stock Exchange within the framework of Dunning's Investment Development Path (IDP) (1981) and the underlying eclectic paradigm (Dunning, 1977; 1988; 1993). Greece represents a typical example of how a small, peripheral economy in the context of European Union (EU), has increased its regional role through outward FDI, especially in its neighbouring countries. This fact constitutes an important step in our understanding of the emerging patterns of outward FDI from small peripheral economies in particular in the context of an expanded EU. There are already signs that new EU members such as Hungary have already become sources of FDI flows into neighbouring countries, mirroring, yet in an incipient phase, the Greek experience. Hungary has been during the last couple of years the largest investor in FYROM (WIIW, 2005). Furthermore, according to UNCTAD (2004:19-29) developing countries such as India and China have increasingly generated outward FDI not only in their regions but also more widely internationally.

The second contribution of the present study is that complements the previous works on institutional determinants of FDI (Wheeler and Mody, 1992; Brunetti et al, 1997; Oxley, 1999; Brenton et al, 1999; Henisz, 2000; Meyer, 2001; Resmini, 2001; Smarzynska, 2002; Tihanyi and Roath, 2002; Rodrik and Subramanian, 2003; Carstensen and Toubal, 2004; Disdier and Meyer, 2004; Dunning, 2004; Trevino and Mixon, 2004; Bevan et al, 2004; Bevan and Estrin, 2004; Pornarakis and Varsakelis, 2004) by investigating the impact of political institutions on FDI at a disaggregate level. By testing the interplay between location advantages and firm ownership advantages in determining a firm's decision to internationalise, this paper also complements studies that have considered country of origin factors rather than firm specific advantages in assessing FDI (Grosse and Tevino, 1996; Deichmann, 2001).

The remainder of the paper is organised as follows. We first discuss the theoretical framework bringing together the IDP and the eclectic paradigm. Then we describe the evolution of Greece through the different stages of IDP. Section 3 presents the variables and the relevant hypotheses providing at the same time a literature review. The description of the data sample and of the methodology follows in Section 4. Later on, in Section 5 we present the empirical analysis and results. Finally, in Section 6 we conclude and review several managerial implications answering our initial question, where to Odysseus?

2. The Investment Development Path (IDP) and the Eclectic Paradigm: a theoretical framework for investigation

2.1 The integration of IDP and the Eclectic Paradigm

This paper uses Dunning's IDP (Dunning, 1981) and the underlying assumptions of the Eclectic Paradigm to investigate the evolution of Greek outward investments. In his seminal paper published back in 1981, Dunning explains the International Investment Position of countries using '…a dynamic or development approach'. The structure and composition of inward and outward investment in each stage are explained in terms of the eclectic paradigm (Dunning, 1981). Later revisions of the IDP, by Dunning himself (1996) or Narula and Dunning (2000) did not alter the basic philosophy of the IDP. In order to discuss the application of the IDP to Greek outward investments between 1994 and 1999 we first evaluate the merits of the eclectic paradigm in explaining firms' decisions to internationalise. It is the change of eclectic paradigm's components that defines the evolution of a country through the different stages of the IDP.

The need to synthesize various aspects of the approaches of MNEs and FDI and the desire to find an appropriate framework for their empirical investigation led to the emergence of the original eclectic paradigm (Dunning, 1977; 1988; 1993) which for the last two decades has remained the most influential analytical framework for MNEs. It is known mostly as Ownership-Location-Internalisation (OLI) paradigm. The basic assumption is that the returns to FDI, and hence FDI itself, can be explained by a set of three factors: the competitive-ownership advantages of firms (O), indicating who is going to produce abroad 'and for that matter, other forms of international activity' (Dunning, 1993:142); by locational factors (L) 'influencing the where to produce' (Dunning, 1993:143) and by the internalisation factor (I) that 'addresses the question of why firms engage in FDI rather than license foreign firms to use their proprietary assets' (Dunning, 1993:145). Using the above propositions one can explain the scope and geography of international value added activities.

A crucial assumption is that the combination of these factors and their exact configuration define which firms become MNEs, when they do so, where they locate their productive activities and how they involve in international production. Dunning (2000) himself characterized the eclectic paradigm 'as an envelop for complementary theories of MNC activity'. The configuration of the eclectic paradigm is though context specific. Despite its generality in explaining multinational activity, one has to clearly identify the geographical region under investigation, the industry and of course the firms examined.

Despite its merits, the major critique for the eclectic paradigm comes from its static nature. In response to this critique, an interesting extension of the eclectic framework is offered by Dunning

himself (2001). The strategic response of the firms in changes to their external environment can alter the OLI original configuration. The changes in the external environment can range from alterations in the location factors of a specific region to amendments in the competitors' strategies.

The three aspects of the eclectic paradigm interact in a continuous process through which firms upgrade their ownership advantages and countries enhance their competitive position in the global environment. The paper thus investigates the interplay between location advantages and firms' ownership advantages in determining the internalisation process by Greek companies. This is set within the framework of the IDP also proposed by Dunning (1981).

According to the IDP, the net outward investment position of a country, i.e. outward investment minus inward investment, follows five stages of development. Those five stages are also closely related to the economic development of the country. Stage one refers to the least developed countries that attract and undertake only a negligible amount of foreign direct investment. In this stage of the IDP, the local political, economic, social and institutional conditions are rather a barrier for foreign investors, whilst domestic firms lack the appropriate advantages to expand abroad.

The second stage of IDP is a natural expansion of the first one. As the country develops, in terms of economic conditions, stability and infrastructure as well as in terms of the institutional framework, it gradually attracts FDI. During the second stage when location advantages gradually emerge, inward investments become commercially viable mainly for three reasons. First, availability of cheap labour force will attract rationalized investments. Exploitation of natural resources emerges as the second reason and finally well-populated developing countries may attract import-substituting investments. This opening up of the home market to foreign investors offers the opportunity to local firms to observe and learn from the operations of multinational enterprises (MNEs), thus upgrading and enhancing their own capabilities or building their own ownership advantages. It is during this stage that the transformation of the local firms takes place.

Multinationals and FDI can foster the development of the local economy and domestic firms through three main channels. The first one is linked with the training of local personnel. MNEs improve the capabilities of the local labour force by using training programmes or new management techniques. The second channel occurs by building backward and forward linkages with domestic firms. Integrating domestic partners in the MNEs' supply chain facilitates the diffusion of knowledge, therefore transforming local partners. The third channel is an indirect one and has to do with the co-operation of MNEs with local research institutions and universities. This co-operation will eventually lead to the improvement of the local knowledge base and capabilities. During this crucial stage, stage two, the local firms create or upgrade their ownership advantages which in their

turn will be the driving force behind their expansion abroad.[1] At the same time the locational characteristics of the home country improve and create a secondary effect boosting local firms' capabilities. This interaction of ownership, firm specific, advantages with the locational advantages leads to stage three.

