Experience or Native Managers?

Acquisition of institutional knowledge: a study of high performing multinational manufacturing firms in Turkey

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Master of Science in Business Administration
Strategy and Management in International Organizations
Spring 2011
Abstract

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Abstract: Foreign direct investments that come with globalization bring benefits with them if opportunities are handled in the best manner. One opportunity rises with the institutional difference issue. Different countries have different institutional profiles. Institutional profiles briefly include culture, social norms or governmental regulations. When investing abroad, the bigger the institutional difference gets between the home country and the host country, the harder it gets to acquire the local institutional knowledge. This may result in a negative effect in the firm performance. To make the right decisions managers, being an important part of the decision making process, are required to have a profound understanding and knowledge of the local institutional environment. In here the investing companies have two options; either to use local managers or to acquire knowledge through the accumulation of experience. Building on the institutional theory, sixteen multinational companies operating in the manufacturing industry in Turkey are analyzed with the aim to contribute to the understanding of whether native managers or company experience is creating a better firm performance in consideration with handling the institutional differences. The results of this study point out that, the manager origin indeed influence the firm performance and native managers have a positive effect on the firm performance.

Key words: Institutional knowledge, Institutional distance, Organizational learning and knowledge acquisition, Firm experience, Native managers, Multinational firms.
Acknowledgements

This paper, although a product of ours, would have hardly come to the stage that it is now without the valuable inputs of many others. We are thankful; to our families to begin with, for encouraging and supporting us for our studies in Sweden; to all the teachers and staff of the SMIO program for providing us with the necessary knowledge base to start the thesis; and to all our colleagues in the SMIO program for providing us the fun we needed to survive the dark winters of Sweden.

There are some among the others who we are more grateful of course. Marie Bengtsson, our first and the last teacher in the SMIO program, we are thankful to her almost unlimited patience and continuous suggestions to improve the paper. We are also thankful to our colleagues in the thesis group for their valuable suggestions. Last but not least we should also thank to Verena Dischler and Oleksandra Volianska, for their continuous supports throughout the whole process.

Linköping,

May 30, 2011

Emre Uzer and Sinan Zeki Tüzün
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1. Introduction

Globalization with its growing popularity brings rising numbers of foreign direct investment (FDI) flows with it. Many firms and countries benefit from the competitive advantage gained by outsourcing or from the investment received. According to the United Nations Conference on trade and development, the FDI flows in 2012 are predicted to be between $1.6 and 2 trillion (UNCTAD, 2010). During the research we have found out that FDI can be beneficial for firms in many ways but for this to happen, one of the things firms need to do is to acquire the host countries’ institutional knowledge.

This paper is built on one main conflict that can be formulated in the following way. Countries, and even different regions in a single country, differ from each other on several grounds such as governance and regulative structures, infrastructure, economic activity, and religious and cultural aspects. These differences may pose extra costs on firms investing and operating in different environments. One of the approaches that touch upon these country specific differences and their effects on multinational firms is institutional theory. According to the institutional theory, different countries have different institutional profiles such as culture, social norms or governmental regulations, and these differences in the institutional profiles are expressed as institutional distance (Kostova and Zaheer, 1999). When investing abroad, it has to be taken into consideration that the investment will lead to a requirement for local knowledge (Tacheva, 2007). For the firms that invest abroad, as the difference of these institutional profiles between the home country and host country grow, the institutional distance gets bigger, and as the institutional distance gets bigger it gets harder to acquire the institutional knowledge and learning about the institutions. This has a negative effect on the firm performance (Javernick-Will, 2009; Eden and Miller, 2004; Scott, 1995; Kostova, 1997). The decision making mechanisms of firms are formed by individual managers and each of them have a direct effect on strategic decisions of firms. To be able to make the right decisions, managers are required to have profound knowledge
about the institutional environment that the firms are operating in (Athanassiou and Nigh, 2000; Tacheva, 2007). In order to overcome the additional costs that might posed by the institutional distance, multinational firms can employ native managers, who already posses the institutional knowledge, or can learn about the host country institutional environment through the accumulation of experience. Here, local managers have the advantage of having better understanding of the local institutions, compared to foreign managers (Tacheva, 2007). In this broad field, this paper intends to contribute by trying to answer the question of which is more advantageous when investing abroad, to acquire the institutional knowledge through the accumulation of experience or through employing native managers.

*Figure 1 - Conceptual framework of this paper*

In this quest we take Turkey as the host country to be the context because, Turkey as a developing country changed a lot economically in the last ten years. The rising rankings of the country’s economy, the membership of G20, the geographical location and some other similar factors caused Turkey to be a popular candidate for FDIs (Anadolu Ajansi, 2008; YASED, 2011). Manufacturing industry in the chosen context, Turkey, has been selected to
be the subject of this paper. The reason why we focused on the manufacturing industry is that it is the economical driving force of the Turkish industry. According to Republic of Turkey Prime Ministry Undersecretariat of Treasury (Foreign Investment, 2011), 24% of the foreign direct investment inflow to Turkey, between the years 2002 and 2009, have been received by the manufacturing industry. This makes the manufacturing industry the second biggest FDI receiving industry in Turkey, just following the financial intermediation industry (Foreign Investment, 2011). Moreover the manufacturing industry in Turkey is the main indicator of the country’s development (Şişman, et al., 2004). In the year 2009, 35% of added value was created by the manufacturing industry and the percentage has been increasing since 2004 (MPM, 2011).
2. Background information

Before getting deeper into the thesis, to make it easier to understand, we found it necessary to touch some points about globalization. Globalization has a set of definitions with different approaches. The economical approach of globalization is the most relevant as we research over multinational firms which aim to profit in an economical scale. Globalization is the process in which the world’s economy is transformed from a set of national and regional markets into a set of markets that operate beyond the national boundaries (Fraser and Oppenheim, 1997). Globalization is a rising trend and there are three main reasons for it (Fraser and Oppenheim, 1997). The first reason is the growing scale, mobility and integration of the world’s capital market. Second one is the increasing irrelevance of national borders as regulations are liberalized and other economic barriers fall. The final reason is the expanding ability to leverage knowledge and talent worldwide through technology. These reasons trigger FDI and therefore internalization in an economical perspective (Böckhem and Tuschke, 2010).

One of the main indicators of globalization is Foreign Direct Investment. FDI leads to global industrial value chains, linking the entire sequence of activities from raw materials extraction to production, design, research and development, marketing and delivery (Zhang, 2010). FDI creates many advantages for the firms and its role is growing in the global business world. FDI not only provides the firms with new markets and marketing channels, but also with cheaper production facilities, access to new technology, products, skills and financing (Graham and Spaulding, 2004). These advantages create opportunities for multinational enterprises (MNEs) by helping them to grow strong towards the global competition. With FDI, those firms are able to grow globally by creating a strong competitive advantage (Karabulut, 2005).

Traditional FDI theory (Böckhem and Tuschke, 2010) predicts that foreign investment is a must in order to generate rents by exploiting the firm specific capabilities such as products
or knowledge. FDI also enables firms to strengthen their strategic position by gaining more favorable access to scarce resources like labor, knowledge etc. While manufacturing firms are generally seeking to exploit advantages in production costs and access to scarce resources, firms in other industries may be attracted by high rates of as yet unsaturated demand (Gripsrud and Benito, 2005).

According to Borkowski (1999) multinational enterprises, have a long term plan of operations while searching for a suitable place to invest. While doing so, their main aims are to create economies of scale and to reduce cost, to use local intelligence for research and development facilities and for reaching the target market more efficiently, to create the most advantageous supply chain, to use local managerial knowledge, and to create a web among the world wide FDIs with the purpose to establish an advanced coordination and communication structure. Today’s highly globalized world provides the firms a worldwide dimension of competitive advantages. Noting that it is not always necessary to move overseas, the right location decision makes the difference for many firms. When considering FDI, first the decision making mechanisms of the firms have to understand whether their firm possesses any international advantage or not (Bower, 1992). Firms have four basic options to consider; operate just in the local market, export to foreign market, foreign direct investment, and license or sell the right to use its product overseas (Bower, 1992). If the firms do not have any international competitive advantage, than their only option is to keep on operating in the local arena. On the other hand, if the firms do posses assets that make them internationally competitive than they should choose among the three strategic options of investing abroad which are given bellow. Following, we will explain the four theories that indicate the location decision of multinational enterprises.

The comparative advantage theory being the foundation of international trade is basically about the view that countries trade to take advantage of their differences (Krugman, 1987). In here countries should not move out any units but can create local headquarters. Transaction Cost Theory has been developed to assist an analysis of the “comparative costs
of planning, adapting, and monitoring task completion under alternative governance structures” (Williamson, 1975). The main competitive advantage according to this theory is built through the value chain spread around the world, lowering the transaction costs (Sarah and Newhouse, 1995). Another theory is the imperfect capital market theory. According to Bower (1992) the idea here is that the capital market in which the firm is present is not always perfect in consideration of maximizing the net present value. Firms should relocate units to the regions in way to create a good capital market (Bower, 1992). The above described three theories are all static in their nature. That means the environments in which the firms form themselves are static. The final theory is Porter’s diamond, which considers the environment to be dynamic (Bower, 1992). According to Porter’s studies (Bower, 1992) dynamic considerations outweigh static advantages in long term. In his theory, the driver of long term success is continuous innovation and the implementation of it (Bower, 1992). As explained by Bower (1992), any static cost advantage can be overtaken, but a competitor who is more successful in innovation and improvement will take over the flag. The dimensions of his theory are the factor conditions, demand conditions, related and supporting industries and the plan and strategy of the firm (Jin and Moon, 2006). The firm has to locate its units considering these four dimensions (Bower, 1992). Above the necessary background information that is connected with this thesis is discussed. Following the theories this papers is build on will be introduced.
3. Theoretical background

The theory section is aimed at establishing the theoretical foundations for hypotheses development. Here we adopted an integrative approach where knowledge and organizational learning theories are combined with institutional theory. This paper is constructed on the basis of and limited with the frames of institutional theory. The reason for this is the institutional theory is widely used by international management scholars in the study of multinational firms, because it provides a broad scope of theoretical foundation and allows multiple level of analysis (Kostova, et al., 2008).

3.1. A brief introduction to institutional theory

In his deductive study ‘Institutions and Organizations’, Scott (1995), explained the historical and theoretical background of institutional theory, and the relationships between institutions, societies and organizations, and the affects of these on each other. Scott’s (1995, p. 33) study is based on the definition of institutions as, ‘institutions consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers – cultures, structures, and routines – and they operate at multiple levels of jurisdiction’. This means, institutions regulate the social environment in which all the entities, both people and organizations, are embedded in. From this approach, institutions can be seen as multifaceted systems that involve mental constructions, normative rules and regulative processes shaped by and shaping social behaviors (Scott, 1995). The basic assumption of Adam Smith (1776) on human nature also applies for organizations, that they are interest driven (Oliver, 1991). However these multifaceted institutional systems, that organizations are embedded in, constraint the strategic choices of organizations, because survival depends on responsiveness to external demands and expectations, and due to this organizations seek legitimacy from the environment, while pursuing their own interests (Oliver, 1991). Based
on these assumptions Oliver (1991) identified the general strategic responses that organizations may pursue in the face of institutional pressures. These strategic responses are shaped by and chosen based on several factors; the cause of the pressure, the source of the pressure, the content of the pressure, execution of the pressure, and the context (Oliver, 1991), which in this paper is Turkey. In order to form and choose a proper strategic response to an institutional pressure, organizations need to understand the antecedents of the institutional environment, which means learning about the institutional environment. As mentioned in the literature (see for example Shrivastava, 1983; Grant, 1996) organizational learning starts with acquiring the knowledge. Therefore in the following sections the aim is to highlight the importance of institutional knowledge and the processes to acquire institutional knowledge, by combining the knowledge and organizational learning, and institutional theory literatures with a focus on knowledge acquisition. Here by knowledge and learning are seen as fundamentals of strategic response and a necessity for firm survival and development, therefore high performance.

