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Inhaltsverzeichnis

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Market entry strategies in the Turkish automotive industry

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Abstract

Initial and subsequent market entry mode choices of multinational enterprises (MNEs) depend on MNE managers' perceptions of the potential to capture additional competitiveness by internalizing their unique firm-specific advantages (FSAs), also called ownership (O)-specific advantages, together with the host countries' country-specific advantages (CSAs) also called location (L)-specific advantages (Dunning 1988; Hennart 2009; Rugman et al. 2012). During the last decade we observe a significant shift of automotive production in Europe from the West to the East, and Turkey has been one of the major beneficiaries of this change. In this paper we analyze the roots of Turkey's evolving CSAs and try to understand their differing impacts on market entry strategies of MNEs in the automotive industry with the help of the diamond model (Porter 1990). We apply a longitudinal approach in our empirical study and focus on developments in the period between the years 2000 and 2010. We find out that Turkey's national diamond has improved over the decade led by improving political leadership and stability, as well as institutional reforms and consequent economic stability following the banking crisis in 2001. We also find out that the country's diamond has strengthened by the implementation of the customs union in 1996 and the beginning of membership negotiations with the European Union (EU) in 2005. Despite the fact that these developments have led to a fast growth of the automotive industry in Turkey, we notice that MNEs have responded differently in their market entry strategies, and these differences rely on the match of their strategic positions and market entry motives with CSAs. Based on our observations we make clear propositions that link market entry choices to generic strategies and market entry motives. We recommend further similar longitudinal research in different countries and industries to test our findings.

1. Introduction

International business literature has investigated deeply MNE's choices of foreign market entry modes through the lenses of transaction cost theory, internalization theory, resource-based view (RBV), and institutional theory (Meyer/Peng 2005). These modes are classified as non-equity (or contractual) modes and equity modes. In non-equity modes the MNE does not invest equity in the foreign market but serves or supplies from the foreign market through contractual agreements. These modes include exporting, licensing, franchising, and outsourcing. In equity modes, the MNE invests equity in the foreign market. They are classified as portfolio investment or foreign direct investment (FDI) where FDI could be in the way of joint-venture or wholly-owned subsidiary based on the level of ownership (Welch et al. 2007). In portfolio investment the MNE holds a minority stake in shares of the foreign operation. In this type of investment the MNE neither intends to influence the strategy of the foreign operation nor has any long-term commitment to it. A joint-venture is established with the MNE partners on an equal basis with a local firm.

This equal basis is reflected not only in the share distribution but also in the assets contributed and the level of control exerted by the two firms. In a wholly-owned subsidiary the MNE has full control over the operations.

It is the FDI mode which allows MNEs capture CSAs. Accelerating globalization after the 1990s with the establishment of regional unions with free flows of goods, services, capital and labor, active involvement of the world trade organization (WTO), and more welcoming attitudes of host countries towards MNEs have contributed to increasing cross-border trade and FDI activity. As a result, MNEs have been faced with an interesting opportunity to respond to these changes by adapting their market entry strategies and reconfiguring their value chains regionally with the purposes of developing their competitiveness. One source of firm-level competitiveness can be unique, rare, valuable, hard-to-imitate resources of the firm, i.e. sources of FSAs, and its corresponding strategic positioning (Barney 1991). A second source could be the diamond in the MNE's home-country including factor conditions, demand conditions, related and supporting industries, and firm strategy, structure and rivalry (Porter 1990). A third source could be the diamond of the MNE's home region, i.e. the double diamond (Rugman/D'Cruz 1993). A fourth source could be the host countries' diamonds, i.e. their CSAs (Dunning 1988). Or, perhaps it is in the appropriate combination or internalization of CSAs and FSAs that MNE competitiveness occurs (Dunning 1988; Rugman et al. 2012).

Given evolving CSAs of a host country, it is interesting to see whether all MNEs would adapt their market entry strategies similarly to take advantage of them given their differing FSAs and corresponding strategic positions and motives. In case we observe different behaviors, we would be further interested to understand what influences their differing decisions most and which types of FSAs match best which types of the host-country's CSAs.

To achieve our aim we focus on the European automotive industry and MNEs' changes in market entry strategies to Turkey during the period between 2000 and 2010. The European automotive industry is highly competitive bearing some of the world's largest MNEs such as the Volkswagen Group, Toyota, PSA Peugeot-Citroën, Ford, General Motors, Renault and Fiat. The establishment of the Single Market in the EU in 1992 has created the world's largest automotive market and intensified competition leading to further consolidation in the industry through mergers and acquisitions decreasing from 31 MNEs in 1990 to 21 MNEs in 2005 (Akpinar 2009). Competitive Japanese and Korean manufacturers have increased their commitment and presence in this attractive market by shifting their market entry modes from exporting to FDI. Alliances among MNEs as well as international sourcing and manufacturing have increased. The eastern expansion of the EU in 2004, the establishment of a customs union between the EU and Turkey in 1996, and the start of accession negotiations with Turkey in 2005 have been major developments in Europe to offer opportunities for MNEs to reconsider their market entry strategies in the EU. Focus on a specific region such as the EU is based on the fact that MNEs in the automotive industry pursue regional strategies rather than global ones (Rugman/Collinson 2004).

The establishment of Turkey's automotive industry dates back to the 1950s. The1980s saw changes in government policy which shifted the nature of the industry from import-substitution to export-orientation (Wasti/Wasti 2008). Following the customs union with the EU in year 1996, Turkey has increasingly become a production base for the automotive industry, building on advantages such as highly-skilled labor at comparatively low cost, access to cheap raw materials, and the geographic proximity to European markets (McKinsey Global Institute 2003). Reflecting our research questions in view of this context we want to understand how differently MNEs in the automotive industry adopt their market entry strategies in response to the evolving CSAs offered by Turkey, and what the underlying reasons behind these differences may be. Among possible reasons we investigate FSAs as reflected in corresponding generic strategies, and market entry motives to Turkey.

The rest of the paper is organized as follows. In the following section, a theoretical framework is developed from earlier literature, and the methodology of the empirical study is described in section three. The results are shared in section four, and the paper ends with a discussion of the findings in section five.

2. Literature Review

In this section we aim to develop an appropriate theoretical framework to study the impacts of evolving host-country CSAs on changes in market entry strategies of MNEs in the light of their FSAs and corresponding generic strategies, and market entry motives towards the host country.

2.1 Market Entry Strategy and Motives towards Host Country

The international business literature differentiates between equity modes (e.g., FDI through joint venture or wholly-owned subsidiary) and contractual modes (e.g., exporting, licensing, franchising) of foreign market entry (see Buckley/Casson 1998). There is also a distinction between organic modes of entry (i.e. greenfield investments) and external modes of entry (i. e. mergers & acquisitions) (see Hennart and Park 1993). In this research we adopt a limited but dynamic definition of market entry strategy. Our focus is on the distinction between non-equity mode of entry and equity mode of entry, and due to their suitability for the automotive industry, we focus specifically on the modes of *exporting* and *production FDI.* The dynamic nature of our definition arises in that we analyze changes in the choices of market entry strategy from 2000 to 2010. Possible changes in strategy could imply establishment of a production subsidiary in the foreign market, versus closure of a production subsidiary, or significant changes in production volumes in the host country.