In stage three the country under investigation becomes gradually an outward investor itself. Domestic firms make use of their own advantages and expand abroad to exploit them in new markets. We would expect in the early stages of this internationalisation process to observe firms expanding in neighbouring, culturally close markets or countries in similar level of economic development, conform with the Uppsala School (Johanson and Vahlne, 1977; 1990).

As the country progresses in stage three and the newly born multinationals accumulate knowledge we expect to see them investing in developed countries as well. In stage four of the IDP the country becomes a net outward investor, revealing the level of economic development as well as the dynamism of local firms. The final stage of IDP describes developed economies, i.e. USA, UK, Germany etc, with high volumes of inward and outward FDI.

2.2 The Greek experience

Greece followed closely the different stages of the IDP. The opening up of the Greek market right after the Second World War was followed by significant investment activities from MNEs. Chemicals, basic metals and transportation sector attracted the majority of FDI flows during the after-war period, i.e. 1963-73. These heavy-Smithian types of industries helped a lot to the rejuvenation and the expansion of country's industrial base. This FDI activity enabled Greek firms to accumulate knowledge and experience working closely with large MNEs.

Throughout the 1970s and 1980s the economic development of the country followed by the country's accession to the European Union assured the smooth transition from stage one to stage two. Heckscher-Ohlin type of industries, i.e. textiles, food and drink and consumer electronics were the main recipients of FDI flows during the 1980s and 1990s. At the same time significant steps have been taken by Greek governments to enhance the competitive advantages of the economy and put Greece in a rapid and stable development path, leading to convergence with the rest of EU core countries. It was no coincidence that with the opening up of neighbouring markets in the early 1990s the Greek firms and entrepreneurs grabbed the opportunity to exploit their ownership advantages and expand abroad.

[1] This process of upgrading is related to the dynamic capabilities concept developed by Luo (2000) and which can be defined as ' an MNE's capability to create, deploy and upgrade organisationally embedded and return-generating resources in pursuit of sustained competitive advantages in the global market place'.

This expansion came through two channels. First, foreign subsidiaries of MNEs located in Greece upgraded their role to regional headquarters and were used as regional centres for the expansion to the Balkans and Central and Eastern European countries (CEECs). This channel included firms such as Delta, partner of Danone, 3E, a Coca- Cola soft drinks subsidiary, Chipita, a PepsiCo food subsidiary and Intracom, a partner of Siemens working in telecommunications. Second, purely domestic firms became multinationals by seizing the opportunity to expand abroad. This strategic change appears to be verified by a prior study of Kyrkilis and Pantelidis (1994) where they argue that 'it is possible for foreign subsidiaries to readjust their market strategies along time and in accordance with changing conditions'. This phenomenon of Greek expansion abroad gradually took another dimension. Whilst in the early stages of internationalisation Greek firms targeted primarily the Balkans and CEECs, in the later stages we observe investments to other developing, but distant countries, as well as investments in developed markets. This highlights the building up of experience and knowledge on behalf of the Greek entrepreneurs. The ownership advantages of Greek firms, supported by the locational advantages of the home markets created unique capabilities for Greek firms thus enabling them to invest in other EU countries or even the US. In this context, the aim of this study is to investigate the investment determinants of Greek outward investments. The framework of investigation will primarily be based on the eclectic framework, whilst the IDP will be used as an umbrella to explain the different patterns that emerge.

3. Variable description and hypotheses

In this paper, we use a subset of the several variables proposed by the eclectic framework but at the same time the most representatives for multinational firms' motives (Dunning, 1993). The application of the OLI framework will allow us to discern differences in the internalisation decisions of firms engaging in investment activity, either domestically or internationally. To make things even more comprehensible we use domestic investments as a benchmark. We then assume that OLI factors not only vary per individual investment but also the spectrum of OLI factors should lead to a non-negative, non-zero sum, which should maximise firm returns in order to engage in FDI. This is in the line with the notion that OLI advantages are resources able to generate income (Dunning, 1993:77). Although other forms of international expansion, such as trade, require the existence of L and to some extent O advantages it is clear that for a firm to get involved in FDI the combination of these advantages must lead to the maximisation of firm's profits compared to other alternative means of foreign market entry. We perform our analysis using an expanded time period thus capturing partially the changes in the O and L advantages and their outcome on the internationalisation decision of the firm as the home country progresses from one stage of IDP to

the next one. An overview of our variables is presented in table 1, together with the relevant sources of information.

Insert Table 1 here.

The first set of factors capture the ownership advantages of the investing firms. Size is an obvious 'transaction cost minimising O advantage' (Dunning, 1993, Table 4.1:81) which however is transformed into an I advantage as it depicts the continuous internalization of previously external markets under common governance and management (Dunning,1993:79). In various empirical studies, size tends to favour multinationality (Horst, 1972) and we thus expect a positive relationship with FDI. In a previous study, Buckley and Pearce (1979) emphasise the role of size, arguing that large firms tend to service foreign markets through FDI rather than trade. Numerous other studies that have tested firm-level characteristics include that of Juhl (1979) and Grubaugh (1987) who also found that size favoured multinationality. On the other hand though, there are studies like the one by Hoesch (1998) revealing an opposite effect. In his study on German investment in Central Eastern Europe (CEE) he found that it is small, in employment terms, German firms that tend to penetrate through FDI in the CEE markets instead of other developed European markets. We thus conclude to the following hypothesis:

H1: *Firm's size will have a positive effect on the firm's investment decision and will increase the probability of internalising the market*.

R&D intensity also raises the probability of a firm to expand internationally. Through FDI firms tend to accumulate new technologies when old technologies become outdated (Shan and Song, 1997). On the other hand, firms from high technology industries enter foreign markets to cover their costly R&D, prevent product obsolesce and gain market share (Tihanyi and Roath, 2002:190). Ownership advantages emerge primarily via two channels for the firm. On the one hand it is the possession of proprietary assets and on the other the actual ability of the firm to acquire or coordinate assets (Cantwell, 1989; Dunning, 1993). We would expect a positive relationship between R&D intensity and FDI, but this relationship might be different for various internalisation methods. Our hypothesis is:

H2: *R&D intensity will have a positive effect on firm's decision to invest and will increase the probability of internalising the market*.