3.2. Theoretical framework

Theories of knowledge as a strategic asset and institutional knowledge build up the foundation of the paper. According to the knowledge based view, competitive advantage tends to rise from firm specific knowledge that enables to add value to the factors of production in a unique manner (Spender, 1996). Besides this, the capability of the utilization of knowledge is mentioned to be one of the most important sources of competitive advantage (Grant, 1996; Kogut and Zander, 1992; Nonaka and Krough, 2009; Zheng, et al., 2010). Based on this, it is likely to state that knowledge is a very strategic asset and for multinational firms that operate in the international arena, one of the important knowledge areas that provide competitive advantage is institutional knowledge (Javernick-Will, 2009). For the firms that operate in different environments, institutional knowledge is particularly important, because it is found to reduce the liability of foreignness (Javernick-Will, 2009). Liability of foreignness is the cost of doing business abroad such as challenges
to establish and sustain organizational legitimacy (Eden and Miller, 2004; Kostova and Zaheer, 1999). Organizational legitimacy is the acceptance of an organization in its environment (Kostova and Zaheer, 1999).

Figure 2 - Theoretical framework

Institutional knowledge is about gaining the knowledge about the regulatory, the cognitive and the normative elements of the institutional environment. The regulatory elements are about the rules and laws which promote or prohibit certain types of actions (Kostova, 1997). Cognitive pillars are basically about the information interpretation, action selection and decision making procedures of the people in the country (Kostova, 1997). The normative pillars clarify how things should be done and reflects the norms, beliefs and values of the society. For the multinational firms, the institutional characteristics of the environment create two complexities to overcome (Kostova and Zaheer, 1999). The first one is, these institutional environments are composed of three different domains (Scott,
which organizations need to understand and interpret separately, but give a meaning collectively. The second one is, because multinational firms conduct business in multiple countries they are affected by different institutional environments (Kostova and Zaheer, 1999). The institutional knowledge being an important strategic asset while investing abroad adds value to the activities of firms and therefore may have a positive effect on the performance. Next, organizational learning and institutional learning will be approached.

Organizational learning is the process of improving actions through better knowledge and understanding (Fiol and Lyles, 1985). This means that improvements happen as a result of learning, which causes better knowledge and understanding. For an organization, the reason to learn is the need of adaptation and improvement efficiency in a continuously changing environment (Dodgon, 1993; Shrivastava, 1983). The organizational learning is based on the individuals learning (Shrivastava, 1983), however it is not just the sum up of all the individuals’ knowledge (Fiol and Lyles, 1985). Organizational learning requires conversion of subjective individual knowledge to create a systematic organizational knowledge base. To do this is harder to accomplish as it sounds as it is influenced by a set of social, political and structural variables (Shrivastava, 1983). The trigger of learning process is knowledge acquisition (Shrivastava, 1983; Grant, 1996), and this paper focuses on acquisition of institutional knowledge from the perspective of multinational enterprises. Knowledge can be acquired in two ways; the first one is internal knowledge exploration and the second one is external knowledge acquisition, which requires less resource but has to be carefully adapted by the organizations (Lichtenthaler, 2009).

Institutional knowledge as an important asset in FDI, like knowledge in general, can be acquired both, internally and externally. In this paper the internally acquired knowledge is defined as knowledge generation and the knowledge acquired externally is called knowledge acquisition. The knowledge acquisition is a result communing from experience. (Fiol and Lyles, 1985) The more experience is gained the more knowledge is generated. Knowledge can be externally acquired both directly by acquiring individuals and other
organizations and indirectly from consultants or business partners (Javernick-Will, 2009; Huber, 1991). Based on what is discussed above it can be said that multinationals can obtain institutional knowledge of the host country by hiring local employees, merging with or acquiring a local firm, forming a joint venture with a local firm or working with consultants or other local firms that have the necessary institutional knowledge. As the institutional knowledge and institutional learning theories are defined we can move on to the theoretical approach of native managers as a source of institutional knowledge.

The institutional theory points out that, individual actors are important as they can make a difference in the flow of events. The decision making mechanisms of firms are formed by individual managers who have direct effects on strategic decisions that influence the performance of the firms directly (Tacheva, 2007). These decision making mechanisms face environmental constraints that are a range of institutions such as governmental agencies, social customs of the society, customers and competitors (Bass, 1983). That means when managers make decisions they have to take those constraints into consideration. The decision making mechanisms, which are composed of individual managers, have to have the ability to understand the environment in order to act and solve the problems in the most favorable manner (Bass, 1983). The background of managers influences their actions and decisions (Tacheva, 2007). For that reason, it comes naturally that native managers have an advantage in processing information and solutions when it comes to decision making as they have a better understanding of the local market, the local economical factors, the local institutions and the local culture, norms and behaviors (Tacheva, 2007).

These theories will be further elaborated in the following sections in order to create the basis for the hypothesis development.
3.3. Knowledge as a strategic asset

The resource based view is built upon the assumption that strategic actions of firms are shaped by very specific resources, competencies and capabilities (Spender, 1996). These may lead to above normal rate of returns and sustainable competitive advantage (Spender, 1996), if they are rare, valuable, difficult to copy and non-substitutable (Barney, 1991). Knowledge based view, which is based on resource based view, states that competitive advantage is more likely to arise from firm specific knowledge which enables firms to add value to factors of production in a unique manner (Spender, 1996). Therefore the critical input and primary source of value is knowledge (Grant, 1996). So the knowledge that the firm’s members apply in the value creating activities amplify the created value (Spender, 1996).

Knowledge can be classified in to two general forms; explicit and tacit knowledge (Spender, 1996). These are also expressed in the literature as know what or information, and know how, respectively (Kogut and Zander, 1992). Explicit knowledge can be transmitted without losing integrity once the syntactical rules required for deciphering it are known, such as raw data and facts (Kogut and Zander, 1992). Explicit knowledge is public in nature, unless regulatory precautions are taken by the firms (Yang, et al., 2010). Tacit knowledge, on the other hand, is grounded in the personal experience (Armstrong and Mahmud, 2008) and can be explained as accumulated practical skill or expertise (Kogut and Zander, 1992). Tacit knowledge is private in nature (Yang, et al., 2010), therefore hard to transfer and imitate (Kogut and Zander, 1992) which makes it sticky (Jensen and Szulanski, 2004). Although there is a distinction between these two types of knowledge, they are not separate but indeed mutually complementary, which means they dynamically interact in activities of individuals and groups (Nonaka and Krogh, 2009).

The ability to create and utilize knowledge is mentioned to be the most important source of a firm’s competitive advantage (Grant, 1996; Kogut and Zander, 1992; Nonaka and Krogh,
Firms invest in assets that have current value to them and future opportunities, and knowledge can be considered as having a portfolio of future growth options, therefore should be invested in (Kogut and Zander, 1992). For multinational firms that operate in many foreign markets, there may exist gaps between the knowledge possessed and knowledge needed for doing business in specific environments (Petersen, et al., 2008), and these gaps may affect firm performance negatively. Therefore firms invest in knowledge assets in order to reduce these gaps. Institutional knowledge being both context dependent and having a direct effect on firm performance requires further explanation due to reasons which will be discussed in the following sections.

3.4. Institutional knowledge and importance for multinational firms

As discussed, knowledge if utilized properly can be a very strategic and important asset for firms. For companies which operate in multiple national locations, context dependent knowledge such as institutional knowledge gains further importance because these firms get exposed to different environments. Institutional knowledge is about obtaining knowledge about regulative, normative and cultural-cognitive elements that undergird social life and constitute the background of social behavior (Javernick-Will, 2009). Institutional knowledge contains assumptions for proper application of practices, but because it is context dependent, these assumptions are only valid in the specific environment (Nebus and Chai, 2007). Also institutional knowledge has both tacit and explicit characteristics which make it complicated to acquire for foreign entities.

Organizations are embedded in institutional environments and these environments affect the practices, policies and structures of the organizations (Eden and Miller, 2004). These environments are comprised of three pillars (Scott, 1995), namely; regulatory, cognitive and normative. Regulatory pillars are the rules and laws which promote or prohibit the certain types of actions (Kostova, 1997). These specify what can and cannot be done in the
environment. This aspect of institutional knowledge probably is the easiest for organizations to observe and acquire, because regulatory institutions are codified and formalized (Eden and Miller, 2004). Cognitive pillars reflect the cognitive and social structures underlying the information interpretation, action selection and decision making procedures of people in a country (Kostova, 1997), and include shared beliefs about the nature of the world and cause effect relations (Javernick-Will, 2009). These mainly specify what should or should not be done in the environment. These are tacit in nature (Kostova and Zaheer, 1999) therefore hard for foreign organizations to capture. Normative pillars are “social norms, values, beliefs and assumptions about human nature and human behavior that are socially shared and are carried by individuals” (Kostova, 1997, p. 180). These components specify how things should be done and reflects the norms, beliefs and values of the society, which are culturally driven and therefore tacit, so hard for outsiders to understand (Eden and Miller, 2004). The real challenge for multinational firms lies in learning the cognitive and normative pillars because they are more tacit than the regulative pillars and therefore hard to interpret and understand (Kostova and Zaheer, 1999).

Institutional knowledge is particularly important for multinational firms, because it is found to reduce the liability of foreignness (Javernick-Will, 2009) and challenges to establish and maintain organizational legitimacy (Kostova and Zaheer, 1999), therefore reduce the disadvantages foreign firms face. Liability of foreignness is the social costs (Eden and Miller, 2004) of doing business abroad, which the purely domestic firms do not face (Kostova and Zaheer, 1999), and it may cause challenges to establish and maintain organizational legitimacy (Kostova and Zaheer, 1999). Organizational legitimacy is the acceptance of an organization by its environment and considered to be vital for its survival and success (Kostova and Zaheer, 1999). According to Kostova and Zaheer (1999), the organizational legitimacy is shaped by three factors; the institutional characteristics of the environment, the organization’s characteristics and actions, and the environment’s view and perception of the organization. From a knowledge point the first factor, the characteristics of the environment, gains significant importance because in order to gain legitimacy
organizations need to learn about the characteristics of the environment. From the multinational enterprises’ point, the institutional characteristics of the environment create two complexities to overcome (Kostova and Zaheer, 1999). The first one is caused due to the characteristic of the institutional environments that they are composed of three different domains (Scott, 1995), which organizations need to understand and interpret separately, but give a meaning collectively. The second one is caused due to the characteristic of the firms that they are multinational, since these organizations conduct business in multiple countries they are exposed to different institutional environments (Kostova and Zaheer, 1999).