MNEs will prefer equity modes when there is need to have control over foreign operations which may arise when MNEs have knowledge assets which are difficult to transfer in contractual agreements (Kogut/Zander 1993), when the institutional environment is not developed to allow

for protection of knowledge assets over contractual agreements (Meyer/Peng 2005), or when total costs of non-equity modes, including transportation costs, customs duties and tariffs, and contractual costs, are higher (Buckley/Casson 1976). On establishing the FDI, MNEs will choose to establish a joint-venture when resource contributions from a local partner are needed (Brouthers/Hennart 2007). Local market knowledge, ease of access to distribution channels, excellent relations to local governments are some of the key resources to be provided by local partners. These contributions by local partners will aid to overcome the liabilities of foreignness or outsidership in international markets (Zaheer 1995; Johanson/Vahlne 2009). Such dependence on resources explains why this hybrid mode of market entry is indeed the most commonly observed mode (Hennart 1988).

The shift from contractual modes to equity modes will occur in time as MNEs increase their foreign market knowledge and commitment to the foreign market gradually (Johanson/Vahlne 1977). Based on observations from the automotive industry where economies of scale are important, we realize that exporting and FDI are not necessarily substitution strategies but complementary ones when we consider transaction costs and scale economies simultaneously (Pyo 2010). According to this, even though transaction costs of exporting may be high, MNEs which lack minimum efficient scale in the foreign market will still prefer to export rather than make FDI.

In making FDI MNEs will target to internalize location-specific advantages of the host country (i. e. CSAs) together with their ownership-specific advantages (i. e. FSAs) (Dunning 1988). We adapt the typology of motives for FDI by Dunning (1988) as market entry motives towards host country. The motives are *market-seeking, resource- or strategic asset-seeking,* and *efficiency-seeking.* In market-seeking FDI, objectives are to be close to an attractive market in order to understand market behavior and respond quickly to changing demand conditions, secure access to distribution channels, and avoid high transportation costs to that market. The attractiveness of the market is determined mostly by its size as well as its growth potential. In resource- or strategic asset-seeking FDI, the objective is to have access to valuable resources (e.g., natural resources, skilled workforce) or created assets (e.g., strategic brand name, patented innovation). Finally, in efficiency-seeking FDI, the main objective is to minimize costs of production and improve profitability. Locations that suit this type of FDI best may offer low-cost labor, low-cost materials or tax advantages.

2.2 Host country CSAs

In order to understand the roots of CSAs, we will focus on the Diamond Model by Porter (1990) and the Double-Diamond Model by Rugman and D'Cruz (1993). In the diamond model, the roots of competitive advantage are *factor conditions, demand conditions, related and supporting industries,* and *firm strategy, structure, and rivalry.*

Factor conditions are the country's resources for enabling the means of production such as *human resources, physical resources, knowledge resources, capital resources* and *infrastructure* (Porter 1990: 74-75). Human resources include the quantity, skills and cost of employees and

management. Physical resources could be abundance, quality, accessibility and cost of the country's natural resources, as well as the country's location, geographic size and climate conditions. Knowledge resources are the country's stock of scientific, technical and market knowledge on goods and services residing in universities and research institutes. Capital resources mean the amount and cost of capital available to finance businesses. Finally, infrastructure covers the quality and cost of the transportation system, the communication system, the postal system, the payment system, and the health care system in the country. Competitive advantage from factors depends on how efficiently and effectively they are deployed (Porter 1990: 76). Porter also categorizes the factors as *basic factors* and *advanced factors.* Basic factors are natural resources, climate, location, unskilled and semiskilled labor, and capital. Advanced factors include modern communications infrastructure, highly educated human resources, and innovation-driving research institutes. Whereas basic factors are mostly inherited, advanced factors are usually created. While basic factors are needed for competitive advantage, it is usually through the creation of advanced factors that sustained competitive advantage can be achieved (Porter 1990: 77).

Demand conditions reflect the nature of the mix and character of the country's buyers and their needs. Elements of demand conditions include *segment structure of demand, sophisticated and demanding buyers, anticipatory buyer needs, size of demand, number of independent buyers, growth rate of home demand, early home demand, early saturation,* mobile or multinational local buyers, and *influences on foreign needs* (Porter 1990: 86-99). Demand conditions will affect positively on competitiveness of an industry when there are large global segments in demand composition (especially in industries where economies of scale is important), when the buyers (including distribution channels) are among the world's most sophisticated and demanding buyers, when the needs of buyers in the country anticipate those in other countries, when there a large number of independent buyers, when the growth rate of home demand is high, when buyers have demand for new products at early stages, when early demand moves fast to early saturation, and when local demand is transferred abroad through mobile or multinational local buyers or other influences. The existence of these conditions will pressure local firms to move ahead of their rivals in their innovation and upgrading processes.

The third determinant of national competitive advantage in the diamond model is related to supporting industries. Supporting industries are supplier industries. Existence of internationally competitive supplier industries will not only provide early access to cost-effective, high quality inputs but also foster high level R&D cooperation that will result in joint innovation solutions (Porter 1990: 101-104). Related industries are those in which firms can coordinate or share activities in the value chain when competing, or those which involve products that are complementary (Porter 1990: 105). Location-based close cooperation with supplier industries and related industries through information exchange and joint projects forms the fundamental idea behind the emergence of the cluster concept. Clusters are geographic concentrations of interconnected companies and institutions in a particular field (Porter 1998: 78). Clusters play a positive role in competitiveness in three ways. First of all, the productivity levels of firms in the cluster improve. This is because firms gain scale advantages without giving up their flexibilities, and they also have

easier access to specialized information, suppliers, related industries, and institutions (Porter 1998: 81). Secondly, the pace of innovations accelerates through exchange of tacit knowledge and creation of ideas in informal face-to-face meetings, through sharing of risks and minimizing of cost burdens in experimenting new ideas, and through peer and competitive pressure (Porter 1998: 83). Thirdly, clusters also enable formation of new businesses when insights and skills from different fields merge (Porter 1998: 84).

The fourth determinant of national competitive advantage in the diamond model is firm strategy, structure, and rivalry. There are national differences in management practices and approaches, in the orientations of firms toward competing globally, in the motivations of individuals (owners, managers, and employees), and in the commitments of capital and human resources to an industry which affect the ways that firms choose to compete and organize (Porter 1990: 108-116). The degree of domestic rivalry has a positive effect on competitiveness through creating pressures to innovate and outpace rivalry.

