

The Effects of Cultural Distance and Institutions on Foreign Direct Investment Choices: Evidence from Turkey and China

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Abstract : With the development of foreign direct investments, the social, cultural, political and economic interactions between countries and institutions have become visible and they have become determining factors for the strategic structuring and market goals. In this context the purpose of this study is to investigate the effects of cultural distance and institutions on foreign direct investment choices in terms of location and investment model. For international establishments, the concept of culture, as well as the concept of cultural distance, is taken specifically into consideration, especially in the selection of methods for entering the market. In the researches and empirical studies conducted, a direct relationship between cultural distance and foreign direct investments is set and institutions and effective variable factors are examined at the level of defining the investment types. When the detailed calculation strategies and empirical researches and studies are taken into consideration, the most common methods for determining the direct investment model, considering the cultural distances, are full-ownership enterprises and joint ventures. Also, when all of the factors affecting the investments are taken into consideration, it was seen that the effect of institutions such as Government Intervention, Intellectual Property Rights, Corruption and Contract Enforcements is very important. Furthermore agglomeration is more intense and effective on the investment, compared to other factors. China has been selected as the target country, due to its effectiveness in world economy and its contributions to developing countries, which has commercial relationships with. Qualitative research methods are used for this study conducted, to measure the effects of determinative variable factors in the hypotheses of study, on the direct foreign investors and to evaluate the findings. In this study in-depth interview is used as a data collection method and the data analysis is made through descriptive analysis. Foreign Direct Investments are so reactive to institutions and cultural distance is identified by all interviews and analysis. On the other hand, agglomeration is the most strong determiner factor on foreign direct investors in Chinese Market. The reason of this factors, which comprise the sectorial aggregate, are not the strongest factors as agglomeration that the most important finding. We expect that this study became a beneficial guideline for developed and developing countries and local and national institutions' strategic plans.

Keywords : China, cultural distance, Foreign Direct Investments, institutions

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