The first complexity is seeking legitimacy by understanding and correctly interpreting different domains. In order to be legitimate organizations need to comply with the requirements of the regulatory system, have to be consistent with the established cognitive structures of the society, and the values pursued by the organization should be coherent with the values of society (Kostova and Zaheer, 1999). Lack of legitimacy may result in discrimination and relational hazards for the organizations (Eden and Miller, 2004), which mean foreign firms can be treated differently than the domestic firms by the stakeholders in the country. Liability of foreignness also may impose unfamiliarity hazards which is a result of information asymmetry due to lack of institutional knowledge and experience (Eden and Miller, 2004). The second complexity arises from the multinationality of the organizations, because these organizations operate in different nations they are exposed to different institutional environments (Kostova and Zaheer, 1999). This creates challenges because it requires continuous adaptation (Jensen and Szulanski, 2004). Operating in multiple national contexts being one of the major strengths of multinationals can also cause the major challenges for them. The similar the institutional profiles, the easier to adapt and learn (Kostova, 1997), which means the challenges are less if the institutional profiles of the host and home country are similar. Also the more similar the profiles of the multiple countries the multinational firms operate in, the easier to overcome the challenges (Kostova, 1997). This similarity or difference between the institutional profiles of countries is also expressed as the institutional distance, which can be defined as the
difference/similarity between the regulatory, cognitive and normative institutions of two countries (Kostova and Zaheer, 1999). Institutional distance is one of the main determinants of both the liability of foreignness (Eden and Miller, 2004) and organizational legitimacy (Kostova and Zaheer, 1999). As mentioned, organizations are embedded in institutional environments and tend to reflect the characteristics of the environment in their structures, strategies and policies, therefore as the institutional distance between two countries increases the challenges for organizations increase (Kostova, 1997).

Knowledge is a strategic asset that shapes the actions of firms and adds value to the factors of production in a unique manner (Spender, 1996; Grant, 1996). This amplifying effect on value creating activities results in higher performance for the firms. Institutional knowledge contains assumptions for proper applications of practices such as what can be done, what should be done and how should be done (Kostova and Zaheer, 1999). In this manner institutional knowledge also adds value to the activities of firms and therefore may have a positive effect on the firm performance. Lack of institutional knowledge also has a negative effect on firm performance because it increases the liability of foreignness and challenges to establish organizational legitimacy (Javernick-Will, 2009; Eden and Miller, 2004; Kostova and Zaheer, 1999). As the difference between institutional profiles of home and host country of firms increases it gains more importance to posses the institutional knowledge and also gets harder. In order to understand how organizations can posses the institutional knowledge, it is helpful to understand and study how organizations learn, which will be touched upon in the next section.

3.5. Organizational learning and effects on firm performance

Organizational learning is a multidisciplinary concept therefore approached and defined differently by different disciplines (Dodgson, 1993; Shrivastava, 1983). Economists tend to view learning either as quantifiable improvements in activities, or as positive outcomes; the
management and business literature often equates learning with sustainable comparative competitive efficiency and the innovation literature usually sees learning as promoting comparative innovative efficiency (Dodgson, 1993). Organizational learning has also been approached as; an adaptation process to environmental changes by re-adjusting the goals, rules of attention and search; an error detection and error correction process which may result in a complete paradigm shift for the organization; and a process of developing the knowledge base of action-outcome relations which further effects the sense making mechanisms of organizations (Shrivastava, 1983). In this paper the definition of organizational learning is adopted from Fiol and Lyles (1985, p. 803) as “the process of improving actions through better knowledge and understanding”, due to its clearness and holism. Our interpretation of this definition is; improved actions lead to improved performance for organizations and learning about institutional environment would reduce the negative effects of liability of foreignness and increase the organizational legitimacy, therefore have a positive effect on the firm performance.

Although the definition varies from discipline to discipline, there is a common explanation of the need to learn, that is the requirement for adaptation and improved efficiency in times of change, and the greater the uncertainties in the environment the greater the need to learn (Dodgson, 1993; Shrivastava, 1983). According to Fiol and Lyles (1985) the main indicator of firm performance is the long term survival and growth, and in order to achieve these, organizations align with their environment to stay competitive and innovative. Alignment here implies that firms must have the potential to learn, unlearn, or relearn based on their past behaviors (Fiol and Lyles 1985). Learning enables organizations to build an understanding and interpretation of their environment and these abilities leads to organizational adaptation, which makes alignment possible (Fiol and Lyles, 1985).

Organizational learning is a process that results in overall improvements. Through this process better knowledge and understanding is achieved which increases the adaptability and efficiency of organizations. As adaptability and efficiency increases, organizations are
more likely to be aligned with their environments which leads to long term survival and growth, and that is the main indicator of firm performance. Therefore it is likely to state that organizational learning would have a positive impact on the firm performance. Experience is mentioned in the literature to be the major input of learning (Shrivastava, 1983; Wagner and Sternberg, 1987; Levitt and March, 1988; Nonaka, 1994; Armstrong and Mahmud, 2008; Martins and António, 2010), although not the only one, and it needs to be converged through a series of processes in order to be utilized, and these processes are highlighted in the following section.

3.6. Processes of organizational learning

As mentioned, the research on organizational learning is multidisciplinary and there exists different approaches about how organizations learn. Some common and complementary characteristics from the literature are: it requires acquisition (Shrivastava, 1983; Grant, 1996), communication (Shrivastava, 1983; Nonaka, 1994), combination (Kogut and Zander, 1992; Nonaka, 1994), interpretation (Shrivastava, 1983; Fiol and Lyles, 1985) and memorization (Levitt and March, 1988; Nonaka, 1994) of the relevant knowledge. Further on this section, work of Huber (1991) is taken as framework due to its broader scope and integrative approach.

According to Huber (1991) there are four constructs related to organizational learning; knowledge acquisition, information distribution, information interpretation and organizational memory. Knowledge acquisition is the process by which knowledge is obtained; information distribution is the process by which information from different sources is shared and thereby leads to new information and understanding; information interpretation is the process by which distributed information is given commonly understood interpretations; and finally organizational memory is the means by which knowledge is stored for future use (Huber, 1991). Each construct involves several sub-processes which contribute and together lead to organizational learning. However only the
Knowledge acquisition can be approached from two perspectives; internal knowledge exploration and external knowledge acquisition. External knowledge acquisition requires fewer resources than internal exploration, however may require more to internalize because it does not ensure successful application (Lichtenthaler, 2009). The first two sub-constructs are means of internal exploration and the later two are of external acquisition.

The first sub-process of knowledge acquisition is congenital learning. Organizations do not start their lives from nonexistent knowledge, organizations and individuals that create the new organization carry their knowledge to the newly formed organization, so there exists an inherited knowledge (Huber, 1991). Prior knowledge is essential and necessary for further learning (Cohen and Levinthal, 1990), and this inherited knowledge acts as a bedrock for further learning. The congenital knowledge determines how new knowledge will be searched, interpreted and internalized (Huber, 1991). The second sub-process is experimental learning. It has been mentioned in the academic literature that learning is a function of experience (Shrivastava, 1983; Levitt and March, 1988; Kogut and Zander, 1992; Spender, 1996), more over according to Nonaka (1994) the generation and accumulation of knowledge is determined by the variety of the experiences. Based on these it is possible to say that a major input of learning is experience. However the experiences should be realized and appraised by the organization to acquire knowledge out of them. The third and fourth are vicarious learning and grafting, respectively. These are means of acquiring second hand or external knowledge (Huber, 1991). Organizations commonly try to learn from other organizations and individuals (Huber, 1991), such as competitors, consultants, clients, business partners and public sources (Javernick-Will, 2009).
Organizations also learn through acquiring new members and other organizations (Javernick-Will, 2009; Huber, 1991). Joint ventures, mergers and acquisitions has been approached as means of learning, also acquiring individuals with knowledge that organization is lacking has been approached as a learning mechanism (Grant, 1996). Complementing the previous four, the fifth sub-process of knowledge acquisition is searching and noticing. Environments that organizations are embedded in are not stable, they constantly change. Due to this, organizations need to scan both the external and internal environments and evaluate the effectiveness to stay up to date (Huber, 1991).

To sum up, knowledge can be acquired both internally through experience, and externally through other people or organizations. Although experience mentioned to be the cornerstone of learning it is also mentioned to require more resources to acquire knowledge through experience. Based on these the next section will try to highlight how organizations can acquire institutional knowledge.

3.7. **Acquisition of institutional knowledge**

In this section the purpose is summarizing and meanwhile combining the previously discussed knowledge, learning and institutional theories before further theoretical additions are made.

As it has been discussed, institutional knowledge is crucial for success and survival of multinational companies. For multinational firms operating in foreign markets, there exists a gap between the knowledge possessed and knowledge needed for doing business in every specific environment (Petersen, et al., 2008), and firms invest in knowledge assets in order to close this gap. Learning about institutions also serves this purpose of closing knowledge gaps. By combining the mentioned knowledge and organizational learning perspectives, institutional knowledge can be induced by knowledge acquired both internally and externally, which will be further phrased as knowledge generation and knowledge
acquisition, respectively. Knowledge generation is a direct result of experience, as organizations gain more experience in an institutional environment they are more likely to obtain the institutional knowledge. Also considering that the similarity of institutional environments decreases the challenges related to lack of institutional knowledge, organizations operating and gaining experience in multiple institutional environments are more likely to generate necessary knowledge easily in another environment. However knowledge generation requires more resources than knowledge acquisition (Lichtenthaler, 2009). Knowledge can be acquired directly and indirectly. Direct ways are acquiring individuals and other organizations, or forming strategic alliances such as joint ventures. Indirect ways are acquiring knowledge from consultants and business partners such as suppliers. Institutional knowledge can also be acquired by hiring local employees, merging with or acquiring a local firm, forming a joint venture with a local firm, and working with consultants or other firms with local knowledge. The key word here is local, institutional knowledge is local and requires local understanding. This local understanding is also mentioned in the literature as ‘local buzz’ (Malmberg and Maskell, 2006). This buzz consists of specific information and continuous update of this information, this information contains assumptions for proper applications of practices and serves as decipher key (Malmberg and Maskell, 2006).

Based on the above discussion it is appropriate to state that, more experience in an institutional environment would lead to more institutional knowledge; more experience in different institutional environments would lead to easier acquisition of institutional knowledge in a different environment; and acquiring institutional knowledge externally from locals is relatively less costly. Here we suggest that one way of acquiring institutional knowledge from external sources is hiring native managers, for the reasons that will be discussed in the following section.
3.8. Native managers as a source of institutional knowledge

Institutional theory although mentions the structural and cultural constraints on action selection processes, the importance of individual actors who can make a difference in the flow of events are not ignored. These individuals, mentioned as agency in the literature, have the ability to influence the social world by either altering the rules or effecting the distribution of resources (Scott, 2001). Managers being agents of the system undertake an important role both on decision making and action selection processes.

Decision making mechanisms of firms are formed by individual managers and each have direct effects on strategic decisions of corporate and therefore performance (Tacheva, 2007). Decisions are generally based on the information and resource sets of the organization available to the decision making mechanism, however there also exists environmental constraints on the decision making process, which are driving or restraining forces, exogenous to the process which modifies the process (Bass, 1983). These environmental constraints are a variety of institutions and forces, such as governmental agencies, social customs of the society, customers and competitors (Bass, 1983). The decision making mechanisms of any system needs to match and understand its environment in order to solve the problems in an appropriate manner (Bass, 1983). Therefore the decision making mechanisms of organizations need to posses the institutional knowledge to make sound decisions.