In addition to these four determinants, Porter (1990) also names two variables which may impact on competitive advantage through shaping of the determinants. These factors are government and chance. The government has legitimate power to exercise authority over other organizations in a country. As such, it has been suggested that it should be treated as a fifth determinant since government regulations have direct influence on firms (see Rugman/Verbeke 2000). In the EU powers of governments have been diminishing as a result of the empowerment of supranational institutions such as the European Commission which sees to it that governments do not interfere in ways to affect free competition (Buckley/Ghauri 2004). Chance events occur outside the powers of firms and create discontinuities that may result in changes in competitive position (Porter 1990). Wars, natural disasters, acts of pure invention or technological discontinuities, political decisions by foreign governments are examples of chance events. The determinants and the variables create an interactive dynamic system, i.e. the determinants are subject to change in time, and changes in one determinant or variable will trigger changes in other determinants (ibid.).

Rugman and D'Cruz (1993) criticize the diamond model in that it fails to explain national competitive advantage of small, open, trading economies like Canada. In return, they extend it and offer the double diamond model which looks at not only the home country diamond but also the diamond of the home country's major trading partner. For example, in analyzing the competitive advantage of Canadian industries, they take into account the diamonds of Canada and the USA (called together the 'North American diamond') since these countries have a free trade agreement. Such extension of the diamond was also followed by the extension of the concept of national competitiveness to the concept of home region competitiveness for a country (see Rugman et al. 2012). As Turkey has a customs union agreement with the EU, we will take this view into account in analyzing CSAs of Turkey.

2.3 FSAs and Generic Strategies

FSAs have their root in the RBV of the firm which aims to understand sources of sustained competitive advantage by studying the firm's resources. Resources are defined as all assets, capabilities, organizational processes, information, and knowledge that are controlled by a firm (Penrose 1958). According to Wernerfelt (1984) resources and products are two sides of the same coin. Barney (1991) argues that it is valuable, rare, imperfectly imitable, and hard-to-substitute resources (i.e. strategic resources) that drive sustained competitive advantage and deliver superior performance, so firms should develop their value creating strategies based on the analysis of their strategic resources which are their strengths. Resources are valuable when they enable the firm to conceive of or implement strategies that improve its efficiency and effectiveness (Barney 1991: 106). The idea that rare resources possessed by the firm will create unique first-mover advantages that can be sustained relies on the assumptions that resources are sticky or immobile (i.e. firm-specific), and they are difficult to create, imitate, or substitute by competitors (Barney 1991). Examples of strategic resources of the firm could include advanced technology, advanced machinery and equipment, intellectual property rights, brand names, access to rare raw materials, unique geographic location, advanced human and social capital (training, experience, judgment, intelligence, relationships, and insights of individual managers and workers), and superior organizational planning and coordinating systems both inside the firm and also in the value chain.

RBV falls short of suggesting a typology of competitive strategies based on exploitation of strategic resources. Therefore, we turn the other side of the coin and look at products for studying strategic positioning. Strategic positioning means performing different activities from competitors or performing similar activities in different ways to deliver a unique value proposition to customers (Porter 1996). It is about making choices and trade-offs, not about trying to be the best (Magretta 2012). The basis of the positioning can be the choice of product or service varieties (i.e. variety-based positioning), the choice of fulfilling all needs of a particular segment of customers (i.e. needs-based positioning), or the choice of targeting all customers who are accessible in a particular way (i.e. access-based positioning) (ibid.). Porter (1990) provides a typology of three types of generic strategies: *cost leadership, differentiation,* and *focus.* In cost leadership strategy, the firm would choose and set its activities in optimal ways to achieve lower costs than its competitors. In differentiation strategy, the choices of the firm would be targeting to provide unique and superior value to the customers in terms of product quality, special features, or superior after-sales services. Finally, in focus strategy, the firm would pursue either cost leadership or differentiation targeting only a certain market segment.

In this research we will utilize cost leadership and differentiation in analyzing generic strategies of automotive MNEs. This is not a bad choice given that lower costs and differentiation (reflected in ability to earn higher revenues) are the true sources of competitive advantage and profitability. This is a good choice because development of these strategies also takes indirectly into account the firm's strategic resources which lie on the flip side of the coin.

2.4 Theoretical Framework

Having reviewed literature on market entry strategies and motives, CSAs, FSAs and generic strategies, it is time to present the theoretical framework that we will use in our empirical study. Our goal is to study changes in market entry strategies of MNEs in response to evolving CSAs of host countries given that MNEs differ in their market entry motives and generic strategies (see Figure 1).

Figure 1: The theoretical framework.
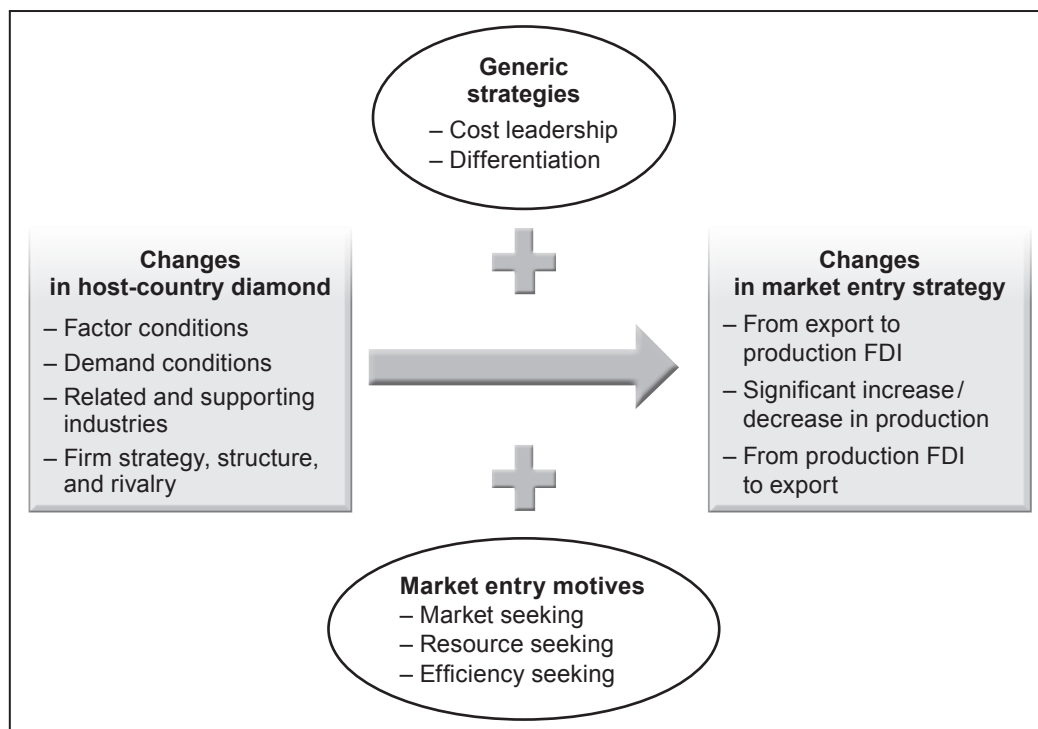
Changes in CSAs of the host country are assessed through changes in the diamond of the host country reflected by factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. As market entry strategy we focus on exporting and production FDI. Changes in this strategy could occur in three ways. First of all, the firm could change its strategy from exporting to starting production in the host country. Secondly, given that the firm already has a production facility in the host country, it could decide to increase or decrease production volume significantly. Thirdly, the firm could decide to divest its production FDI in the host country and change to exporting. Based on these descriptions our first proposition is the following:

Proposition 1: Changes in the diamond of the host country will lead to changes in market entry strategies of MNEs.