Profitability also has an impact on firms' decision to invest. Profitable firms not only show a more efficient way of organising activities but also create the available resources for the future expansion (Cantwell and Sanna-Randaccio, 1993). The relevant hypothesis can be formulated as:

H3: *Profitability will have a positive effect on firm's decision to invest and will increase the probability of internalising the market*.

Multinationals usually are in a better position to raise capital, either domestically or internationally. This leads to financial assets advantages which reinforce multinationality (Dunning, 1993: 162). Here we use the leverage ratio of the firm as measured by the ratio of total debt over own capital and the applicable hypothesis becomes:

H4: *Financial asset advantages will have a positive effect on firm's decision to invest and will increase the probability to internalise the market*.

Finally, administration and distribution costs fall under the category of economies of common governance. Caves (1996) used variables capturing the organisation of the multinational group, providing support for firm related variables and their effect on investment decisions. The high administration costs can also capture a particular aspect of the resource based view of the firm (Penrose, 1956 and 1959) suggesting that the firm's expansion is directly linked with its managerial resources. We thus include similar variables in our model and we test the following hypothesis:

H5: *Firm specific resources as management quality and distribution channels will have a positive effect on firm's decision to invest and will increase the probability to internalise the market*.

As a second set of factors, included in the location advantages, a set of economic variables was applied. This conforms with the literature and accounts for the different types of motives companies may pursue (Dunning, 1993). This list is not extensive and it is used only to capture the general aspects of the macroeconomic environment. The effect of a country's market size on investment decisions is the most widely tested hypothesis in previous studies of FDI determinants. There has been a direct relationship between the current size (Gross Domestic Product) of a country's national market and new investments by MNEs (Culem, 1988, Wheeler and Mody, 1992; Barrell and Pain, 1996; Beavan and Estrin, 2004; Bevan et al, 2004). In addition to that direct relationship, an indirect supplement to the hypothesis is that larger host markets are more appealing to potential investors as economies of scale are more likely to be captured in local production (Krugman, 1979; Amiti, 1998), so that the option of supply through trade (other constraints on trade assumed constant) is more readily foregone. Our hypothesis is:

H6: *Market size will have a positive effect on firm's decision to invest and will increase the probability to internalise the market*..

Openness as defined by exports plus imports over total trade could be either substituting or complementing for FDI (Markusen 1984; Torstensson, 1998). This variable describes the competitiveness position of country in terms of international trade and exposure. One particular

dimension of this variable needs to be stressed here. High level of competitiveness accompanied with price advantages can support FDI strategies aiming at wider markets than the country itself. Concentration of production in the most efficient location but still targeting the whole region is the most pervasive depiction of this investment behaviour. The relevant testable hypothesis is:

H7: *Openness of the local economy will have a positive effect on firm's decision to invest and will increase the probability to internalise the market*.

This paper goes a step further and incorporates within the location specific advantages, political and institutional factors. This is consistent with the fact that although scholars concentrated initially on factor endowments, especially labour costs and productivity (Bevan et al, 2004:45), recently multinationals have increasingly focused on 'created assets' (Narula and Dunning, 2000) including knowledge-based assets, infrastructure and institutions of the host economy. According to Mudambi and Navarra (2002:636), institutions are important determinants of FDI because they 'represent the major immobile factors in a globalised market … Legal, political and administrative systems tend to be internationally immobile frameworks whose costs determine the international attractiveness of a location. Institutions affect the capacity of firms to interact and therefore affect the relative transaction and co-ordination cost of production and innovation'.

For potential investors the incentives and restrictions created by institutions 'shift the playing field favouring some deals and opportunities while discouraging others. They force the investing firms to think strategically about how to avoid the limits imposed by domestic laws as well as how to reap the benefits that the law and particular circumstances are capable of providing' (Spar, 2001). Poor institutions increase search, negotiation and enforcement costs, thus hindering the establishment of new business relationships and the initiation of new transactions (Antal Mokos, 1998; Meyer, 2001). On the other hand, Pournarakis and Varsakelis (2004) find that institutions alone do not contribute substantially to explaining the cross-country variation of FDI-inflows. Instead, they argue that FDI decisions require simultaneous improvements in markets, internationalisation and institutions. Increasingly FDI is undertaken not to exploit existing resources but by increasing resources and capabilities through the interaction with diverse locations (Bevan et al, 2004:45). As a result, investors prefer locations where the institutional framework facilitates the development of their firm-specific advantages, thus creating new challenges for both multinationals and public policy (Rugman and Verbecke, 2001).

In our model we use institutional variables which reflect the level of corruption ('Corruption'), the degree of enforcement of the law ('RuleofLaw), the lessening of the bureaucratic burden (BureucraticQuality), the level of ethnic tensions within a country ('EthnicTensions') and

the existence of expropriation risk ('ExpropriationRisk') as provided by IRIS. These variables mirror to a certain extent the barriers to investment identified by multinationals in a survey conducted by the World Bank (2005) (Appendix, Table 1). The World Bank survey (2005) indicates that firms still perceive corruption as an important obstacle in doing business in countries such as Romania and Bulgaria, despite them being invited to join the EU most probably in 2007. However, the literature on FDI and corruption usually finds inconclusive evidence on their relationship. Using Transparency International's 'Corruption Perception Index', Pournarakis and Varsakelis (2004) find that countries that have a more equitable system of rule of law, lower corruption and more freedom in economic activity achieved much better performance than countries that are characterised by significant deficiencies. Hines (1995) failed to find a negative correlation between corruption and total FDI, Wheeler and Mody (1992) found inconclusive evidence about corruption and US FDI, whilst Wei (2000) found a negative relation but with a sample dominated by OECD countries. Our hypothesis then becomes:

H8: *Higher levels of corruption will have a negative effect on the firm's decision to invest and will decrease the probability of internalising the market.*

Investors are also deterred by legal instability and bureaucratic and administrative barriers (OECD, 1994). In the same survey, the low 'confidence in the judiciary system' is identified as a major obstacle for business, particularly in countries lagging behind in terms of economic and political reforms, although not exclusively. Our hypothesis then is:

H9: *A reliable regulatory and legal environment will have a positive effect on the firm's decision to invest and will increase the probability to internalise the market.*

Foreign investment policies may also attract or deter foreign investors (Stoever, 1986; Wint, 1992). Countries with permissive national policies provide incentives to investors through exemptions from certain import duties, tax breaks, the creation of free economic zones and agreements to discourage double taxation. On the other hand, FDI can be discouraged by increased bureaucracy where investment permits, registration or screening are required or where sectoral restrictions and barriers exist (Alter and Wehrle, 1993). Using an FDI policy variable based on content analysis of several governmental provisions with respect to incoming FDI, Bandelj (2002) finds that foreign investors in Central and Eastern Europe are not attracted by financial incentives. She argues that this could be a result of the poor implementation of such provisions or of the possibility that further incentives are given on a case by case basis. These results indicate the need for a more appropriate measurement of the FDI related institutional framework as proposed in this study.