Organizational choices and behavior are strongly influenced by the background characteristics and previous experiences of managers, and these choices and behavior can be explained by the composition of the management team (Athanassiou and Nigh, 2000). Making sound managerial decisions depends on understanding local market and institutions (Tacheva, 2007), natives have natural advantages in processing information pertaining to their home countries and in finding solutions that improve information processing
(Tacheva, 2007), therefore using native managers may propose a solution to the lack of institutional knowledge. National origin is an important aspect of a manager’s international background, and nationality is a source of knowledge about a particular region or economy, therefore executives possess valuable knowledge about economic and market factors and institutions as well as about culture, behavior and norms of the region, from which they originate, that may be invaluable in making decisions about a firm’s strategy in the region (Tacheva, 2007). In another words, native managers are more likely to hear the ‘local buzz’.

As it has been discussed, according to resource based view strategic actions of firms are shaped by very specific resources that they own and according to knowledge based view competitive advantage rises from firm specific knowledge which enables to add value to factors of production in a unique manner (Spender, 1996). Native managers possessing institutional knowledge are resources of firms which shape the strategic decisions, and the institutional knowledge may add value to the factors of production therefore lead to an advantage. Based on this the sustainable high performance of multinational enterprises in specific context can be explained by the origin of decision making mechanisms.
4. Hypothesis development

This section, based on the theoretical foundations established in the previous section, aims to develop a research agenda where these theories can be tested with empirical findings.

*Figure 3 – Hypothesis development*

Knowledge being a firm specific resource, if created and utilized properly leads to high performance, because it adds value to the factors of production in a unique manner. Organizational learning being the process of improving actions through better knowledge leads to proper creation and utilization of knowledge, therefore leads to high performance. Based on these, institutional knowledge and learning about institutions may lead to high performance. Also institutional knowledge is proven to reduce the liability of foreignness and challenges to gain organizational legitimacy, therefore has a positive impact on firm performance.
Institutional knowledge gains more importance for multinational companies which operate in locations where institutional distance of host country is further from the home country. Each and every country has a specific institutional profile and as these profiles get less alike, the institutional distance gets further, and as institutional distance gets further it is harder to acquire institutional knowledge and learning about the institutions. Therefore institutional distance has a negative impact on the firm performance.

In the previous section we suggested native managers as a source and an efficient way of acquiring institutional knowledge, based on this we expect the high performing firms to employ more native, Turkish, managers as the institutional distance between home country and Turkey increases, and the first hypothesis is formed to test this.

\( H_1: \) As institutional distance between home country and Turkey increases, high performing multinational companies tend to form the decision making mechanisms from natives.

The trigger of learning cycle, as discussed earlier, is knowledge acquisition and knowledge can be acquired both by generating internally and acquiring externally. Learning about institutions is also triggered both by internally generated and externally acquired knowledge. Internal knowledge generation is mentioned to be a direct outcome of experience in which both the amount and variety is important. Based on this we expect firms not only to show higher performance as their experience increases, but also a decrease in the negative effects of institutional distance on their performance. The second hypothesis is formed to test this.

\( H_2: \) As the experience of multinational companies increases, effects of institutional distance between home country and Turkey decreases, therefore they show high performance.
Although experience is the corner stone of learning, internally generated knowledge through experience requires more resources than acquiring externally. Based on this we expect that origin of decision making mechanisms has a stronger effect on reducing the negative effects of institutional distance on firm performance, than experience. The third hypothesis is formed to test this.

\[ H_3: \text{Manager origin is the more influential determinant than the experience on the firm performance in the face of institutional distance.} \]

Here, three different hypotheses are formed. However the main aim is not to prove or disprove these propositions, but to observe the relations between institutional distance, manager origin, firm performance, and firm experience in three different scenarios through these hypothesizes. Moreover the aim is to reach a cumulative understanding, about the multinational manufacturing firms in Turkey, based on these different observations.
5. Methodology

This paper has a deductive approach which is limited by the pre-defined theoretical background. Hypotheses are formed based on the theoretical background defined throughout the paper and needs to be tested with observations in order to be confirmed or not. These observations are based on secondary data that is obtained from three main sources. The first is Geert Hofstede’s Cultural Dimensions Index (Hofstede, 2001) and the second one is the Global Competitiveness Report of the World Economic Forum (2010). Hofstede’s work has been used by scholars to measure and explain the connection between countries’ cultural profiles and FDI flows, and entry decisions (Kogut and Singh, 1988). Although it has some limitations, which will be discussed under limitations section, it still provides the most comprehensive approach to cultural differences between countries. The Global Competitiveness Report is an annual publication of the World Economic Forum which involves valuable insights about countries. The third source of data is the corporate web sites and Turkish national databases of both governmental and non-governmental agencies such as Istanbul Chamber of Industry and Public Disclosure Forum. A descriptive methodological approach is adopted because the explanations of relations are done by theory and the aim is to observe the empirical realities in the selected context and industry.

5.1. Firm and firm related indicator selection

According to Republic of Turkey Prime Ministry Undersecretariat of Treasury (Foreign Investment, 2011) there are 25,490 companies with foreign capital in Turkey as end of 2010, from different industries and with different foreign ownership ratios. In this study only high performing firms which have manufacturing facilities in Turkey are used. The reason high performing firms are chosen as subject is based on the primary assumption that multinational firms possessing the institutional knowledge would show higher performance. The high performing companies are selected based on the list of Turkey’s
Top 500 Industrial Enterprises 2009 (İstanbul Sanayi Odası, 2011), which is the latest edition, published by Istanbul Chamber of Industry. This list is a part of greater study done by the Istanbul Chamber of Industry since 1968 consecutively, and contains information both about the manufacturing industry in Turkey and companies belonging to the industry. Only the companies which made the list consecutively since 2003 are taken to accentuate the sustainable performance. From this list only companies with minimum 75% foreign ownership are chosen in order to emphasize the foreignness. Later, the firms which were originally founded as Turkish but acquired by or merged with foreign firms earlier than 2003 are excluded. Finally, firms which are established as separate legal entities however practically run from the same headquarter by the same managerial team are excluded. There are 41 companies that fit to the criteria; however required information could not gathered due to privacy policies of 25 companies. Number of companies that all the required information can be gathered, which fit the criteria are 16. Therefore in the end, 16 companies are taken as sample. This sample size although considered to be statistically small, compared to the population size of 41, can provide valid information.

Performance is measured as production based sales, which gives the sales income, both from domestic and international sales, of goods produced domestically in Turkey. Six year average of production based sales is taken for every company in order to reflect the time perspective. As it has been discussed theoretically, experience plays a major role in knowledge acquisition, therefore in reducing the challenges that may occur due to institutional distance. There are two aspects of experience in which both amount and variety is important, one is the experience in the local environment and the other is the international experience. Although measuring experience is a challenging task and a matter of subjectivity, for this study it needed to be expressed in numerical terms. Therefore three indicators are chosen to cover both experience aspects. First is the total number of countries a firm is operating in, chosen to measure the variety of international experience, which is the number of countries a firm has manufacturing facilities (C). The second one is the total number of years a firm is operating (YE), chosen to measure the total amount of
experience. The third one is the number of years a firm is operating, manufacturing, in Turkey (YT), chosen to measure the amount of local experience. The experience indicators are collected from corporate web sites. Manager origin (MO) is the last firm related indicator, and what is meant by it is the country origin of the decision making mechanisms. This implies, if decision making mechanisms are formed mainly by foreign managers, Turkish managers, or through a consensus. In order to measure this, ratio of native, Turkish, managers to foreign, non-Turkish, managers in the executive committee is taken, and as the ratio goes higher the level of foreignness in the decision making mechanisms increases. Manager origin figures are collected from Public Disclosure Platform (2011) for public companies and corporate web sites for non-public ones. Information obtained from Public Disclosure Platform is compared with corporate web sites where possible. Only information about the manager origin of one company, Henkel, is obtained through a personal e-mail communication with an HR representative of the company (Öter, 2011).

5.2. Calculation of institutional distance and indicator selection

The secondary data is also used to measure the institutional distance between countries. As explained in this paper before, institutional environments have three pillars; regulative, cognitive and normative. Therefore in order to measure the institutional distance between countries it is required to find indicators which involves all three pillars. Cognitive pillar here is explained by Hofstede’s Cultural Dimensions Index (2001), regulative and normative pillars are explained by chosen indicators from the Global Competitiveness Report (World Economic Forum, 2010). This selection is based on Kaufmann, et al.’s (2003) six indicators of governance (see table 1), combined with our own interpretations (see table 2). The institutional distance is measured by the same index that was built by Kogut and Singh (1988) to measure the cultural difference, however involves more dimensions. Cultural distance, in this paper, is taken as a subset of institutional distance,
therefore a similar method to calculate institutional distance is appropriate but only if original index is expanded with required indicators. Algebraically it is shown as:

\[ ID_{ij} = \sum_{n=1}^{x} \frac{[(I_{ni} - I_{nj})^{2}/V_n]}{x} \]

*Source: (Kogut and Singh, 1988)*

where \( ID_{ij} \) stands for the institutional difference between \( i \)th and \( j \)th country, \( I_{ni} \) is the value of \( n \)th dimension for the \( i \)th country, \( I_{nj} \) is the value of \( n \)th dimension for the \( j \)th country, \( V_n \) is the variance of the \( n \)th dimension, and \( x \) is the total number of dimensions.

Cultural Dimensions Index (CDI) is based on survey results collected from subsidiaries of IBM in 72 countries; the surveys were conducted twice in the years 1968 and 1972 (Hofstede, 2001). Aim of Hofstede (2001) in the research was to understand and enlighten the cultural differences between countries that lead to differences in thinking, feeling and acting of individuals. He based his study on the definition of the culture, which is: ‘the collective programming of the mind that distinguishes the members of one group or category of people from another. The mind stands for thinking, feeling and acting with consequences for beliefs, attitudes and skills’ (Hofstede, 2001, pp. 9-10). In the original work of 1980 four dimensions were identified, that country cultures differ, later a fifth dimension was added (Hofstede, 2001), however the last dimension is not taken into account in this paper because data of the last dimension is missing for some countries which are involved in this study. The first dimension, power distance, is the extent to which the less powerful members of organizations and institutions accept and expect that power is distributed unequally; the second dimension, uncertainty avoidance, is the extent to which a culture programs its members to feel either uncomfortable or comfortable in unstructured situations, which are novel, unknown, surprising, and unusual; the third dimension,
individualism/collectivism, is the degree to which individuals are supposed to look after themselves or remain integrated into groups; the fourth dimension, masculinity/feminity, refers to the distribution of emotional roles between the genders; the fifth and the last dimension, long-term versus short-term orientation, refers to the extent to which a culture programs its members to accept delayed gratification of their material, social and emotional needs (Hofstede, 2001). These dimensions were validated by data from different and mostly unrelated sources, correlated with geographic, economic and demographic country indicators, in consideration of historical factors (Hofstede, 2001). The author argues that the trend does not suggest the differences will disappear in the foreseeable future (Hofstede, 2001), therefore still valid.