MNEs will have different generic strategies and different market entry motives. We differentiate here between cost leadership and differentiation generic strategies, and between market seeking,

resource seeking, and efficiency seeking market entry motives. The reasons for introducing these variables are reflected in our second and third propositions.

Proposition 2: Changes in market entry strategies of MNEs will differ based on MNEs' differing generic strategies.

Proposition 3: Changes in market entry strategies of MNEs will differ based on MNEs' differing market entry motives.

In the empirical study we would like to unveil what kind of change in market entry strategy (if any) should be expected in the cases of different generic strategies and different market entry motives. Before getting into that we next describe the methodology applied.

3. Methodology

This research applies longitudinal methodology. This choice is based on two underlying reasons. First, we adopt a dynamic view on strategy by studying changes in strategy in response to changes in the environment (Porter 1991). Secondly, we assume strategy-making to be a contextual process in time whereby contexts and history are relevant (Pettigrew 1990). Contexts are important as they shape actors and also get shaped by actors in a cumulative process over time, and understanding the past is crucial since it plays a determining role in shaping the emerging future (Pettigrew 1997).

In studying changes in time one must first define the variables to be studied and then set appropriate measures to detect changes in those variables (Van de Ven 1992). In this study we first assess the changes in the diamond of Turkey from 2000 to 2010. In doing that, the variables used are factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry. After this analysis, we look at the responses of MNEs to these changes in the light of their generic strategies and market entry motives. The variables in this study and the measures used to detect changes in these variables are presented in Table 1.

Table 1: Variables and their measures.

Names of variables	Measures	Types of measures
Factor conditions	Assessment of factor conditions	Categorical: basic, advanced
Demand conditions	Market size	Numerical
Related and supporting industries	Sizes of related and supporting industries	Numerical
Firm strategy, structure, and rivalry	Number of competitors and distribution of market shares	Numerical
Market entry strategy	Type of market entry strategy	Categorical: export, production FDI
Market entry strategy	Amount of production units	Numerical
Generic strategies	Type of generic strategy	Categorical: cost leadership, differentiation
Market entry motives	Type of market entry motive	Categorical: market seeking, resource seeking, efficiency seeking

Factor conditions, generic strategy, and market entry motives are assessed using categorical variables. Factor conditions can be basic or advanced. Types of generic strategies can be cost leadership or differentiation. Types of market entry motives can be market seeking, resource seeking, or efficiency seeking. We use simultaneously two types of variables to detect changes in market entry strategies. A categorical variable is used for modes of entry. The entry modes can be export or production FDI. A numerical variable is also used to detect significant changes in the production volumes. Demand conditions, related and supporting industries, and firm strategy, structure, and rivalry are assessed using numerical variables. In demand conditions we limit our assessment to market size for reasons of simplicity. Related and supporting industries are assessed by the sizes of these industries. In assessing firm strategy, structure, and rivalry again we limit our assessment to the degree of rivalry expressed by the number of competitors and the distribution of their market shares. The higher the number of competitors, and the closer the market shares, the higher the degree of rivalry.

Data for this research was collected from trustworthy secondary sources such as websites, reports and other publications of industry associations, MNEs, industry analysts and industry media. The use of a variety of trustworthy sources contributed to the objectivity and reliability of results.

The analysis started with the study of changes between 2000 and 2010 in Turkey's diamond and the market entry strategies of all automotive MNEs which entered the Turkish market. Then changes in the European location strategies of the MNEs which had production FDI in Turkey were studied. As a result, changes in behavior patterns were identified, and they were correlated against MNEs' generic strategies and market entry motives.

4. Results

This section starts with a brief history of developments in the Turkish automotive industry before 2000 and continues with the assessment of changes in the diamond of Turkey and the accompanying changes in MNE market entry strategies from 2000 to 2010.

Between 1960 and 1980 Turkey's automotive industry was characterized by an import-substitution strategy with substantially strong import barriers. In this period, Ford, Fiat, and Renault cars were domestically assembled by Otosan, Tofas, and Oyak, respectively through license agreements. Import-substitution was replaced by export-orientation following a more liberal industrial policy in the 1980s. In the 1990s the Turkish government offered incentives for FDI that met the criteria of having a capacity of more than 100.000 vehicles, sourcing at least 70% locally, and of having an export orientation (McKinsey Global Institute 2003). An important development to affect the industry was the entry into force of the customs union between Turkey and the EU as of January 1, 1996. As a consequence of these developments, Ford acquired 30% equity in Otosan, Fiat purchased 41.5% equity in Tofas, and Renault acquired 51% equity in Oyak which was renamed into Oyak Renault. In addition to these FDIs, despite the great macroeconomic crisis in the country in 1994, Toyota and Honda also made production investments in Turkey in the 1990s. With these investments, the total production capacity reached 700.000 vehicles as of 2000, and the exports grew rapidly reaching 96.489 units in 2000[1]. The breakdown of exports according to destination markets was as follows: Western Europe (71%), Africa (13%), Eastern Europe (6%), Americas (4%), and others (6%)[2]. Table 2 summarizes key statistics of theTurkish automotive industry in 2000.

Table 2: Key statistics of Turkish automotive industry in year 2000.

	Domestic sales (units)	Production (units)	Exports (units)	Imports (units)	Imports/ domestic sales (%)	Exports/ production (%)
Passenger cars	466.700	297.476	90.026	258.987	55,5%	30,3%
Commercial vehicles	192.195	133.237	6.463	80.895	42,1%	4,9%
Total	658.895	430.713	96.489	339.882	51,6%	22,4%

Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm

By the turn of the century Turkish industries were hit by two crises: the Marmara earthquake in 1999 and the financial crisis in 2001. Marmara region, where the major part of the Turkish automotive industry is located, is the main industrial and trading region in Turkey accounting nearly for 39% of Turkey's gross domestic product[3] (GDP). The earthquake in 1999 had terrifying impacts

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1 Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm

2 Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm

3 Istanbul only generates ca. 25% of Turkey's GDP.

on the industries of the cities of Kocaeli and Adapazari where a number of automotive MNEs and a large number of automotive suppliers are located. While the region was just recovering from the severe impacts of the earthquake, a financial crisis hit the country in February 2001. This crisis resulted from the unsustainability of growing structural issues in the Turkish banking system and ended with the bankruptcies of about 20 banks in Turkey together with a very high level of devaluation of the Turkish currency[4].