The present analysis resembles the one by Adam and Filippaios (2005) who using the IRIS (2000) measure of the quality of the local bureaucracy. They conclude that higher levels of bureaucratic quality enhance FDI, especially in non-OECD countries as compared to OECD countries. Our hypothesis is then:

H10: *Bureaucratic quality will have a positive effect on the firm's decision to invest and will increase the probability of internalising the market.*

The post-cold war era, especially in CESEE, has seen not only political and legal instability, but also civil disorder and war as a result of ethnic tensions. If investors seek to minimise the risk, then they would avoid locations with high ethic tensions. Although the World Bank Survey (2005) does not mention this variable as a perceived business deterrent by MNEs, it does include a related variable such as 'crime, theft and disorder' as a political barrier (Appendix, Table 1). In our analysis, due to the high number of Greek investments in the region we included a variable measuring the ethnic tension and we test the following hypothesis:

H11: *Ethnic tensions will have a negative effect on the firm's decision to invest and will decrease the probability to internalise the market.*

Finally, Bevan and Estrin (2004) suggest that expropriation risk should be used as a risk related variable, potentially being more meaningful for foreign investors than the country sovereign risk. In a study of determinants of US FDI in 105 developing and developed countries for 1989-1997, Adam and Filippaios (2005) find that lower levels of expropriation enhance FDI, especially in non-OECD countries as compared to OECD countries. We incorporate in our model a similar variable and test the subsequent hypothesis:

H12: *A high expropriation risk will have a negative effect on firm's decision to invest and will decrease the probability to internalise the market.*

4. Sample description and methodology

In this paper we use a sample of twenty six developing, developed and transition economies where Greek companies have made investments between 1994 and 1999. Table 2 presents the time pattern of our sample by host country. While some early destinations such as India, Switzerland and Syria have been abandoned later on, there is a clear upward trend towards the late nineties. Geographical proximity and the existence of other social and economic links play an important role. Two thirds of investments were made in Central, Southern and Eastern European transition economies with only 20% in developed countries and 12% in developing ones. In particular, Romania, Bulgaria and FYROM attract the majority of Greek FDI. This pattern is consistent with the total Greek outward FDI as Greece is becoming a regional player.

Insert Table 2 here

'Food and drink' and 'Metals', two traditional industrial sectors, account for almost half of the events in foreign and domestic investments. 'Textiles', 'Flour Mills' and 'Packaging' are also quite popular. As it can be seen from table 3, the variety of sectors do not behave differently when it comes to domestic or foreign investments. The 'aggressive' sectors, in terms of investments, within the country follow the same practice abroad. Furthermore, not only traditional but also high-technology sectors such as 'Chemicals', 'Informatics' and 'Pharmaceuticals and cosmetics' expand abroad.

Insert Table 3 here

The primary focus of the paper is to investigate the determinants of investment decisions comparing domestic with foreign. This study though moves a step further and offers also a second viewing angle, examining the determinants of the entry mode as a second step. To get further insights on the firms' and locations' determinants affecting the investment decision, we use a multinomial logit analysis. This unordered multiple choice method is the most relevant. The alternative choices of a firm are always compared with the choice not to invest. Because neither the process, nor the outcomes are sequential, i.e. the investment decisions are ordered, we used a similar estimation method to the one used by Cragg and Uhler (1970)[2].

The major concern with multinomial logit regression is the violation of the independence of irrelevance alternatives. For this reason the test suggested by Hausman and McFadden (1984) was used to test the consistency of our estimates. The performed test, presented in Appendix (Table 2), failed to reject the null hypothesis that the coefficients differ systematically. Thus the hypothesis cannot be rejected and the use of multinomial logit generates consistent and efficient estimates.

5. Empirical analysis and results

Table 4 tests jointly the significance of firms' characteristics and locational characteristics in determining investment decisions. The locational characteristics are separated into purely economic and institutional ones. Our analysis is carried out on four different geographical areas. We use information for the full sample, for investments only in the EU, then for investments only in Central, Eastern and South Eastern Europe (CESEE) and finally only for the Balkan region. We are using as benchmark firms that did not engage in investment activity. CESEE includes Albania, Bulgaria, FYROM, Hungary, Yugoslavia (now Serbia and Montenegro), Moldova, Poland, Romania, Russia and Ukraine while the Balkan region is a subset of the CESEE sample which

[2] For a further explanation on the multinomial logit regression see Maddala (1997).

consists of Albania, Bulgaria, FYROM, Yugoslavia (now Serbia and Montenegro) and Romania. EU is represented here by Belgium, France, Germany, Portugal, Spain and the United Kingdom.

Insert Table 4 here

Size emerges as an important explanatory factor, but with different levels of significance for the various regions. It is more probable overall for large firms to engage in investment activity. Expansion to CESEE countries is always positively affected by firm's size whilst for foreign expansion in the EU or the Balkans size is not significant. Large Greek firms participate in privatisation programmes in the CESEE region which require significant investment.

Leverage is negatively signed and significant for expansion in CESEE but positive and significant when it comes to foreign expansion into the EU. Firms with high ratios of foreign to own capital are more probable to expand in EU than anywhere else. High competition within the EU market requires a better knowledge of the market which is displayed by multinationals rather than companies with mainly Greek ownership. However, Greek ownership represents an asset when internationalising in CESEE.

R&D intensity and the existence of distribution channels affect positively the expansion both domestically and internationally for most regions, with the exceptions for foreign expansion in the EU or the Balkans. The pre-existence of extensive and sophisticated distribution channels in the EU market and of strong competitors with high R&D intensity makes the related advantages of the firm obsolete while the increasing competition in the CESEE market makes the existence of distribution channels and the high R&D intensity significant ownership advantages. The emergent stage of Balkan economies from the rambles of civil wars and from the processes of transition towards market economy makes so that investors of any calibre in terms of R&D or distribution channels may enter these markets.

Regarding the economic variables, i.e. locational characteristics, the market size and the openness of the local economy are of particular significance when it comes to foreign expansion to EU. Greek investments in the EU are done primarily for market seeking purposes. This result is further reinforced by the positive sign for both variables, indicating a tendency from Greek firms to locate in central locations and service the EU through exports. This is different from their behaviour in the Balkans. Market size is negative on this occasion whilst openness remains positive and significant. In this case local production is not primarily used to serve the local market but rather to be exported and serve the Greek or other European markets by exploiting lower production costs.