The Global Competitiveness Report (GCR) of the World Economic Forum is an annual report which is based on the Global Competitiveness Index (GCI). This index gathers data from two main sources; international organizations and national sources, and Forum’s Executive Opinion Survey. The survey is divided into thirteen sections and gathers opinions of executives about national economy, competition, institutions, governance, infrastructure, corruption, ethics, technology, and so on. The report is not designed to measure institutional difference, however some questions in the survey provides useful information about the regulative and normative structures of the countries. Competitiveness is defined in the report as “the set of institutions, policies, and factors that determine the level of productivity of a country” (World Economic Forum, 2010, p. 4) and some non-economic indicators used in the GCI can be used in measuring the institutional profiles of countries. In the selection of dimensions the Kauffman, et al.’s (2003) six indicators of governance are taken as framework. There are two reasons for using this framework, the first one is Kauffman, et al. (2003) also used GCR as one of many resources for their research, the second one is, as Scott (2001) mentioned the characteristics of governance systems capture and reflect both normative and regulative processes. Governance is broadly defined as “the traditions and institutions by which authority in a country is exercised” (Kaufmann, et al., 2003, p. 2), which involve government selection, monitoring and
replacing processes; policy formulation and implementation capacity of governments; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, et al., 2003). The six indicators which cover these three areas are, ‘Voice and Accountability’, ‘Political Stability and Absence of Violence’, ‘Government Effectiveness’, ‘Regulatory Quality’, ‘Rule of Law’, and ‘Control of Corruption’ (Kaufmann, et al., 2003). Voice and accountability refers to objectiveness of selection process of legislative and regulative branches, and independence of institutions involved in the selection process; political stability and absence of violence refers to likelihood of undemocratic and/or violent changes of power and degree of domestic violence and terrorism; government effectiveness refers to quality of public service, degree and burden of bureaucracy, independence of civil service from political pressure and the credibility and commitment of governments; regulatory quality refers to policies which may create burden on economic life; rule of law refers to credibility of judiciary system; and control of corruption refers to degree of using public power for private gain (Kaufmann, et al., 2003). The selected dimensions for each corresponding indicator are given in table 1.

Table 1 - Indicators of governance and corresponding GCR indicators

<table>
<thead>
<tr>
<th>Six indicators of governance</th>
<th>Corresponding indicators from GCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voice and Accountability</td>
<td>1.04 Public trust of politicians</td>
</tr>
<tr>
<td>Political Stability and Absence of Violence</td>
<td>1.13 Business cost of terrorism</td>
</tr>
<tr>
<td></td>
<td>1.14 Business cost of crime and violence</td>
</tr>
<tr>
<td></td>
<td>1.15 Organized crime</td>
</tr>
<tr>
<td>Government Effectiveness</td>
<td>1.07 Favoritism in decisions of government officials</td>
</tr>
<tr>
<td></td>
<td>1.08 Wastefulness of government spending</td>
</tr>
<tr>
<td></td>
<td>1.12 Transparency of government policymaking</td>
</tr>
<tr>
<td>Regulatory Quality</td>
<td>1.09 Burden of government regulation</td>
</tr>
<tr>
<td></td>
<td>6.03 Effectiveness of anti-monopoly policy</td>
</tr>
<tr>
<td></td>
<td>6.04 Extent and effect of taxation</td>
</tr>
<tr>
<td></td>
<td>6.09 Prevalence of trade barriers</td>
</tr>
</tbody>
</table>
6.11 Prevalence of foreign ownership  
6.12 Business impact of rules on FDI

| Rule of Law            | 1.01 Property rights  |
|                       | 1.06 Judicial independence |
|                       | 1.10 Efficiency of legal framework in settling disputes |
|                       | 1.11 Efficiency of legal framework in challenging regulations |
| Control of Corruption | 1.03 Diversion of public funds |
|                       | 1.05 Irregular payments and bribes |

*Numbers correspond for the number of indicator in the GCR*

Sources: (Kaufmann, et al., 2003; World Economic Forum, 2010)

Although these indicators, both cultural profile and governance, cover most of the aspects mentioned in the literature to constitute institutional differences between countries, in order to get a more complete picture some more indicators covering the differences of business life and practices are included. These indicators were chosen again from the GCR and given in table 2.

**Table 2 - GCR indicators for business life and practices**

| Business life and practices | 1.17 Ethical behavior of firms |
|                            | 1.18 Strength of auditing and reporting standards |
|                            | 1.19 Efficacy of corporate boards |
|                            | 6.14 Degree of customer orientation |
|                            | 7.01 Cooperation in labor-employer relations |
|                            | 7.02 Flexibility of wage determination |
|                            | 7.04 Hiring and firing practices |
|                            | 7.07 Reliance on professional management |
|                            | 11.09 Willingness to delegate authority |

*Numbers correspond for the number of indicator in the GCR*

Source: (World Economic Forum, 2010)
Theoretically there is a cause effect relation between the three pillars of institutional environments so they are dependent upon each other. In order to check the validity of institutional distance calculation, institutional distance is calculated both by including cultural indicators and by excluding them, also indicators based on Kaufmann’s work and the rest are calculated separately. As a result there are five different distances; institutional distance (ID) in which all indicators are included, business life distance (BLD) in which cultural indicators are excluded, cultural distance (CD) in which only cultural indicators are included, governance distance (GD) in which only Kaufmann’s indicators are included, and business practices (BPD) difference in which only business life and practices indicators are calculated. Based on the theory and selection of indicators, it is expected to observe a positive relation between all the calculated distances. The similarities of these distances are calculated by using Pearson correlation and satisfactory positive relation is observed between all the distance figures. The correlation matrix for different distance calculations is presented in table 3 below.

Table 3 – Correlation between different distance calculations

<table>
<thead>
<tr>
<th></th>
<th>BLD</th>
<th>CD</th>
<th>ID</th>
<th>GD</th>
<th>BPD</th>
</tr>
</thead>
<tbody>
<tr>
<td>BLD</td>
<td>1.000</td>
<td>.316</td>
<td>.992</td>
<td>.991</td>
<td>.948</td>
</tr>
<tr>
<td>CD</td>
<td>.316</td>
<td>1.000</td>
<td>.433</td>
<td>.264</td>
<td>.414</td>
</tr>
<tr>
<td>ID</td>
<td>.992</td>
<td>.433</td>
<td>1.000</td>
<td>.976</td>
<td>.956</td>
</tr>
<tr>
<td>GD</td>
<td>.991</td>
<td>.264</td>
<td>.976</td>
<td>1.000</td>
<td>.896</td>
</tr>
<tr>
<td>BPD</td>
<td>.948</td>
<td>.414</td>
<td>.956</td>
<td>.896</td>
<td>1.000</td>
</tr>
</tbody>
</table>

The significant correlation between BLD, GD, BPD and ID can be explained with the choice of indicators. All the indicators of previous three and most of the indicators of the last distance figure come from the GCR, and we have observed that countries score mainly similar results in every different competitiveness indicator. However observing the positive correlation between CD and the rest shows coherence with the theoretical foundation. Scott (2001) while explaining the processes in institutional creation and diffusion, described a
top-down and bottom-up structure, where societal institutions, governance structures and actors continuously influence each other, through challenging, imposition and negotiation. Based on this and selected indicators, the positive relation between distances is expected and relevant. As the cultural difference between countries increases the differences between business life and practices, and regulative differences increases, and vice versa. Due to these, institutional differences between countries increase. The institutional differences between Turkey and the other countries subject to this paper are presented in the figure 4 below.

*Figure 4 – Institutional Distances between Turkey*

The biggest institutional differences are calculated with Finland and Switzerland, and the lowest differences are calculated with Italy and USA. Based on this it is expected to observe higher manager origin, which means more foreign, non-Turkish, managers in Italian and American firms compared to Finish and Swiss firms.
5.3. Hypothesis testing

In order to test the first hypothesis a four step linear regression model is used where manager origin is taken as dependent variable and institutional distance and experience indicators as independent variables. Experience indicators are added in the later steps in order to observe the effects of firm experience on manager origin. In order to test the second hypothesis again a four step linear regression model is used where average firm performance is used as the dependent variable and experience and institutional distance is used as independent variables. Experience indicators are added in later steps in order to observe the effects of all separately on performance and institutional distance. To test the third hypothesis a six step regression is used. Average firm performance is used as the dependent variable but it is normalized with the industry growth averages to reduce the effect of external factors. Institutional distance is used as the independent variable in the first step, manager origin is added in the second step, experience indicators are added in the later steps, and manager origin is excluded in the fourth step. The reason for this is to observe the effects of variables separately and combined on the firm performance.

The reason that non-normalized performance figures are used in the second regression and normalized figures in the third regression is mainly to observe the effects of institutional distance on firm performance both where external factors are influential on the industry and where they are not. Instead of using control variables this method is chosen and the results of two regressions are compared. Although the main aim is to observe the institutional distance, it also provided the opportunity to observe the effects of experience in both situations.

The independent variables, especially, in the second and third linear regression models are not expected to explain the dependent variable with a high degree because it is known that many other factors, which are mainly economical, play a role in the performances of firms. The main findings are expected to be found with the observations on the correlations of
variables. Here Pearson correlation is used to evaluate the relations between variables, because Pearson correlation is widely used to measure the similarities between variables (Gujarati and Porter, 2009) and the aim here is to observe the relations between variables, therefore it is appropriate for this research. The calculations are done by using SPSS and weighted by three in order to generalize the finding for the initial number of companies.

5.4. Limitations

There are several methodological limitations of this paper caused by the indicator and variable selection. The first is the limitations caused by institutional distance indicators. None of the indicators chosen are originally aimed at measuring institutional distance between countries. Hofstede’s Cultural Dimensions Index is established to show the cultural differences between countries and the indicators from the GCR are aimed at measuring the competitiveness level of countries. A study which is aimed at measuring the institutional differences between countries would give more accurate results, however this kind of a study would require more resources than is available to this research. Although this being the case, the chosen indicators more or less covers the aspects of institutional distance defined in the literature. Moreover both CDI and GCR are based on surveys, therefore they are biased. Human beings although considered to be rational are not expected to be unbiased. Therefore the limitations of both researches are also limitations of this paper. Besides, Hofstede’s work has a country wide approach, but it is well established that different regions in the same country may show different cultural characteristics (Hofstede, et al., 2010) and these differences are not reflected in the CDI. However this paper also does not focus on regional differences therefore it does not affect the findings of this thesis.

The second limitation is caused by the firm selection criteria. The firms subject to this research are more than 75% foreign owned multinationals operating in manufacturing industry in Turkey, and show a certain level of performance over a six year period. Also not every firm which fit to these criteria is included due to lack of data. Because of this, it is not
possible to generalize the findings for every multinational firm neither in Turkey nor anywhere else in the world. Moreover it is unlikely to make statements about the sub segments of manufacturing industry again due to lack of information. Another point is that it is unknown if confirming or contradicting results will be achieved if a similar study is conducted on poorly performing multinational manufacturing firms or in that sense all the multinational manufacturing firms in Turkey. This being noted and realized as a limitation provides an opening for further researches.

The third limitation is due to the variable selection of linear regressions. One of the dependent variables, firm performance, can be measured in many different ways; both accounting based and non-accounting based (Grant, 2010). Due to these different measures of performance, high performing firms may differ based on the selected performance measure. Which means there might be different firms showing different characteristics and this would affect the results. Also the independent variables chosen are not expected to explain the dependent variables with a high degree, because firm performance is influenced by many other factors such as organizational structure, global and local economic environment, industry and market dynamics, and so on. This being known, the aim is to observe the relations between all the variables therefore some statistical insignificancies do not affect the general judgment. The reason to this is that theory suggests a relation however does not suggest how strong a relation should be; therefore it is open to interpretation.