According to interviews with automotive MNE managers made by McKinsey consultants, the main automotive industry CSAs in Turkey as of 2000 were cheap labor costs, highly skilled labor, cheap raw material costs, a developing automotive parts supplier market, and the proximity to European markets (McKinsey Global Institute 2003, 400).

4.1 Assessment of Changes in the Diamond of Turkey from 2000 to 2010

There were three major developments in the first decade of the century to affect Turkey's diamond. The first one was the enlargement of the EU to include Eastern European countries in 2004 and 2007. Major automotive manufacturing Eastern European countries such as the Czech Republic, Poland, the Slovak Republic, and Hungary joined the EU in 2004, and Romania joined in 2007. These are competitor locations to Turkey for supplying Western European markets. A second development was the start of EU accession negotiations with Turkey in 2005, and the third development was the achievement of economic and political stability in Turkey during the decade. Following the 2001 crisis, major structural reforms were undertaken in the banking industry, and the single ruling Justice and Development party pursued consistent economic and budgetary policies which helped to achieve single-digit levels of inflation. Next we evaluate changes in the four elements of the diamond.

Factor Conditions: With a 50-year-history in 2000, the automotive industry in Turkey already possessed basic factor conditions including infrastructure, skilled labor at low cost, and knowledge on assembly processes. A major limitation in factor conditions at this time was the lack of economic and political stability. During the 1990s Turkey was a hyperinflationary economy with major economic crises, and the ruling political coalitions having failed to achieve political stability. As a result, access to capital in the country was limited and high-cost, posing a major drawback in the development of local industries. Despite the existence of high quality universities, there were no industry-specific research institutes with university level programs in the field of automotive engineering only just emerging. Moreover there were only few R&D projects in the automotive industry supported by the Scientific and Technological Research Council of Turkey[5].

Turkey progressed in the creation of advanced factor conditions during the decade. The cumulative number of automotive R&D projects supported by the Scientific and Technological

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4 114% increase in the value of US Dollar from Jan 1, 2001 to Dec. 31, 2001. Source: Central Bank of the Republic of Turkey, http://evds.tcmb.gov.tr/yeni/cbt-uk.html

5 Source: Scientific and Technological Research Council of Turkey, http://www.tubitak.gov.tr/en

Research Council of Turkey had reached 592 by 2010[6]. Many universities have established bachelor and master level programs in automotive engineering, and the Automotive Technologies Research & Development Company (OTAM)[7], was established in 2003 by a consortium including Istanbul Technical University, Automotive Manufacturers Association, and the Scientific and Technological Research Council of Turkey. This was followed by the establishment of the Automotive Technology Platform (OTEP)[8], in 2008. This platform brings together innovative R&D efforts by universities, firms in the automotive and automotive supply industries, and industry associations.

It is evident that Turkey cannot remain competitive in terms of basic factor conditions like cheap labor costs and cheap material costs in the long-run. Automotive manufacturing countries in Eastern Europe offer similar advantages with closer proximity to Western European markets. Advanced factors need to be created in terms of advanced engineering skills and innovative capabilities. We can conclude that the Turkish automotive industry has taken steps in this direction, progressing from basic factors towards advanced ones.

Demand Conditions: Turkey has a population of ca. 74 million with a low but growing and unequally distributed disposable household income[9]. Total automotive sales in Turkey have been increasing from 658.895 units in 2000 (see Table 2) to 793.172 units in 2010 (see Table 3), an average growth of 2,0% per annum[10].

Table 3: Key statistics of Turkish automotive industry in year 2000.

	Domestic sales (units)	Production (units)	Exports (units)	Imports (units)	Imports/ domestic sales (%)	Exports/ production (%)
Passenger cars	466.700	297.476	90.026	258.987	55,5%	30,3%
Commercial vehicles	192.195	133.237	6.463	80.895	42,1%	4,9%
Total	658.895	430.713	96.489	339.882	51,6%	22,4%

Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm

The demand composition in the country is mostly in lower and medium areas of the spectrum as it can be expected from the low level of disposable household income. Interestingly, however, there is increasing demand towards import vehicles. The percentage of import vehicles has increased from 51.6% in 2000 to 58.7% in 2010. Such increase is more evident in the case of passenger cars from 55.5% to 69.5%. Indeed, percentage of imports in commercial vehicles has

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6 Source: Scientific and Technological Research Council of Turkey, http://www.tubitak.gov.tr/en

7 See http://www.otam.com.tr/

8 See http://www.otep.org.tr/

9 Average annual disposable household income was 22.063 Turkish Lira (ca. 10.000 Euro) in 2010. Source: Turkish Statistics Institute, http://www.turkstat.gov.tr/Start.do

10 ca. 4.5% per annum for commercial vehicles and ca. 0.9% per annum for passenger cars.

decreased thanks to Turkey's becoming Europe's number one location in the production of light commercial vehicles as of 2010.

When we consider the conditions of demand in Turkey, we should also think about demand conditions in the EU as a result of the customs union. During the decade Turkey has grown to become a production location for the EU. This fact is evident from the export figures which increased from 96.489 units in 2000 to 754.469 units in 2010. Key destination export markets in 2010 were Western Europe (69%), Eastern Europe (9%), Africa (8%), Middle East (4%), Americas (4%), and others (6%)[11]. The distribution of export shares by destination markets in 2010 are similar to those in 2000 where the EU (including Western Europe and Eastern Europe) accounts for nearly 78% of Turkey's total automotive exports.

Demand conditions for Turkey are relatively good given its large and growing home market and growing markets in neighboring Eastern Europe. We could also argue that the current economic crisis in the saturated markets in Western Europe may be an advantage for Turkey if European consumers shift their preferences towards less expensive vehicles.

Related and Supporting Industries: Due to its more than 10.000 parts, the automotive industry has connections to a variety of industries including automotive supply industry, automotive retail industry, electronics industry, chemical industry, metal industry, glass industry, and plastic industry. Among these the most important one is the automotive supply industry. The automotive supply industry in 2000 accounted for 47% of total generated revenues, 83% of total employment, and 56% of total exports in the Turkish automotive industry (McKinsey Global Institute 2003). Almost 85% of the Turkish automotive supply industry was made up of Turkish family businesses, and there were also about 150 foreign suppliers which set up facilities in joint venture agreements with Turkish suppliers[12]. This industry has significantly grown in Turkey during the decade as the total automotive capacity has increased from 700.000 vehicles in 2000 to 1.555.615 vehicles in 2010[13]. Under the motto of "strong industry, strong brands" cooperation between automotive MNEs and their suppliers has changed from a transactional approach to partnership approach, motivating suppliers to take more important roles in joint design and R&D projects[14]. According to reports of Turkish Association of Automotive Parts & Components Manufacturers, Turkish suppliers have entered global supply chains of automotive MNEs and exported ca. 6.7 billion USD of output in 2010.

Our evaluation is that the supply industry in Turkey has grown to become an internationally competitive industry with increasing R&D capabilities, and this provides strong support for the Turkish automotive industry.