When it comes to institutional variables, corruption is negative and significant for the full sample and the CESEE region indicating a tendency from Greek entrepreneurs to operate in corrupted environments. This may suggest that Greek companies have the capabilities to deal with environments which mirror to a certain extent cultural traits familiar to Greeks or that they tend to assume higher risks in countries where other investors may be reluctant to invest, hence acquiring significant first mover advantages. That being said, corruption in the literature does have an ambiguous sign when it comes to FDI attraction.

Ethnic tensions also emerge as an important factor having the opposite from the hypothesised sign. Greek firms primarily in the CESEE region and the Balkans interpret the existence of ethnic tensions as a barrier to entry for other international firms due to high risks. This is not the case for Greek enterprises with large investments in Albania, FYROM or Serbia and Montenegro.

Finally, when it comes to expropriation risk this has the positive and hypothesised sign for most of the cases, indicating that lower risk increases the probability of observing a Greek investment. Nevertheless, a higher expropriation risk displayed by Balkan countries appears to attract Greek investors in hope for higher rewards. It is likely that the risk of sovereign default is more of concern for portfolio investors or those involved in currency speculation rather than for foreign direct investors who are more influenced by the economic and political stability of the recipient country (Bevan and Estrin, 2004:784)

The next step in our analysis is to investigate the determinants of the mode of entry for our full sample, i.e. foreign and domestic expansion, only the low technology industries and finally the foreign expansion. This complements an emerging strand of research (Wheeler and Mody, 1992; Resmini, 2001; Disdier and Meyer, 2004; Trevino and Mixon, 2004) which has dealt with the impact of institutions on FDI and on enterprise strategies, notably their entry modes (Oxley, 1999; Henisz, 2000; Meyer, 2001; Smarzynska, 2002; Tihanyi and Roath, 2002).

Table 5 presents the relevant results. For the full sample, i.e. domestic and foreign expansion, size increases the probability of a M&A or a greenfield investment, whilst it is insignificant for joint ventures. Larger firms have the appropriate resources to expand either through an M&A or a standalone investment. On the other hand leverage is negatively affecting M&A, indicating a pressure from external debtors to avoid expansion through merging or acquiring another company. R&D intensity emerges as always positive and significant, mirroring the effect of the ability to generate resources on the firm's decision to expand irrespectively of the mode of expansion. High administration costs reduce the probability of expansion through a Greenfield investment, indicating a lack of further resources, according to the Penrosian resource based view of the firm (Penrose, 1956; 1958).

Insert Table 5 here

The market size is only positive and significant for JVs possibly being a sign of committing resources only to a large enough market. Openness on the other hand is always positive and significant. When it comes to institutional variables, corruption is negatively signed and significant for JVs indicating a tendency from Greek firms to transfer their ability to deal with corruption to the new firm but not committing totally to the new investment as it would be the case for M&As or Greenfield investments. This conforms with previous research which shows that the quality of institutions influences the creation of new firms (McDermott, 2002) and the strategies of foreign investors (Henisz, 2000). In our study, the quality of local administration is important only for JVs and greenfield investments, the two cases that demand the creation of a completely new company. Finally, ethnic tensions are negatively signed and significant indicating that for all modes of entry Greek firms perceive the existence of them as an indication for lower levels of competition from international firms. The picture remains almost the same for our low technology sectors. The main difference emerges from the role of R&D intensity which is now important only for greenfield investments, and the quality of bureaucracy which is also important for greenfield investments. Because of the nature of transferable skills and resources in this case, only the occasions where a firm engages alone in an investment project demand the existence of high R&D capabilities and high quality of the offered public services.

The picture again changes for foreign investments alone and the modes of entry. Size becomes positive and significant for all three modes, indicating an overall trend for larger firms to expand abroad. On the other hand from locational factors it is primarily the quality of the bureaucracy that affects positively the decision and the existence of ethnic tensions that increases, through decreasing local competition, the probability of investing abroad.

6. Conclusions and managerial implications

Previous research has shown that managers should investigate carefully the institutional environment of the country before deciding to internationalise (Trevino and Mixon, 2004:241) while governments should improve the institutional framework of the country. A very recent and influential contribution belongs to Dunning (2004) who discusses extensively the role of institutional infrastructure in upgrading the pull factors determining the competitive advantages of countries and regions, examining the European transition economies. This study has gone a step further by showing in particular which type of investors can make the most of the different location advantages of the EU as compared to CESEE or to a smaller sample of countries, the Balkans.

Within the third stage of the Greece's Investment Development Path, investors with low R&D intensity and without established distribution channels can initially invest in the Balkan countries. Given the relatively slower progress of these economies towards improving their institutional framework and economy in general, there are fewer pressures from competitors. Hence, ownership advantages are not particularly relevant in this case. Investors should see the potential for growth in these markets as a result of continuous reforms, free trade and financial support through the 'Pact of Stability in South Eastern Europe'. They should aim to acquire first mover advantages by investing when domestic markets are still small. A relatively lower GDP of these countries should encourage Greek investors to relocate production units to obtain higher efficiency while exporting products both to the EU and the other countries in the region as a result of high openness. Investors should be ready to work within a framework where legislation is poorly implemented and highly volatile, and they may actually benefit from loophole in legislations in finding business opportunities. They may want though to keep on eye on the changes within the environment and make provisions for losses that may appear of the results of these changes. By expecting a high expropriation risk in the area, managers may want to build political support from the government or may want to minimise their initial investment while this risk remains relatively high.

In a second phase, large Greek companies with high R&D intensity, strong distribution channels and looking to expand sales whilst achieving increased efficiency may invest in the CESEE. They have to be, however, ready to deal with a corrupt environment hence to use their 'Greek-ness' as a competitive advantage within an environment with increasing competition. They should though be aware that these countries are setting up on cracking corruption even more, so playing the 'rules of the game' should not mean encouraging corruption themselves. Investors in the CESEE should also have a strategy in place to deal with higher prospects of ethnic tensions by locating their operations in areas within these countries which are less likely to be affected or by disguising their 'Greek-ness' in places such as the FYROM, where this may be a liability. They may encourage through their corporate citizenship agenda some activities leading to the diffusion of ethnic tensions.