5.5. Problems encountered

During this research we have encountered several problems which affected the process in negative ways. The initial plan was to conduct this study on multinational firms which use Turkey as a regional head quarter. However due to lack of data or complexities such as language to collect the data about the countries in the region, study is expanded to multinational firms in Turkey, either they use Turkey as a regional head quarter or not.
Other problem was also related to data collection. Our initial plan was to collect primary data from companies about their governance structures, performance criteria, and opinions about the role of manager origin, in order to support the quantitative findings with qualitative elements. However due to low response rate, and slow progress due to the bureaucratic structure of the multinational companies, we have changed our approach to base the findings on secondary data, and on quantitative methods. Finding information about publicly listed companies was not a problem, but finding reliable data about the non-public firms caused problems. Due to this some companies, although data was obtained, were excluded from analysis, because reliability was questionable.
6. Findings

In this section the findings of both data collection and regression computations are given without any connection to the theory.

The sixteen companies taken as the sample are from eight different countries and from ten different sub-segments of manufacturing industry. There are five German, three Italian, two American, one Finish, one Japanese, one Swiss, one British, one Belgium, and one French firms in the list. The details of firms can be found in the table 4.

Table 4 – Company details

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Country of Origin</th>
<th>ID</th>
<th>Industry Code</th>
<th>Average Growth</th>
<th>Average Industry Growth</th>
<th>Experience YE</th>
<th>Experience YT</th>
<th>Experience C</th>
<th>MO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Componenta</td>
<td>Finland</td>
<td>4,65</td>
<td>371</td>
<td>16%</td>
<td>24%</td>
<td>93</td>
<td>38</td>
<td>4</td>
<td>60%</td>
</tr>
<tr>
<td>Bosch</td>
<td>Germany</td>
<td>3,19</td>
<td>384</td>
<td>16%</td>
<td>17%</td>
<td>125</td>
<td>101</td>
<td>60</td>
<td>40%</td>
</tr>
<tr>
<td>MAN Türkiye</td>
<td>Germany</td>
<td>3,19</td>
<td>384</td>
<td>10%</td>
<td>17%</td>
<td>253</td>
<td>45</td>
<td>13</td>
<td>60%</td>
</tr>
<tr>
<td>Mercedes-Benz Türk</td>
<td>Germany</td>
<td>3,19</td>
<td>384</td>
<td>19%</td>
<td>17%</td>
<td>121</td>
<td>44</td>
<td>15</td>
<td>71%</td>
</tr>
<tr>
<td>BSH</td>
<td>Germany</td>
<td>3,19</td>
<td>382</td>
<td>23%</td>
<td>12%</td>
<td>44</td>
<td>16</td>
<td>13</td>
<td>75%</td>
</tr>
<tr>
<td>Türk Henkel</td>
<td>Germany</td>
<td>3,19</td>
<td>351</td>
<td>13%</td>
<td>19%</td>
<td>135</td>
<td>48</td>
<td>42</td>
<td>33%</td>
</tr>
<tr>
<td>Türk Prysmian</td>
<td>Italy</td>
<td>1,04</td>
<td>383</td>
<td>36%</td>
<td>10%</td>
<td>132</td>
<td>47</td>
<td>24</td>
<td>40%</td>
</tr>
<tr>
<td>Çimentaş</td>
<td>Italy</td>
<td>1,04</td>
<td>369</td>
<td>22%</td>
<td>18%</td>
<td>64</td>
<td>10</td>
<td>13</td>
<td>59%</td>
</tr>
<tr>
<td>Set Beton</td>
<td>Italy</td>
<td>1,04</td>
<td>369</td>
<td>8%</td>
<td>18%</td>
<td>147</td>
<td>22</td>
<td>22</td>
<td>40%</td>
</tr>
<tr>
<td>Company</td>
<td>Country</td>
<td>Code</td>
<td>Managers</td>
<td>Altitude</td>
<td>MO%</td>
<td>ID%</td>
<td>Altitude</td>
<td>ID%</td>
<td>MO%</td>
</tr>
<tr>
<td>---------------</td>
<td>-------------</td>
<td>------</td>
<td>----------</td>
<td>----------</td>
<td>-----</td>
<td>-----</td>
<td>----------</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Toyota</td>
<td>Japan</td>
<td>384</td>
<td>27%</td>
<td>17%</td>
<td>74</td>
<td>21</td>
<td>26</td>
<td>50%</td>
<td>17%</td>
</tr>
<tr>
<td>Novartis</td>
<td>Switzerland</td>
<td>352</td>
<td>12%</td>
<td>12%</td>
<td>121</td>
<td>54</td>
<td>16</td>
<td>29%</td>
<td>12%</td>
</tr>
<tr>
<td>Unilever</td>
<td>UK</td>
<td>311</td>
<td>55%</td>
<td>17%</td>
<td>82</td>
<td>58</td>
<td>68</td>
<td>25%</td>
<td>11%</td>
</tr>
<tr>
<td>Kent</td>
<td>USA</td>
<td>311</td>
<td>20%</td>
<td>17%</td>
<td>187</td>
<td>9</td>
<td>60</td>
<td>20%</td>
<td>15%</td>
</tr>
<tr>
<td>Goodyear</td>
<td>USA</td>
<td>355</td>
<td>11%</td>
<td>13%</td>
<td>113</td>
<td>50</td>
<td>25</td>
<td>31%</td>
<td>16%</td>
</tr>
<tr>
<td>Ege Profil</td>
<td>Belgium</td>
<td>356</td>
<td>29%</td>
<td>18%</td>
<td>74</td>
<td>11</td>
<td>8</td>
<td>50%</td>
<td>11%</td>
</tr>
<tr>
<td>Konya Çimento</td>
<td>France</td>
<td>369</td>
<td>23%</td>
<td>18%</td>
<td>158</td>
<td>20</td>
<td>8</td>
<td>30%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The highest number of foreign managers in the decision making mechanisms are observed in the German firms, while the lowest are observed in the Swiss, British and American firms. When the most significant manager origin ratios are examined, the observation shows coherence with expectations for the Swiss firm, as institutional distance (ID) increases, amount of foreign managers decreases. However for German, Finnish and American firms this is not the case. Four firms in the list operate in the automobile industry (Industry code - 384), and three of these firms are German and one is Japanese. The second most represented industry is cement industry (Industry code - 369) with three firms with two Italian and one French. These industries are followed by food industry (Industry code - 311) by two firms from United Kingdom and USA. Other industries represented are iron and steel industry (Industry code - 371), non-electrical machine industry (Industry code - 382), electrical machine industry (Industry code - 383), chemicals industry (Industry code - 352), rubber industry (Industry code - 355), chemical industry (Industry code – 351) and unclassified plastics industry (Industry code - 356).

When the relations between the variables of the first regression are evaluated interesting results are revealed. As the institutional distance (ID) between Turkey and the home country increase, manager origin (MO) also increases. This means that firms tend to form
their decision making mechanisms more from foreign, non-Turkish, managers as the institutional distance increases. All experience indicators (C, YT, YE) show negative relation with manager origin. This states that as firms are more experienced they tend to reduce the number of foreign, non-Turkish, managers in the decision making mechanisms.

Table 5 – Correlation matrix for the first regression

<table>
<thead>
<tr>
<th></th>
<th>MO</th>
<th>ID</th>
<th>C</th>
<th>YT</th>
<th>YE</th>
</tr>
</thead>
<tbody>
<tr>
<td>MO</td>
<td>1.000</td>
<td>.221</td>
<td>-.597</td>
<td>-.207</td>
<td>-.283</td>
</tr>
<tr>
<td>ID</td>
<td>.221</td>
<td>1.000</td>
<td>-.056</td>
<td>.434</td>
<td>-.056</td>
</tr>
<tr>
<td>C</td>
<td>-.597</td>
<td>-.056</td>
<td>1.000</td>
<td>.453</td>
<td>.106</td>
</tr>
<tr>
<td>YT</td>
<td>-.207</td>
<td>.434</td>
<td>.453</td>
<td>1.000</td>
<td>.154</td>
</tr>
<tr>
<td>YE</td>
<td>-.283</td>
<td>-.056</td>
<td>.106</td>
<td>.154</td>
<td>1.000</td>
</tr>
</tbody>
</table>

The relations between the dependent variable (MO) and the independent variables (ID, C, YT, YE) are also illustrated in the figure 5 showing the effects of one unit of change. As institutional distance (ID) increases manager origin (MO) also increases, and vice versa. However as experience indicators (C, YT, YE) increases manager origin (MO) decreases, and again vice versa.

Figure 5 – Graphical expression of the first correlation matrix
When the regression is evaluated step by step the findings become clearer. With every added variable the regression becomes statistically more significant. There exists a relation between the institutional distance and companies' manager origin decisions, as institutional distance increases decision making mechanisms are formed more from foreign managers. However as firm experience increases, the effect of institutional distance on manager origin decrease, which would result in more native, Turkish, managers in the decision making mechanisms of companies. This is most significant with the variety of international experience (C). This may suggest that the variety of international experience is a more influential determinant on manager origin than both the total amount of experience and the amount of local experience, in the face of institutional pressure.

*Table 6 – Results for the first regression*

<table>
<thead>
<tr>
<th>Model</th>
<th>Independent variables</th>
<th>β</th>
<th>t</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ID</td>
<td>.221</td>
<td>1.537</td>
<td>.049</td>
</tr>
<tr>
<td>2</td>
<td>ID</td>
<td>.188</td>
<td>1.614</td>
<td>.391</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>-.586</td>
<td>-5.032</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>ID</td>
<td>.206</td>
<td>1.500</td>
<td>.392</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>-.567</td>
<td>-4.086</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YT</td>
<td>-.039</td>
<td>-.255</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>ID</td>
<td>.173</td>
<td>1.283</td>
<td>.436</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>-.568</td>
<td>-4.200</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YT</td>
<td>.008</td>
<td>.056</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YE</td>
<td>-.214</td>
<td>-1.832</td>
<td></td>
</tr>
</tbody>
</table>

*Dependent variable: MO*

The effects and insignificance of amount of local experience in Turkey (YT) however is an unexpected result. The numbers suggest that the amount of local experience in Turkey (YT) has no direct effect on manager origin; however indirect effects can be observed. When YT is included in to the model an increase in the coefficient of institutional distance and a decrease in the coefficient of C are observed. This means that as companies spend more time in Turkey the positive effects of institutional distance on manager origin is amplified.
and the negative effect of variety of international experience is lessened, therefore affected the manager origin indirectly.

The correlations between the variables of the second regression show both expected and unexpected outcomes. When the relation between performance (P) and experience indicators are observed only variety of international experience (C) shows the expected positive relation. Amount of local experience in Turkey (YT), although negative, has almost no relation and total amount of experience (YE) show negative relation. This means that variety of international experience (C) affect the firm performance positively, the amount of local experience in Turkey (YT) does not affect the firm performance and total amount of experience (YE) affect the firm performance negatively. However there is no theoretical evidence was found to support the last finding and it is most likely caused by the sample selection and size. Another expected result is the relation between firm performance (P) and institutional distance (ID). As institutional distance increases firm performance decreases. When the relation between experience indicators and institutional distance are observed, only amount of local experience (YT) has a significant relation with institutional distance (ID), and it is positive.