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11 Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm
12 Source: Turkish Association of Automotive Parts & Components Manufacturers, http://www.taysad.org.tr/www/en/
13 Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm
14 Source: Turkish Association of Automotive Parts & Components Manufacturers, http://www.taysad.org.tr/www/en/

Firm Strategy, Structure, and Rivalry: In assessing this variable we focus on the degree of rivalry since automotive MNEs are of various origins and thus have different strategies and structures. Competition in the Turkish automotive industry has intensified as the production capacity in Turkey has increased from 700.000 units in 2000 to 1.555.615 units in 2010, and more competitors have taken bites in market shares from the Turkish market. As of 2000, the vehicle park of Turkey was dominated by the brands of three MNEs. Fiat, Renault, and Ford occupied 31%, 26%, and 11% of the market respectively[15]. This dominance had eroded by 2010 (see Table 4).

Table 4: Automotive sales and market shares in Turkey in year 2010.

Brands	Sales in year 2010 (units)	Market Share in year 2010 (%)
Ford	119 133	15,0%
Fiat	109 938	13,9%
Renault	94 943	12,0%
VW	63 840	8,0%
Hyundai	49 888	6,3%
Peugeot	43 395	5,5%
Opel	41 572	5,2%
Toyota	40 058	5,1%
Citroen	28 862	3,6%
Dacia	19 168	2,4%
Chevrolet	18 061	2,3%
Mercedes Benz	17 562	2,2%
Honda	16 259	2,0%
Nissan	13 264	1,7%
BMW	12 034	1,5%
Audi	9 656	1,2%
Kia	9 652	1,2%
Mitsubishi	6 499	0,8%
Skoda	6 332	0,8%
Seat	5 113	0,6%
Others	67 943	8,6%
TOTAL	**793 172**	**100,0%**

Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm.

In summary the diamond of the Turkish automotive industry improved during the ten years thanks to the creation of innovative R&D capabilities, evolution of a more investment friendly, economically and politically stable business environment in Turkey, growing national demand together with ease of access to the EU market, development of highly capable partners in the automotive supply industry, and intensifying levels of competition. Next, we would like to see how automotive MNEs responded to these changes.

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15 Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm

4.2 Assessment of Changes in MNEs' Market Entry Strategies from 2000 to 2010

Table 5 presents the strategies of the MNEs which make up the manufacturing capacity in Turkey in 2010. To understand changes in their strategies we compare their production figures in 2000 and 2010 and also analyze their sales and exports figures in 2010 in the light of their generic strategies and market entry motives.

Table 5: MNE strategies and figures.

MNE	Generic Strategy	Market Entry Motive	Production Capacity in Year 2010 (units)	Production in Turkey in Year 2000 (units)	Production in Turkey in Year 2010 (units)	Exports from Turkey in Year 2010 (units)	Sales in Turkey in Year 2010 (units)
Fiat	Cost leadership	Efficiency seeking	400 000	124 150	312 245	193 737	109 938
Renault	Cost leadership	Efficiency seeking	360 000	138 478	307 083	233 057	94 943
Ford	Cost leadership	Efficiency seeking	330 000	41 065	242 070	175 749	119 133
Toyota	Cost leadership	Efficiency seeking, market seeking	150 000	14 715	83 286	73 163	40 058
Hyundai	Cost leadership	Efficiency seeking, market seeking	125 000	0	77 000	42 396	49 888
Honda	Cost leadership	Efficiency seeking, market seeking	50 000	9 821	20 305	10 632	16 259
Others			100 655	102 484	52 568	25 735	362 953
TOTAL			**1 515 655**	**430 713**	**1 094 557**	**754 469**	**793 172**

Source: Turkish Automotive Manufacturers Association, http://www.osd.org.tr/index-english.htm.

The first thing that attracts our attention is that all MNEs manufacturing in Turkey pursue cost leadership strategy. This is understandable given Turkey's CSAs in cheap labor and raw material costs. However, this may be an alarming signal for Turkey since lower costs as sources of competitive advantages may not be sustainable in the long-run in the face of competition from other emerging countries in Eastern Europe.

A second observation is that the increase in Turkey's automotive production is coming mainly from capacity increases of MNEs which already had manufacturing facilities in Turkey in 2000. There are only two new entrants. One is Hyundai, the Korean manufacturer which is targeting the lower end of the market in passenger cars. The other one is Ford which decided to terminate its production of passenger cars in Istanbul in the early 2000s and made a large investment in Golcuk, a municipality of the city of Kocaeli, for the manufacturing of light commercial vehicles. With this investment Ford made Turkey its European hub for light commercial vehicles. As Fiat also followed Ford in this trend, Turkey became Europe's largest manufacturer of light commercial

vehicles as of 2010. The observation that there were not many new entrants during the decade may be due to two reasons. First, it indicates the importance of earlier-made market entry decisions and the accompanying role of path dependency. Secondly, most of the automotive MNEs had made their entries in the 1990s around the time of the establishment of the customs union with the EU.

A third observation is that the majority of the MNEs manufacturing in Turkey are non-Europeans. Main motives for entering Turkey have been a mixture of efficiency seeking and market seeking. Thanks to the customs union, Turkey was a point of entry choice for Asian MNEs like Toyota, Honda, and Hyundai into the EU. The two Europeans, Renault and Fiat had both entered the Turkish market way back in 1971. Choosing Turkey was a natural decision in their market entry strategies of investing in growing emerging markets which suited their efficiency seeking and market seeking motives simultaneously. The reason why we do not see any production FDI in Turkey from European manufacturers that employ a differentiation strategy (e.g., BMW, Daimler) may be attributed to the customs union. We conclude that a purely market seeking motive inside a customs union would not necessitate production FDI in an industry where economies of scale are important, and the need for adaptation is minimum.

A fourth observation is that during the period, not only production FDI in Turkey but also imports of vehicles into Turkey and exports of vehicles from Turkey have increased. Increase in exports is understandable as Turkey has become a production location not only to serve the domestic market but also the EU. To explain the increase in imports we need to understand that automotive MNEs do not make production FDI in a country to manufacture their whole product range. Instead, they manufacture certain types of products in certain countries. This fact makes it evident why FDI and exporting are not rival strategies but complementary ones in the automotive industry. This fact also suggests that to understand location strategies of MNEs we should look at their strategies at regional level rather than country level. Therefore, we will next analyze changes from 2000 to 2010 in European production location strategies of Fiat, Renault, Ford, Toyota, Hyundai and Honda - the automotive MNEs that also manufacture in Turkey.

Fiat's European production is down by 25% during the decade (see Table 6). This is no wonder as Fiat has been a troubled MNE losing market shares. With the intentions to lower its cost structure, Fiat has also moved its production from high labor-cost Italy to Poland and Turkey. Italy, Poland and Turkey are Fiat's three main production locations in 2010 accounting for 47%, 28%, and 20% of total European production.