Finally, expansion into the EU is undertaken primarily by an investor which is market seeker and does not necessarily have a high R&D intensity, nor specialised distribution channels. It may even be a small investor addressing a niche market. By investing in the Balkans and the CESEE, companies can upgrade their capabilities of dealing with ethnic tensions and then transfer them to other investment locations. Greek investors may also seek to exploit loopholes in the legislation of the over-regulated European Union and thus exploit business opportunities not evident at a first glance.

The second step of your investigation has revealed several factors that may guide managers in the decision to engage in a certain type of internalisation, be it a joint venture, a merger and acquisition or a green field project. Thus, in highly corrupted environments with high potential ethnic risks and a good bureaucratic quality Greek investors should establish joint ventures with a local partner. They can thus share the risks and benefit from the local partner's capabilities in dealing with the relatively less developed institutional framework. A manager should consider the option of establishing a green field investment if the company is large, R&D intensive and has low administration costs. The presence of strong distribution as an ownership advantage is not necessary. However, for a green field investment the manager has to make sure that the bureaucratic quality is high. Furthermore, in order to set up a green field project in a low tech industry, the investor needs to have high R&D intensity, low administration costs and considerable resources. In the case of Greek subsidiaries of multinational companies wanting to expand abroad, the option for M&As is less likely due to pressure for profitable investment by the mother company.

This paper has shown how the interplay between ownership and location advantages has influenced the quest of Greek firms expanding abroad by focusing on institutional variables and firm level ownership data. Further research may investigate the expansion of Greek firms in an extended time frame. Comparisons can be then made between the Greek firms' experience and the internationalisation of firms originating from new EU member states, thus verifying the answers provided by this paper to the question: 'Where to, Odysseus?'.

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Table 1. Variable Description

		Description	Source
Firm Variables	Size	Logarithm of Total Assets	Annual Reports of Firms enlisted in Athens Stock Exchange (1991 – 1999) and Authors' Calculations
	Leverage	Short and Long Term Debt over Own Capital	As above
	Profitability	Profits over Total Sales	As above
	R&DIntensity	Research and Development Expenses over Total Sales	As above
	AdministrationCosts	White Collar Salaries over Total Sales	As above
	DistributionChannels	Distribution Costs over Total sales	As above
Location Economic Variables	MarketSize	Real GDP in constant dollars (expressed in international prices, base 1985.)	World Table (Mark 5.6)
	Openness	(Exports + Imports)/Nominal GDP	World Table (Mark 5.6)
Location Institutional Variables	Corruption	Lower scores indicate "high government officials are likely to demand special payments" and that "illegal payments are generally expected throughout lower levels of government" in the form of "bribes connected with import and export licenses, exchange controls, tax assessment, police protection, or loans." Values 0-6	IRIS-3 File of International Country Risk Guide (ICRG) Data
	RuleofLaw	This variable "reflects the degree to which the citizens of a country are willing to accept the established institutions to make and implement laws and adjudicate disputes." Higher scores indicate: "sound political institutions, a strong court system, and provisions for an orderly succession of power." Lower scores indicate: "a tradition of depending on physical force or illegal means to settle claims." Upon changes in government new leaders "may be less likely to accept the obligations of the previous regime." Values 0-6	As above
	BureaucraticQuality	High scores indicate "an established mechanism for recruitment and training," "autonomy from political pressure," and "strength and expertise to govern without drastic changes in policy or interruptions in government services" when governments change. Values 0-10	As above
	EthnicTensions	This variable "measures the degree of tension within a country attributable to racial, nationality, or language divisions. Lower ratings are given to countries where racial and nationality tensions are high because opposing groups are intolerant and unwilling to compromise. Higher ratings are given to countries where tensions are minimal, even though such differences may still exist." Values 0-10	As above
	ExpropriationRisk	This variables evaluates the risk "outright confiscation and forced nationalization" of property. Lower ratings "are given to countries where expropriation of private foreign investment is a likely event." Values 0-10	As above

Table 2. Investments by host country and year of investment

	1994	1995	1996	1997	1998	1999	TOTAL
Albania	1			1		1	3
Belgium				1			1
Bulgaria	1	1	1	1	6		10
China			1		2		3
Egypt				1		1	2
France			1		1	1	3
FYROM			3		2	1	6
Georgia Republic					1		1
Germany		1			2		3
Greece	5	4	4	10	15	19	57
Hungary						1	1
India		1					1
Liberia					1		1
Moldova	2	1					3
Nigeria			1				1
Poland		1		1			2
Portugal			1		1		2
Romania		3	1	1	5	5	15
Russia			1				1
Spain					1		1
Switzerland	1						1
Syria	1						1
Ukraine					1		1
United Kingdom					2		2
USA				1	2	1	4
Yugoslavia		1		2			3
TOTAL	11	13	14	19	42	30	129

Table 3. Investments by sector of participation of mother company and location

	ABROAD	LOCAL	TOTAL
Chemicals	5	2	7
Construction Materials	4	1	5
Constructions General			0
Flour Mills	6	4	10
Food & Drink	22	12	34
Holding	2	4	6
Hotels			0
Informatics	1	6	7
Leasing			0
Metals	11	13	24
Packaging	7		7
Pharmaceuticals & Cosmetics	5	7	12
Sea Transports			0
Smoke and cigars			0
Telecommunications			0
Textiles	6	5	11
Various	3	3	6
Wood and Products			0
Total	72	57	129

Table 4. Comparison between Domestic and Foreign Investment, Multinomial Logit estimation with robust standard errors
Comparison Group = No investment

