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MOTIVES FOR FDI IN A SMALL EMU MEMBER STATE: THE CASE OF GREECE

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Abstract

A questionnaire survey covering MNCs that had invested in Greece during the period 1995-2003 is carried out in order to determine the motives for investing in Greece through a phase of increased expectations on foreign investment from hosting the 2004 Olympiad. The underlying assumption made is that the views of the local managers reflect the views of the mother company when deciding to invest. Although the findings represent the time that the investment took place, the influence of the conditions shaping the economic environment at the time the survey was carried out is also discussed. The findings indicate that the primary motives of foreign investors for the period 1995-2003 were those associated with market-seeking and support those of quantitative studies covering recent developments, leading to the conclusion that there is no progress made regarding the factors that enhance FDI attractiveness.

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Introduction

The rapid international diversification of production processes, and the movement of financial flows across countries and regions, has highlighted the need to analyze direct investment flows. FDI data are a measure of strategic long-term real investments into and out of an economy. International empirical evidence shows that FDI has a significant positive impact on technological progress, R&D, innovations in productive process and consequently, economic growth.[4]

FDI has been encouraged in Greece since the early 1950s, in order to revive and expand the country's industrial base. The adoption of Law 2687/53 on the attraction of foreign capital as well as the strategy for the reconstruction of the country after the war had a significant impact on FDI and helped the rapid increase of capital inflows in the period 1955-1980 (Mardas & Varsakelis, 1996; Bank of Greece, 1998). When Greece joined the EMU on January 1, 2001, it committed to serious structural reforms to meet EMU convergence criteria. To this end, the Greek Government has opened the telecommunications market and the energy market has undergone some deregulation. Nevertheless, the public sector has always been the major employer in the economy and the primary concern is whether the restrictions on public spending imposed by the SGP are able to affect growth. The cease of the negative effects of public investment spending on private investment as an indirect effect of the SGP, the constant effort for privatization and deregulation and the aid of structural funds were and are still expected to substitute public investment with private, domestic and foreign, direct investment (Apergis, 2000; Mamatzakis, 2007). This change of direction in the organization of the Greek economy leads to the assumption that EMU membership implies greater FDI inflows.[5] Studies indicate that after the introduction of the euro, although the FDI that reached the eurozone was largely a manifestation of the end-of-century takeover boom – a global phenomenon of which the euro was only a subsidiary cause – and even though the intra-eurozone FDI turned out to be weak, both in relation to previous trends and as a share of major economies' global FDI flows, the euro

[4] For an analysis on the significance of FDI see Borensztein *et al.* (1998) and Everett (2006).
[5] As the absence of exchange rate volatility (Apergis *et al.*, 2002).

appears to have given a modest stimulus to inflows from other major investing economies (Sousa & Lochard, 2006; Petroulas, 2007; Taylor, 2008).

Duran and Ubeda (2005) consider that newly developed economies – fourth phase countries of the *investment development path* theory[6] – show a technological and institutional gap in comparison with developed economies, which explains their lesser capacity to generate direct investment and conclude that newly developed countries had undergone a deep structural transformation in the 1980s, which encouraged outward FDI. Although Greece was considered as a newly developed economy[7] for the period covered in this study, its net outward FDI position for the period 1980-2006 places the country in the second phase of the investment development path theory (see Table 1). However, Greece's net outward FDI position may be in the third phase[8] due to the technological and institutional gap underlined by Duran and Ubeda (2005).

Table 1: Inward and Outward FDI in Greece (UNCTD, 2004; 2005; 2007)

	1980	1985	1990	1995	2000	2002	2003	2004	2006
Outward FDI Stock (millions US$)	2 923 [b]	2 923 [b]	2 948 [b]	3 004 [b]	5 861	9 000 [a]	10 000 [a]	13 056	17 521
Inward FDI Stock (millions US$)	4 524	8 309	5 667 [b]	10 957 [b]	12 499	15 560 [a]	17 000 [a]	27 213	37 009
Net FDI Outward Stock (millions US$)	-1601	-5 386	-2 719	-7 953	-6 638	-6 560	-7 000	-14 157	-19 488
Outward FDI Stock % of GDP	6.0	7.1	3.5	2.6	5.1	6.7	5.7	6.4	7.2
Inward FDI Stock % of GDP	9.3	20.2	6.7	9.3	11.0	11.7	9.8	13.2	15.1
Outward FDI Performance Index			77	91	42	36	50	52	42
Inward FDI Performance Index			37	80	123	119	122	129	114
Inward FDI Potential Index			33	37	34	33	33	36	

[a] Preliminary data (UNCTD, 2004).
[b] Estimated by subtracting flows (UNCTD, 2004).