Table 6: Fiat's location strategies in Europe from year 2000 to year 2010

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
Germany	Fire fighting vehicles, heavy trucks	13 495	7 762	-42%	0%
France	Buses, fire fighting vehicles, engines, passenger cars, light commercial vehicles	52 070	24 322	-53%	2%
Hungary	Passenger cars	0	16 851		1%
Italy	Passenger cars, heavy trucks, fire fighting vehicles, light commercial vehicles, special vehicles	1 583 004	740 133	-53%	47%
Poland	Passenger cars, engines	281 475	440 324	56%	28%
Serbia	Passenger cars, buses	0	17 663		1%
Spain	Fire fighting vehicles	47 240	24 932	-47%	2%
Turkey	Passenger cars, light commercial vehicles	124 150	312 245	152%	20%
Europe Total		**2 101 434**	**1 584 232**	**-25%**	**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/.

Similar changes are observed for Renault (see Table 7). The French MNE's total European production is down by 11%, and production has shifted significantly from high labor-cost countries such as France and Spain to Romania, Turkey, Slovenia and Russia. Different from Fiat, Renault's share of production in the home country is lower (32% of total European production), and the rest is shared evenly among four countries, namely Spain (20%), Romania (17%), Turkey (15%), and Slovenia (10%).

Table 7: Renault's location strategies in Europe from year 2000 to year 2010.

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
France	Passenger cars, light commercial vehicles, engines	1 452 117	636 818	-56%	32%
Romania	Passenger cars, light commercial vehicles, engines	0	341 090		17%
Russia	Passenger cars	0	87 228		4%
Slovenia	Passenger cars	122 949	211 340	72%	10%
Spain	Passenger cars, light commercial vehicles	545 019	398 524	-27%	20%
Turkey	Passenger cars, engines	138 478	307 083	122%	15%
United Kingdom	Passenger cars, light commercial vehicles	0	34 428		2%
Europe Total		**2 258 563**	**2 016 511**	**-11%**	**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/.

Ford has also lost 32% of its European production from 2000 to 2010 mainly due to the termination of United Kingdom, Sweden and Holland as manufacturing locations following the sales of Jaguar, Land Rover, and Volvo during the decade (see Table 8). Ford's main production base in Europe is Germany (47% of total European production) followed by Spain (17%), Turkey (16%), and Belgium (12%). Turkey emerged as Ford's European base for light commercial vehicles in this decade.

Table 8: Ford's location strategies in Europe from year 2000 to year 2010.

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
Belgium	Passenger cars	417 738	185 692	-56%	12%
Germany	Passenger cars, engines	577 386	741 803	28%	48%
Holland	Passenger cars	158 218	0	-100%	0%
Poland	Passenger cars	20 000	82 323	312%	5%
Portugal	Passenger cars, light commercial vehicles	52 053	0	-100%	0%
Romania	Light commercial vehicles, engines	0	9 558		1%
Spain	Passenger cars, engines	343 794	256 650	-25%	17%
Sweden	Passenger cars	150 980	0	-100%	0%
Turkey	Light commercial vehicles, midibuses, engines	41 065	242 070	489%	16%
United Kingdom	Passenger cars, light commercial vehicles, engines	528 871	28 270	-95%	2%
Europe Total		**2 290 105**	**1 546 366**	**-32%**	**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/.

Toyota's production in Europe increased in the 2000s by 140% to 461.647 units (see Table 9). Turkey is one of Toyota's four major production locations in Europe accounting for 18% of its European production. Other major locations are France (34%), the United Kingdom (30%), and the Czech Republic (18%).

Table 9: Toyota's location strategies in Europe from year 2000 to year 2010.

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
Czech Republic	Passenger cars	0	82 920		18%
France	Passenger cars, engines	0	158 504		34%
Italy	Passenger cars	2 000	0	-100%	0%
Portugal	Light commercial vehicles	4 519	0	-100%	0%
Turkey	Passenger cars	14 715	83 286	466%	18%
United Kingdom	Passenger cars, engines	171 339	136 937	-20%	30%
Europe Total		**192 573**	**461 647**	**140%**	**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/.

Hyundai did not have any production FDI in Europe by 2000 (see Table 10). During the following decade the Korean MNE changed its market entry strategy in Europe from pure exporting to a combination of export and production FDI. Its main choices of location are Slovakia (45% of total European production), the Czech Republic (39%), and Turkey (15%).

Table 10: Hyundai's location strategies in Europe from year 2000 to year 2010.

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
Czech Republic	Passenger cars	0	200 088		39%
Russia	Passenger cars	0	217		0%
Slovakia	Passenger cars, engines	0	229 505		45%
Turkey	Passenger cars	0	77 000		15%
Europe Total		**0**	**506 810**		**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/.

Despite the increase by 89% from 2000, Honda's production level in Europe in 2010 is significantly lower at 159.569 units (see Table 11). The United Kingdom is the Japanese MNE's main production base in Europe accounting for 87% of total European production. Turkey is the other location with a 13% share.

Table 11: Honda's location strategies in Europe from year 2000 to year 2010.

Production Location	Types of Products	Production in Year 2000 (units)	Production in Year 2010 (units)	Change in Production from Year 2000 to Year 2010 in the Location (%)	Share in Total European Production in Year 2010 (%)
Turkey	Passenger cars	9 821	20 305	107%	13%
United Kingdom	Passenger cars	74 751	139 264	86%	87%
Europe Total		**84 572**	**159 569**	**89%**	**100%**

Source: International Organization of Motor Vehicle Manufacturers, http://www.oica.net/

One can wonder why Toyota and Honda have high proportions of their European production in high labor-cost countries like the United Kingdom and France. The Japanese MNEs entered the UK in the 1980s when the shattered British automotive industry, once the second largest in the world after the US in the 1950s, was desperate for foreign investors for survival, and the British government offered good incentives to the Japanese. In the case of France, Toyota chose deliberately a location where level of unemployment was highest, thus avoiding high labor costs. In the light of these observations about MNEs we will assess our three propositions next.

We *accept proposition 1* in that changes in Turkey's diamond have attracted more production in the country, and Turkey has developed to become an automotive base for supplying major EU markets in Western Europe.

We also *accept proposition 2* because MNEs that have made production FDI in Turkey all share the generic strategy of cost leadership. MNEs pursuing a differentiation strategy, such as BMW, Daimler, and Porsche have not invested in Turkey. This is understandable as Turkey lags behind Western European locations in innovative capabilities that MNEs which aim to differentiate themselves would be seeking, and a pure market seeking motive would not necessitate production FDI.

Finally, we also *accept Proposition 3.* The main motive to establish production FDI in Turkey for all six MNEs has been efficiency seeking. For Asian manufacturers market seeking has also been an influential motive to access the EU Single Market. All other MNEs which have targeted only the Turkish market have pursued an export market entry strategy. Based on these observations we propose the following correlations between generic strategies, market entry motives, and choices of market entry strategies:

Proposition 4a: MNEs which pursue cost leadership strategy would have an efficiency seeking motive, and that would lead to the decision to make production FDI in the host country.