		FULL	FULL	EU	EU	CESEE	CESEE	BALKANS	BALKANS
		Domestic	Foreign	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
	Variable								
	Size	0.399**	1.382***	0.294*	-0.150	0.452***	1.064**	0.403*	-7.660
		(2.36)	(2.93)	(1.85)	(-0.70)	(3.04)	(1.98)	(1.73)	(-1.22)
	Leverage	-0.098*	-0.063	-0.063	0.005*	-0.097***	-0.145***	-0.105	-4.034
		(-1.94)	(-0.24)	(-1.29)	(0.08)	(-2.61)	(-2.70)	(-1.16)	(-0.75)
	Profitability	-0.002	0.004	-0.002	0.002	-0.003	0.003	-0.002	-1.669
		(-0.11)	(0.06)	(-0.10)	(0.05)	(-0.65)	(0.53)	(-0.10)	(-0.17)
	R&DIntensity	0.352***	0.299	0.390***	0.170	0.352***	0.308***	0.365***	-0.224
		(4.63)	(1.17)	(5.13)	(0.95)	(4.17)	(3.68)	(3.97)	(-0.82)
	AdministrationCosts	-0.002	-0.002	-0.002	0.003	-0.002	-0.002	-0.002	0.004
		(-0.80)	(-1.16)	(-0.40)	(0.66)	(-0.82)	(-0.48)	(-0.52)	(1.17)
	DistributionChannels	0.246**	0.699**	0.189*	0.968	0.245**	0.691***	0.252*	-0.727
		(2.38)	(2.40)	(1.84)	(0.57)	(2.27)	(4.15)	(1.90)	(-0.38)
	MarketSize	0.208	-0.275	-0.237	0.442***	0.074	-0.243	0.324	-0.727***
		(1.22)	(-1.19)	(-0.94)	(2.72)	(0.76)	(-1.16)	(0.82)	(-3.39)
	Openness	0.021	0.277***	-0.098	0.217***	-0.00831	0.257*	0.163	0.101***
		(0.29)	(2.97)	(-0.61)	(3.20)	(-0.09)	(1.92)	(0.51)	(13.53)
	Corruption	-1.603	-0.641***	-0.224	-0.262	-1.233	-0.486**	-0.70024	0.198
		(-0.73)	(-2.69)	(-0.79)	(-0.98)	(-0.65)	(-2.26)	(-1.13)	(0.69)
	RuleofLaw	-0.659	1.584	0.162	-0.134**	-0.738	0.080	-0.171	-0.245*
		(-1.06)	(1.30)	(0.19)	(-2.34)	(-1.07)	(0.04)	(-0.93)	(-1.63)
	BureaucraticQuality	1.119	3.124**	1.432	0.341	0.196	0.689	-0.118	0.996
		(0.69)	(2.00)	(1.05)	(0.89)	(0.31)	(0.67)	(1.13)	(0.25)
	EthnicTensions	-0.625**	-0.766**	0.769	-0.773***	-0.385	-0.429**	-0.410	0.280
		(-2.02)	(-2.45)	(0.57)	(-2.65)	(-1.47)	(-2.01)	(-0.06)	(0.73)
	ExpropriationRisk	1.005	0.336***	-0.576	0.178**	0.119	0.279**	0.347	-0.100***
		(1.32)	(2.77)	(-0.50)	(2.05)	(1.44)	(2.09)	(1.32)	(-6.01)
Number of obs		1275		1220		1251		1242	
Pseudo R-square		0.852		0.851		0.856		0.842	
Wald Chi-Square		702.87		693.21		653.13		612.35	
Log Pseudo Likelihood		-206.66		-207.69		-197.73		-189.63	

z-statistics in parenthesis
*** significant at 1%
** significant at 5%
* significant at 10%

Table 5. Comparison of Mode of Entry for all investments, Multinomial Logit estimation with robust standard errors
Comparison Group = No investment

	Variable	Full			Full Low Tech			Foreign		
		Joint Ventures	M&A	GreenField	Joint Ventures	M&A	GreenField	Joint Ventures	M&A	GreenField
	Size	0.411	0.403**	0.916***	0.183	0.559**	1.138***	1.735*	2.603**	2.377**
		(1.47)	(2.23)	(2.67)	(0.57)	(2.57)	(2.84)	(1.71)	(2.48)	(2.43)
	Leverage	-0.069	-0.093*	-0.122	-0.062	-0.097	-0.103	-0.261	0.262	-0.599*
		(-0.67)	(-1.68)	(-1.11)	(-0.56)	(-1.59)	(-0.59)	(-0.52)	(1.55)	(-1.94)
	Profitability	-0.003	-0.001	-0.002	-0.011	-0.004	-0.006	-0.198	-0.649	0.034
		(-0.05)	(-0.06)	(-0.03)	(-0.08)	(-0.10)	(-0.05)	(-0.13)	(-0.53)	(0.42)
	R&DIntensity	0.432***	0.228***	0.564***	0.320	0.829	0.601***	0.877	-0.642	0.597
		(3.96)	(2.23)	(4.83)	(1.43)	(0.40)	(3.38)	(0.92)	(-1.41)	(0.54)
	AdministrationCosts	-0.001	-0.001	-0.003**	0.002	0.004	-0.003*	-0.009	-0.005	-0.001
		(-0.97)	(-0.25)	(-2.4)	(0.17)	(0.50)	(-1.82)	(-0.79)	(-0.47)	(-1.16)
	DistributionChannels	0.282*	0.290***	0.273	0.217	0.221	-0.26915	0.734	0.611	0.244
		(1.77)	(2.64)	(1.18)	(1.17)	(1.54)	(-0.06)	(0.55)	(0.43)	(0.18)
	MarketSize	0.247*	0.184	0.143	0.258*	0.107	0.052	-1.208	-1.681	-1.292
		(1.75)	(1.39)	(0.96)	(1.89)	(0.85)	(0.35)	(-0.51)	(-0.71)	(-0.55)
	Openness	0.136***	0.130***	0.137***	0.147***	0.137***	0.145***	1.127	1.127	1.119
		(2.92)	(2.83)	(2.93)	(2.85)	(2.71)	(2.81)	(1.12)	(1.12)	(1.12)
	Corruption	-3.756*	-3.074	-2.838	-3.939*	-3.287	-3.027	-3.068	-2.954	-2.888
		(-1.93)	(-1.60)	(-1.44)	(-1.73)	(-1.46)	(-1.31)	(-1.4)	(-1.34)	(-1.32)
	RuleofLaw	-0.088	0.028	-0.997	-0.067	0.176	-1.422	2.049	1.926	1.839
		(-0.14)	(0.05)	(-1.31)	(-0.09)	(0.28)	(-1.48)	(1.46)	(1.37)	(1.31)
	BureaucraticQuality	2.474*	1.848	2.256*	2.546	1.925	3.021*	0.940*	0.864*	0.920*
		(1.94)	(1.47)	(1.73)	(1.61)	(1.24)	(1.86)	(1.85)	(1.70)	(1.82)
	EthnicTensions	-5.731**	-5.638**	-6.055***	-4.728**	-4.742**	-4.477**	-1.214*	-1.304**	-1.163*
		(-2.49)	(-2.46)	(-2.62)	(-2.12)	(-2.14)	(-1.98)	(-1.81)	(-2.09)	(-1.87)
	ExpropriationRisk	-0.232	0.401	-0.061	-0.441	0.214	-0.623	0.896	1.306	0.909
		(-0.37)	(0.71)	(-0.10)	(-0.64)	(0.33)	(-0.86)	(0.36)	(0.52)	(0.36)
Number of obs		1275			1149			1222		
Pseudo R-square		0.837			0.862			0.969		
Wald Chi-Square		104.91			94.44			328.40		
Log Pseudo Likelihood		-287.69			-218.83			-51.72		

z-statistics in parenthesis
*** significant at 1%
** significant at 5%
* significant at 10%