Table 7 – Correlation matrix for the second regression

<table>
<thead>
<tr>
<th></th>
<th>P</th>
<th>ID</th>
<th>C</th>
<th>YT</th>
<th>YE</th>
</tr>
</thead>
<tbody>
<tr>
<td>P</td>
<td>1,000</td>
<td>-1,156</td>
<td>.347</td>
<td>-1,036</td>
<td>-1,407</td>
</tr>
<tr>
<td>ID</td>
<td>-1,156</td>
<td>1,000</td>
<td>-3,056</td>
<td>.434</td>
<td>-1,056</td>
</tr>
<tr>
<td>C</td>
<td>.347</td>
<td>-1,056</td>
<td>1,000</td>
<td>.453</td>
<td>.106</td>
</tr>
<tr>
<td>YT</td>
<td>-1,036</td>
<td>.434</td>
<td>.453</td>
<td>1,000</td>
<td>.154</td>
</tr>
<tr>
<td>YE</td>
<td>-1,407</td>
<td>-1,056</td>
<td>.106</td>
<td>.154</td>
<td>1,000</td>
</tr>
</tbody>
</table>

The relations between the dependent variable (P) and the independent variables (ID, C, YT, YE) are also illustrated in the figure 6 showing the effects of one unit of change. As the variety of international experience (C) increases the firm performance increases. However
as the institutional distance (ID), the total amount of experience (YE), and the amount of local experience in Turkey (YT) increases the firm performance (P) decreases. Also the relations apply vice versa.

Figure 6 – Graphical expression of the second correlation matrix

The addition of every variable to the second regression increased the coefficient of determination ($R^2$). As also seen in the correlations, institutional distance affects the firm performance negatively. Overall experience decreases the effect of institutional distance on firm performance, however not every experience indicator has the same effect. Variety of international experience (C) has both a positive effect on firm performance and a positive effect on the coefficient of institutional distance. This means that as experience (C) increases firm performance increases and also effects of institutional distance on firm performance decreases. Amount of local experience in Turkey (YT) shows negative effect on firm performance but positive effects on the coefficient of institutional distance and variety of international experience (C). This means that as amount of local experience (YT) increases firm performance is affected negatively, but effects of institutional distance on performance decreases and effects of variety of international experience (C) on performance increases. The total amount of experience (YE) showed the most unexpected results. As the total amount of experience (YE) increases firm performance is affected negatively and meanwhile the negative effects of institutional distance on firm performance
increases. Just as in the correlation there is no theoretical explanation of this behavior of total amount of experience (YE).

Table 8 – Results for the second regression

<table>
<thead>
<tr>
<th>Model</th>
<th>Independent variables</th>
<th>β</th>
<th>t</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ID</td>
<td>-.156</td>
<td>-1.068</td>
<td>.024</td>
</tr>
<tr>
<td>2</td>
<td>ID</td>
<td>-.136</td>
<td>-.985</td>
<td>.139</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>.339</td>
<td>2.448</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>ID</td>
<td>-.034</td>
<td>-.210</td>
<td>.168</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>.446</td>
<td>2.744</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YT</td>
<td>-.223</td>
<td>-1.237</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>ID</td>
<td>-.101</td>
<td>-.699</td>
<td>.353</td>
</tr>
<tr>
<td></td>
<td>C</td>
<td>.444</td>
<td>3.066</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YT</td>
<td>-.125</td>
<td>-.766</td>
<td></td>
</tr>
<tr>
<td></td>
<td>YE</td>
<td>-.440</td>
<td>-3.513</td>
<td></td>
</tr>
</tbody>
</table>

Dependent variable: P

The correlation results for the third regression shows some different characteristics than the first two. The negative effect of institutional distance (ID) on firm performance (NP) increased compared to the previous regression where a non-normalized performance figure was used (P). First time included manager origin (MO) also shows a negative relation with the firm performance, which means that as more foreign, non-Turkish, managers are employed in the decision making mechanisms of firms, performance is affected negatively. Experience indicators showed mainly different results. The relation and effect of the variety of international experience (C) shows similar results, however almost nonexistent negative relation of the amount of local experience in Turkey (YT) showed a more significant positive relation and the magnitude of negativity of the total amount of experience (YE) decreased. This means that both variety of international experience (C) and amount of local experience in Turkey (YT) increases the firm performance, however, although decreased, total amount of experience (YE) affects the performance negatively.
Table 9 – Correlation matrix for the third regression

<table>
<thead>
<tr>
<th></th>
<th>NP</th>
<th>ID</th>
<th>MO</th>
<th>C</th>
<th>YT</th>
<th>YE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NP</td>
<td>1,000</td>
<td>-1.175</td>
<td>-0.201</td>
<td>0.370</td>
<td>0.098</td>
<td>-0.288</td>
</tr>
<tr>
<td>ID</td>
<td>-1.175</td>
<td>1,000</td>
<td>0.221</td>
<td>-0.056</td>
<td>0.434</td>
<td>-0.056</td>
</tr>
<tr>
<td>MO</td>
<td>-0.201</td>
<td>0.221</td>
<td>1,000</td>
<td>-0.597</td>
<td>-0.207</td>
<td>-0.283</td>
</tr>
<tr>
<td>C</td>
<td>0.370</td>
<td>-0.056</td>
<td>-0.597</td>
<td>1,000</td>
<td>0.453</td>
<td>0.106</td>
</tr>
<tr>
<td>YT</td>
<td>0.098</td>
<td>0.434</td>
<td>-0.207</td>
<td>0.453</td>
<td>1,000</td>
<td>0.154</td>
</tr>
<tr>
<td>YE</td>
<td>-0.288</td>
<td>-0.056</td>
<td>-0.283</td>
<td>0.106</td>
<td>0.154</td>
<td>1,000</td>
</tr>
</tbody>
</table>

The relations between the dependent variable (NP) and the independent variables (ID, MO, C, YT, YE) are also illustrated in the figure 7 showing the effects of one unit of change. As the variety of international experience (C) and the amount of local experience in Turkey (YT) increases firm performance (NP) also increases. However as manager origin (MO), institutional distance (ID), and the total amount of experience (YE) increases firm performance (NP) decreases. The relations also apply vice versa.

Figure 7 – Graphical expression of the third correlation matrix

The regression shows clearer results. Every added variable, except the amount of local experience in Turkey (YT), increases the significance of the regression; however exclusion of manager origin (MO) does not reduce it significantly. Institutional distance in every step
has a negative effect on firm performance. When manager origin is included to the model, although it has a negative effect on the firm performance, decreased the effect of institutional distance. This, combined with the results of first regression, may suggest that as the ratio of native, Turkish, managers in the decision making mechanisms increases, the negative effects of institutional distance decreases. When the variety of international experience (C) is included to the model the negative effect of institutional distance (ID) increases however the negative effect of manager origin (MO) turns into positive. This being the case the overall positive effect of the variety of international experience (C) on firm performance exceeds, by far, the negativity due to the effect on institutional distance.

Table 10 – Results for the third regression

<table>
<thead>
<tr>
<th>Model</th>
<th>Independent variables</th>
<th>β</th>
<th>t</th>
<th>R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ID</td>
<td>-.175</td>
<td>-1.203</td>
<td>.030</td>
</tr>
<tr>
<td>2</td>
<td>ID, MO</td>
<td>-.137</td>
<td>-.923</td>
<td>.058</td>
</tr>
<tr>
<td>3</td>
<td>ID, MO, C</td>
<td>-.169</td>
<td>-1.193</td>
<td>.164</td>
</tr>
<tr>
<td>4</td>
<td>ID, MO, C, YT</td>
<td>-.172</td>
<td>-1.027</td>
<td>.164</td>
</tr>
<tr>
<td>5</td>
<td>ID, MO, C, YT, YE</td>
<td>-.202</td>
<td>-1.280</td>
<td>.279</td>
</tr>
<tr>
<td>6</td>
<td>ID, C, YT, YE</td>
<td>-.209</td>
<td>-1.365</td>
<td>.278</td>
</tr>
</tbody>
</table>

Dependent variable: NP

Although the correlation showed a positive relation between the firm performance (NP) and amount of local experience in Turkey (YT), the addition of YT to the model does not show
any significant effects on any variables. The addition of the total amount of experience (YE) although increased the significance of model overall, increased the negative effects of institutional distance, changed the effect of manager origin from positive to negative, and decreased the effect of C on firm performance. The reduction of manager origin from the model decreased the significance of the model, increased the negative effect of institutional distance on firm performance, and increased the magnitude of C on firm performance.

When the second and the third regressions are compared to observe the differences in the effects of variables on normalized and non-normalized performance figures, interesting results are revealed. As mentioned in the methodology section, performance figures are normalized to minimize the effects of the factors that are influential on the whole industry, so non-normalized figures are affected by both industry specific factors and external factors. The effect of institutional distance on normalized performance (NP) is greater than the effect on non-normalized performance (P). This shows that the more the other factors affecting the firm performances are removed from the equation the more institutional distance gets influential. This combined with the other findings may imply that manager origin (MO) has more importance on firm performance than the numbers show. When the experience indicators are compared, it is observed that the variety of international experience (C) shows little difference, which implies that, this aspect of experience has the same effect on performance. However the negative effect of the amount of local experience in Turkey on the non-normalized performance (P) changed to positive on normalized performance (NP). This means when the external factors that affect the whole industry are kept constant, the amount of local experience in Turkey (YT) has a greater and positive effect on firm performance. The negative effect of the total amount of experience (YE) decreased significantly from the non-normalized to normalized performance figures. However they are still negative and this situation cannot be explained with the theories at hand.
These findings will be discussed in detail in the next section, in accordance with the theory and hypotheses proposed in the earlier sections. However total amount of experience (YE) will not be included to the analysis due to unexpected results which cannot be explained with theories at hand, and most probably caused by the sample selection. This anomaly, although requires further attention, cannot be addressed within the borders of this paper, however can be subject to further researches.
7. Analysis

The major assumption, on which the empirical part of this paper is build, is that the firms chosen are sustainable high performing firms. Therefore they supposedly posses institutional knowledge, which leads to improved actions and as a result, better performance. The aim is to highlight the relations between how they acquire this knowledge, institutional distance between their home country and Turkey, and their performances. The quantitative models are not aimed at explaining the dependent variables but aimed at investigating the relations between all the variables. Although the theory suggests a relation between the variables, there is no specification of how strong these relations should be, therefore some statistical insignificancies does not affect the general judgment.

H₁: As institutional distance between home country and Turkey increases, high performing multinational companies tend to form the decision making mechanisms from natives.

Based on the theory two options for firms to acquire institutional knowledge are identified as experience and managers. The first hypothesis is formed in order to observe the relations between manager origin, institutional distance and experience. In the first hypothesis we stated that as institutional distance between Turkey and home country of the firm increases, the decision making mechanisms of these firms are increasingly formed from native, Turkish, managers. The underlying logic behind this is the natives have a natural advantage in processing local information over foreigners, therefore as institutional distance increases firms need native managers in order to perform sustainably high. However it has been observed that as the institutional distance increases the companies tend to form their decision making mechanisms from foreigners, not natives. This showed an opposite result to our expectations and proved our first hypothesis wrong. This situation can be explained with the findings of Gaur, et al. (2007) that firms rely more on expatriate managers in
institutionally distant environments for more efficient transfer of firm specific practices. Other findings from the first regression show that as firms become more experienced they form the decision making mechanisms more from native, Turkish, managers. However the determinant experience factor is not the amount of local experience but the variety of international experience.