Proposition 4a: MNEs which pursue a differentiation strategy would have a market seeking motive, and that would lead to the decision to export to the host country.

5. Discussion

This paper aimed to shed light on responses of MNEs to evolving CSAs offered by host countries in the context of changing market entry strategies in the Turkish automotive industry from 2000 to 2010. Turkey's national diamond in the automotive industry improved significantly during the decade. The customs union agreement with the EU in 1996, the launching of full membership negotiations in 2005, structural reforms in the banking system after the 2001 crisis, achievement of economic stability thanks to consistent monetary and budgetary policies, and political stability under the single party governance all contributed to this improvement. The Turkish automotive industry offers MNEs a highly skilled but relatively cheap labor force with improving innovative capabilities, access to a growing large domestic market and to the world's largest single market, namely the EU, and an increasingly more capable supply industry. These offerings have been exploited mainly by MNEs like Fiat, Renault, and Ford which are pursuing a cost leadership strategy and have an efficiency seeking motive. Turkey has also been one of the primary choices in Europe as production location for Asian MNEs like Toyota, Hyundai, and Honda in their strategies to enter European markets.

Our findings lead us to some suggestions for international research on foreign direct investments and the match between CSAs and FSAs. First of all, we argue that CSAs of a host country are not equally attractive for all potential foreign MNE entrants. The attractiveness may be linked to FSAs (see Rugman et al. 2012), but we suggest that the competitive strategy of the MNE is a more suitable variable to study rather than FSAs. The suitability lies in easier definition, identification, and operationalization of strategy compared to FSAs. This would not be a wrong choice since, by following RBV, we can indirectly assume that the competitive strategy of the firm reflects that FSAs are on opposite sides of the same coin (Wernerfelt 1984). In the light of this suggestion, our main contribution in this paper is that we were able to derive in propositions 4a and 4b clear relationships between MNE generic strategies, market entry motives, and choices of market entry strategy. Our second suggestion is that when studying market entry strategy or more specifically FDI, we should not purely look at the interplay between FSAs of the entrant and CSAs of the host country as it has been done by the transaction cost theory for instance (see Hennart 2009). Instead we should analyze MNE's regional location strategies, and only then we understand that export and FDI are indeed complementary strategies in the automotive industry. The MNEs which we studied had three to four major production locations in Europe where they manufactured different types of vehicles. Such a network type of configuration stimulates also trade across borders. In this paper we also make a contribution to the diamond model of Michael Porter (1990). This model was criticized heavily for being a static model which is difficult to operationalize and which explains competitive advantages of large industrialized countries (Rugman/D'Cruz 1993). We provide here an example of how this model can be operationalized and used in a dynamic perspective in the context of an emerging country. One criticism of the model could be that by considering government as a variable that may affect determinants of the diamond (similar to chance events), it takes for granted the importance of macroeconomic stability and political leadership in the country. These two factors can be highly influential in the case of emerging economies as we have seen in the case of Turkey. Finally, we review the

double diamond model of Rugman and D'Cruz (1993). This model suggests that determinants in the country's main trading partners or home region should be taken into account when assessing competitive advantages of especially small countries. This may work relatively easily in the case of Canada where there are only two countries to be considered in the North American Free Trade Agreement, namely the USA and Mexico. The model becomes difficult to operationalize when, like in the case of Turkey, we would be assessing the diamond of the EU with its 27 member countries.

Based on our findings we also make some suggestions for MNE managers. As exhibited in this paper, Michael Porter's diamond model is an operational tool to assess CSAs of a host country in a dynamic manner. MNE managers should evaluate host country CSAs and their match with their competitive strategies before making their market entry mode decisions. The current trend in the European automotive industry is to shift production from the West to the East. This trend was triggered by the global financial crisis of 2008 as it put more competitive pressure on MNEs to lower their costs. MNE managers should remember that this is not the cure for everything. MNEs that follow a differentiation strategy and rely on innovative capabilities to achieve such differentiation can charge premium prices from customers and thus compete profitably despite manufacturing in high labor-cost countries. One last suggestion for managers of automotive MNEs is that this is a regional industry. They should develop a regional strategy in configuring their value chains, and in doing that they should consider a portfolio of three or four countries in Europe for their production locations. Managers should also remember that location decisions can be path dependent. In other words, once a decision is made and implemented, it may not be easy to withdraw. Thus, a carefully designed, long-term oriented portfolio will ensure long-term competitiveness.

Last but not least we have suggestions for policy makers in host countries as well. Attracting inward FDI is important especially in emerging economies for creating jobs, and bringing to the country technology and capital. We sometimes see governments competing with each other in what we may call zero-sum competition by offering excessive investment incentives. Such was the case between the Czech Republic and Turkey when Hyundai was to decide for its production location in Europe. Instead of entering into such competition, policy makers of host countries should think strategically in selecting which MNEs to attract to the country. Turkey stands on vulnerable ground as all the MNEs have selected the country mainly for efficiency seeking motives aiming to exploit the country's low-cost factor conditions. As low cost is not a source of sustainable competitive advantage in the long run, policy makers should target creation of advanced factor conditions that will also attract MNEs which pursue differentiation strategy. Policies to foster investments in industry specific training and R&D would be strategically correct. A second vulnerability of Turkey lies in the fact that two of the three main manufacturers in the country, namely Fiat and Ford, have been in significant financial trouble recently. Based on past examples one may argue that brands in this industry continue to live in the hands of other manufacturers even though MNEs fail to survive. However, a possible bankruptcy of these MNEs would naturally have significantly negative consequences. Turkish policy makers could consider having in their investor portfolio also successful MNEs, such as German MNEs. During a recent visit of Angela

Merkel in Turkey, the Turkish minister of industry considered it a big loss that the Volkswagen Group, the market leader in Europe, is still not present in Turkey as a manufacturer. Attracting successful MNEs like the Volkswagen Group would add to the healthy long-term success of the Turkish automotive industry.

This research was not without its limitations. First of all, it could be of further value to conduct interviews with industry experts as well as managers of automotive MNEs to gain richer insights. Due to resource limitations, lack of primary data collection was partly compensated by the industry and country knowledge of the author who had working knowledge of the Turkish auto- motive industry and wrote his doctoral thesis about the European automotive industry. Secondly, we focused on market entry modes of exporting and production FDI. This deliberate limitation was reasonable since production FDI resembles the choice to exploit host-country CSAs, and exporting resembles the choice not to do so. In future research differences in other types of market entry choices (e.g., greenfield vs. acquisition) could also be analyzed. Thirdly, we limited our research to those MNEs that had invested in Turkey. In order to gain a full picture of the industry, production location strategies of all other automotive MNEs in Europe could be scrutinized. As that, however, would change the nature of the paper we will leave it to future research. We also recommend carrying out further studies on other industries, countries and regions using a similar theoretical approach for future research. Such an endeavor would enable testing of our induced propositions.

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