APPENDIX

Table 1. Firms' perceptions of business barriers in selected transition countries. In parenthesis the grading of importance (2002)

	Albania	Bulgaria	Czech Republic	Georgia	Hungary	FYRoM	Moldova	Poland	Romania	Serbia & Montenegro	Russian Federation
Economic and regulatory policy uncertainty	48.5 **(4)**	48.5 **(2)**	20.2 **(3)**	44.3 **(3)**	21.1 **(3)**	37.3 **(3)**	52.9 **(4)**	56.8 **(2)**	43.3 **(4)**	59.8 **(1)**	31.5 **(3)**
Macroeconomic stability	58.7 **(1)**	36.3 **(4)**	18.6 **(4)**	41.4 **(4)**	16.1 **(4)**	35.2 **(4)**	65.7 **(3)**	50.5 **(3)**	53.4 **(2)**	45.9 **(3)**	28.5 **(4)**
Corruption	47.5 **(5)**		12.5 **(5)**	35.1 **(5)**	8.8 **(6)**	31.2 **(5)**	25.9 **(5)**	25.3 **(5)**	34.9 **(5)**	35.2 **(5)**	13.7 **(6)**
Skills and education of available workers	13.2 **(7)**	16.6 **(6)**	9.1 **(7)**	8.6 **(7)**	12.5 **(5)**	3.7 **(7)**	8.8 **(7)**	11.2 **(7)**	10.8 **(7)**	19.7 **(6)**	9.9 **(7)**
Business licensing and operating permits	22.9 **(6)**	23.1 **(5)**	10.2 **(6)**	9.9 **(6)**	3.3 **(7)**	17.4 **(6)**	22.2 **(6)**	14 **(6)**	23.2 **(6)**	17.7 **(7)**	14.6 **(5)**
Consistency/predictability of officials' interpretations of regulations affecting the firm	54.5 **(2)**	61 **(1)**	56 **(1)**	73.4 **(1)**	42.7 **(1)**	42.3 **(2)**	81.2 **(1)**	66.6 **(1)**	54.5 **(1)**	53.5 **(2)**	75.1 **(1)**
Confidence in the judiciary system	50.6 **(3)**	46.5 **(3)**	47.1 **(2)**	59 **(2)**	40.3 **(2)**	50.6 **(1)**	70.2 **(2)**	41.9 **(4)**	45.8 **(3)**	39.5 **(4)**	65.3 **(2)**

Source: World Bank (2005)

Table 2. Independence of Irrelevance Alternatives

	Observations	Hausman	Degrees of Freedom
All investments			
No investment	120	-9.12	11
Investment Domestically	1222	3.14	11
Investment Abroad	1208	9.87	9
All investments			
No investment	120	3.35	20
Joint Venture	1244	-7.64	11
Merger& Acquisition	1204	6.97	12
Greenfield investment	1257	-3.31	11
All investments Low Technology			
No investment	94	6.63	20
Joint Venture	1125	-12.86	12
Merger& Acquisition	1092	-15.53	14
Greenfield investment	1136	-28.41	10
Foreign Investments			
No investment	67	1.22	19
Joint Venture	1198	-5.62	22
Merger& Acquisition	1194	-1.97	17
Greenfield investment	1207	-2.99	17

Table 3. Correlation Table

FDIDUMMY	1.00																				
Type	-0.89*	1.00																			
Ownership	0.06	0.42*	1.00																		
Size	-0.19*	0.21*	-0.04	1.00																	
Leverage	0.04	-0.04	-0.02	0.02	1.00																
Profitability	0.01	-0.01	-0.08	-0.02	-0.01	1.00															
R&Dintensity	-0.17*	0.14*	-0.02	0.02	0.00	-0.01	1.00														
AdministrationCosts	-0.14*	0.17*	-0.06	0.62*	0.03	-0.01	0.13*	1.00													
DistributionChannels	-0.10*	0.10*	0.18	0.00	0.11*	-0.03	0.04	-0.01	1.00												
MarketSize	0.41*	-0.60*	-0.06	-0.25*	0.03	0.00	-0.04	-0.20*	-0.08*	1.00											
Openness	-0.33*	0.48*	0.07	0.24*	-0.03	0.00	0.03	0.22*	0.05	-0.77*	1.00										
Corruption	0.39*	-0.53*	0.08	-0.19*	0.01	0.01	0.00	-0.20*	-0.05	0.63*	-0.46*	1.00									
Ruleof Law	0.22*	-0.29*	-0.01	-0.09*	-0.02	-0.02	0.00	-0.14*	-0.05	0.41*	-0.39*	0.49*	1.00								
BureaucraticQuality	0.18*	-0.27*	0.05	-0.10*	0.01	0.00	-0.01	-0.15*	-0.04	0.33*	-0.41*	0.66*	0.42*	1.00							
EthnicTensions	0.39*	-0.53*	0.02	-0.19*	0.01	0.01	-0.03	-0.25*	-0.05	0.63*	-0.46*	0.80*	0.44*	0.38*	1.00						
ExpropriationRisk	0.02	-0.05	-0.02	0.12*	-0.04	0.01	0.05	-0.06	-0.01	-0.14*	0.15*	0.30*	0.33*	0.25*	0.38*	1.00					
EU	0.41*	-0.62*	-0.08	-0.20*	0.01	0.01	-0.01	-0.23*	-0.07	0.80*	-0.63*	0.79*	0.42*	0.52*	0.70*	0.21*	1.00				
CESEE	0.27*	-0.33*	0.03	-0.11*	0.01	0.01	-0.01	-0.04	-0.06	0.43*	-0.10*	0.36*	0.11*	-0.22*	0.33*	0.01	0.34*	1.00			
Balkans	0.31*	-0.43*	0.02	-0.14*	0.01	0.01	-0.03	-0.11*	-0.07	0.50*	-0.22*	0.45*	0.20*	-0.13*	0.48*	0.05	0.47*	0.86*	1.00		
FDI	-0.45*	0.68*	0.06	0.21*	-0.01	-0.01	0.01	0.21*	0.09*	-0.83*	0.64*	-0.76*	-0.38*	-0.34*	-0.74*	-0.17*	-0.90*	-0.59*	-0.69*	1.00	
Sector	-0.13*	0.12*	0.18	0.04	0.04	-0.01	0.25*	0.07	0.15*	-0.06	-0.02	-0.02	0.00	0.03	-0.04	0.04	-0.05	-0.08*	-0.07*	0.05	1.00

Significant at1%

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