**H2: As the experience of multinational companies increases, effects of institutional distance between home country and Turkey decreases, therefore they show high performance.**

The second hypothesis is formed to observe the effects of experience on firm performance in the face of increased institutional distance. Only the high performing firms were taken as a sample in this study, therefore the findings should not be taken as a general picture of the whole industry. However, still the selected firms show differences both in performance and experience; therefore the second hypothesis provides valuable inputs to the analysis. The theory suggests that institutional distance affects firm performance negatively and this negativity can be reduced through learning about the institutional environment. As discussed, experience is the main input of learning, and based on this, in the second hypothesis we state that as experience of companies’ increases, the effects of institutional distance decreases and the high sustainable performance can be explained with this. As expected firm performance is positively related with firm experience, and institutional distance is negatively related. Experience is approached both as the amount of local experience and the variety of international experience, and they showed different but complementary results. Variety of international experience is found to be the major determinant of performance however the positive effect of it on institutional distance is limited. On the other hand amount of local experience is found to be almost non-determinative on performance however the positive effect of it on institutional distance is most significant. This is also supported with the findings of Delios and Beamish (2001) that the amount of local experience is found to be increasing the likelihood of survival of
multinational firms in different institutional environments, however it does not independently influence the profitability. Therefore amount of local experience is insufficient to explain the high performance of a multinational firm (Delios and Beamish, 2001). Based on this it is likely to state that both amount and variety of experience are important for performance where institutional distance increases, but in a complementary manner. One without the other is not sufficient to explain the effect of experience on performance in the face of increased institutional pressure. Based on this it is possible to state that the second hypothesis is proved to be right.

**H₃: Manager origin is the more influential determinant than the experience on the firm performance in the face of institutional distance.**

The third hypothesis is formed to understand if it is the manager origin or experience that influences the performances of these firms more in the face of institutional distance. As discussed in theory, institutional knowledge can be acquired both by experience and native managers, and it is proven that institutional distance affects the firm performance negatively and experience affects performance positively and decreases the negative effects of institutional distance. In order to observe the influence of manager origin in this system we proposed in the third hypothesis that manager origin is the more influential determinant than the experience on the firm performance in the face of institutional distance. The findings showed that as the foreignness in the decision making mechanisms of these firms’ increases, the performance is affected negatively. This states that with more native managers, firms may perform at a higher level. Moreover manager origin decreased the negative effect of institutional distance on firm performance which shows that it is an important factor for performance in the face of institutional pressures. However, the first hypothesis proved that firms prefer more foreign, non-Turkish, managers as the institutional distance increases. This dilemma may be the result of trade-off between the needs of transferring firm specific best practices and obtaining environmental legitimacy. Apparently firms prefer the earlier option first; however the first hypothesis also proved
that as the experience increases firms prefer more native, Turkish, managers, which may be interpreted as after the firm specific practices are transferred successfully, firms start to seek legitimacy. The variety of international experience shows a strong positive effect on firm performance and neutralizes the negative effect of foreignness of decision making mechanisms, however increases the negative effect of institutional distance. This suggests that variety of experience may substitute for manager origin in the performance, however is not sufficient enough to overcome the disadvantages caused due to institutional distance. The amount of local experience on the other hand both decreases the negative effects of institutional distance and does not influence the effects of manager origin. This shows that amount of local experience may propose solutions to problems caused by institutional distance independent from manager origin, however not as effective as manager origin. This is also supported with the findings when manager origin is excluded from the equation. The positive effects of both amount and variety of experience and negative effects of institutional distance increased. This makes it clear that although experience can substitute for manager origin in the performance, in the face of institutional distance manager origin is the more influential factor on firm performance. Based on this it is possible to state that the third hypothesis is proved to be right.

The computations showed that, the more the industry specific factors influential on firm performance is excluded, the more the institutional distance gets important. In other words, when factors affecting the industry as a whole, such as the gross national product and the input costs like electricity, are reduced from the equations, institutional distance becomes more influential on the performance. The calculations also show coherence with the theory that the greater the institutional distance with the home and host country the greater the firm performance is affected negatively. Therefore it is important for multinational firms to learn about the institutional environment of the host country. Learning starts with knowledge acquisition and based on the theory we suggested two ways to acquire knowledge as experience and employing native managers. Both experience and manager origin showed to be influential on firm performance, however experience is more effective.
However when the effects of experience and manager origin on institutional distance are examined it is found that manager origin is more influential in reducing the negative effects of institutional distance on firm performance. Therefore coherent with the theory, employing native managers is an efficient way of acquiring institutional knowledge.
8. Conclusion

Limiting our research to Turkey, our aim was to contribute to the understanding of the following situation. Companies investing in a foreign country face complications in consideration of institutional differences. To maximize the performance while dealing with the institutional differences, companies can either employ native managers or rely on the accumulation of firm experience.

The manager origin influences the firm performance; companies that tend to use native managers perform at a better level. Approaching the dilemma with this observation it can be said that companies in a foreign country can perform at a higher level when they use native managers. To solve the problems that might occur due to institutional differences, companies can acquire local managers, because natives have a better understanding of the local institutions, compared to foreign managers.

Our findings show that, in the face of institutional distance, native managers have a greater effect on firm performance than firm experience. Yet, looking from a broader perspective, in the early stages of foreign investments, when the institutional difference is higher companies tend to use expatriate managers. Building on this, both native managers and firm experience are important, however on complementary levels. While investing abroad, firms prefer more expatriate managers in the beginning, until the firm specific practices are transferred and implemented effectively. Later, they tend to switch to native managers.

The globalized world brings risks and if managed right, opportunities with it. The preference of local managers will provide the companies with advantage, as better institutional knowledge will lead to higher performance. When investing in locations with bigger institutional differences, the right mixture of expatriates and natives build on the factors of importance of implementation of firm specific features and the handling of local institutions lead the firm to be successful.
9. Looking back, looking forwards

This paper contributes mainly to the academic literature both by the differences in the adopted methodological approach and by providing some of the pieces that are mentioned by Scott (2001) to be further examined in the institutional theory. However it also contributes to the practical world by highlighting the cause effect relations between staffing strategies, which is approached as manager origin in this paper, firm experience, firm performance and country specific differences that are investigated in the form of the institutional distance. Although there are certain contributions made, there also exist several openings for further researches.

9.1. Contributions

Although this paper is based on and inspired by the previous studies, it differentiates from them on several grounds of methodological approach. This differentiation is partly due to having an integrative approach and partly due to looking at the same problem from a different angle. There are prior studies, both from institutional field and outside, which are based on differences between countries and trying to understand firm decisions and behaviors. The previous studies approached these differences from different points and used different figures, such as; cultural distance (see for example Kogut and Singh, 1988; Abdellatif, et al., 2010), regulative distance and normative distance (see for example Chao and Kumar, 2010; Gaur, et al., 2007; Gaur and Lu, 2007). We tried to bring an integrative approach by combining all the three pillars of institutional theory and formulating a single distance figure. Our single distance figure, although a different approach, showed coherence with the previously calculated figures, this not only validates our figure but also strengthens the other studies and also the theory.

Moreover while prior studies examined the firm decisions and behaviors related to country specific differences, again approached from different angles, such as; choice of host
country (see for example Xu and Shenkar, 2002), entry mode (see for example Kogut and Singh, 1988; Delios and Beamish, 2001), ownership structure (see for example Gaur and Lu, 2007), survival of subsidiaries (see for example Delios and Beamish, 2001; Gaur and Lu, 2007), subsidiary staffing (see for example Gaur, et al., 2007), transfer of knowledge and organizational learning (see for example Kostova, 1999). Here we tried to adopt a slightly different and an integrative approach where the relations between institutional distance, firm performance, firm experience and staffing strategies are collectively examined from a knowledge acquisition and organizational learning perspective. The subject country and firm approaches of prior studies are also different from this study. The previous studies have examined the differences between countries and effects of these differences on firms, from the perspective of a single home country, which is mainly a developed country, and multiple host countries (see for example Gaur, et al., 2007; Delios and Beamish, 2001). On the other hand, we have approached from a single developing host country, Turkey, and multiple developed home countries perspective. Although there are differences between the approaches, our study showed coherence, similarities and complementary characteristics with the previous studies. This shows both the theories used and the results achieved in different geographical locations can be applicable on a broader global scope. Through this, our paper does not only strengthen the previous studies, but it also increases the likelihood of generalizing our findings.

Since Scott mentioned the issues to be further examined in 2001, many contributions were made, to the institutional theory. Although these studies helped to fill the gaps in the theory, the institutional theory is still developing, and our study puts another brick to the wall. One of the issues mentioned was, improving the strength and variety of the empirical indicators (Scott, 2001). This paper by using Turkey as the context, high performing multinational manufacturing companies as the subject and calculating a single distance figure, adds another drop to the pool of empirical indicators of the institutional theory. Another issue mentioned by Scott (2001) was to better connect the relations between institutions, organizational characteristics, and organizational behaviors. This paper, by
examining the relations between institutional distance, firm performance, firm experience and decision making mechanisms of firms, highlights the connections between these and adds another link to the chain of cause effect relations. One another issue mentioned to be examined was to better understand the role and power of agents and actors that are able to influence the institutional environments and make a difference (Scott, 2001). In this paper manager origin is taken as the ratio of foreign to native managers in the decision making mechanisms of firms. Individual managers and decision making mechanisms of firms, which are formed from individual managers, are agents and actors of the institutional environment. This paper by focusing on the relations between manager origin, firm performance and institutional distance highlights the role and power of agents and actors, and provides a better understanding to the topic.

This paper not only has theoretical implications but also practical ones. Our aim throughout the paper was not to tell what should or should not the firms do, but to examine the cause effect relations and shed light to some factors affecting the firm performances. Based on this firms can have a better understanding on the affects of country specific characteristics on their performances, and the role of manager origin and experience in this equation. This being the case, it should also be mentioned that there is no one right answer or a solution that is one size fits all. Firms always need to make tradeoffs, however by understanding the cause effect relations they can better evaluate the outcomes of the tradeoffs they make. This paper providing these understandings can serve as a valuable tool for multinational manufacturing firms in Turkey.

9.2. Future directions

Although this study contributes to the existing theoretical and empirical base, there still exists room for further researches. First, this paper focuses on high performing multinational manufacturing firms in Turkey; the firm sample can be further extended to all multinational manufacturing firms and also to all multinational firms in Turkey. More over
as the sample size increases it would be possible to make distinctions between different industries and home countries. With these extensions a more comprehensive understanding can be achieved. Second, a single distance figure is used in this paper, the effects and relations of three pillars of institutional environment can be examined separately by using different figures. Third, institutional distance in this paper, like the prior studies, is calculated with indicators which are not originally designed to measure institutional distance. A study which is designed to measure the institutional distance would give more accurate results. Last, a similar study can be conducted for other countries in order to validate the results and if possible generalize the findings.

As mentioned earlier, institutional theory is still developing and every study contributes to this development. However, including this paper, many of these contributions also open up more areas to be investigated, and this is mainly due to the nature of social and administrative sciences. Unlike natural sciences, the social and administrative sciences do not have many laws, but many theories; which mean that they continuously develop and change. Due to this there is always a gap to fill and an area to contribute.
References


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# Appendix

## Appendix 1 – Firm list and data sources

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<th>Firm Name</th>
<th>Data Source</th>
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### Appendix 2 – Detailed results for the first regression

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b. Predictors: (Constant), ID, C  
c. Predictors: (Constant), ID, C, YT  
d. Predictors: (Constant), ID, C, YT, YE

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Appendix 3 – Detailed results for the second regression

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Dependent variable: P
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f. Predictors: (Constant), ID, C, YT, YE

Dependent variable: NP