Previous studies concerning FDI inflows in Greece focus on FDI attractiveness and highlight inefficient public governance, high taxation, inefficient infrastructure, and general macroeconomic conditions as the decisive factors of

[6] According to the investment development path theory, developed countries are grouped into two phases: the fourth and fifth. For an overview of the investment development path theory and its implications see Dunning and Narula (1997), Lall (1997) and Narula and Dunning (2000).
[7] The World Bank classifies Greece as a high income country (GNI per capita in US$ – Atlas methodology) since 1996 (see World Bank analytical classifications as presented in World Development Indicators at http://go.worldbank.org/0CO1RKFBP0).
[8] Boudier-Bensebaa (2008) places Greece on the third phase of the investment development path.

foreign investors' averseness (Apergis & Katrakylidis, 1998; Filippaios & Kottaridi, 2004; Psycharis & Kokkinou, 2004; Pantelidis & Nikolopoulos, 2008). No more than two references exist on the determination of motives for inward FDI in Greece. The work of Georgopoulos and Preusse (2006) indicate Greece's inability to attract considerable market-seeking, export-oriented and efficiency-seeking FDI due to location weaknesses. Pantelidis and Nikolopoulos (2008) imply in their study that market and efficiency-seeking are the primary FDI inflows to the Greek economy.

This study aims to determine the motives for inward FDI in Greece for the period 1995-2003, a phase of increased expectations on foreign investment from hosting the 2004 Olympiad. The two following sections provide a theoretical background on the connection between MNCs and FDI and an overview on the motives for FDI. The sections describing the research design and the findings follow after, with a discussion of the primary motives for FDI.

MNCs and FDI: A Brief Review of Theories

In order to undertake any discussion regarding the determinants of FDI for a specific country and to examine the institutional barriers to FDI inflows, the difficulties occurring in the definition of FDI have to be considered. The legal difficulties that arose in the attempts to define FDI flows have to gain extra attention, since each country viewed FDI flows differently in different time periods.

According to the IMF, "direct investment is the category of international investment that reflects the objective of a resident entity in one economy obtaining a lasting interest in an enterprise resident in another economy… The lasting interest implies the existence of a long-term relationship between the direct investor and the enterprise and a significant degree of influence by the investor on the management of the enterprise. Direct investment comprises not only the initial transaction establishing the relationship between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated" (IMF, 1993: 86). The concept of direct investment presented by the IMF (1993) is the basis for the definition of FDI adopted in the second edition of the OECD (1999), which recommended that the minimum equity stake for an investment to qualify as direct should be 10%.

The IMF (1993) stipulates that the direct investment capital transaction includes equity capital, reinvested earnings and other capital as its

components[9]. The differential measurement and recording of these components in the national accounts among countries impedes correct comparisons of the FDI inflows (Bitzenis, 2006a).
In his review of the various FDI definitions, Bitzenis (2006a) concludes that key features of the FDI are "...investing/acquiring/obtaining a foreign firm or asset and influencing/controlling the management operations". Based on his observation that the practices in defining FDI vary greatly across countries[10] and that even the ownership of more than 50% might not allow managerial control in case of specific company's regulations, Bitzenis (2006a: 89) argues that not all FDI "aim at and lead to control" as the level of control differs according to the investor's expectations.

There is increasing recognition that understanding the forces of economic globalization requires looking first at FDI by MNCs (Blonigen, 2006). As MNCs have different strategies, a different approach in their respective mix of costs and benefits is expected.

Some of the theories of the MNC seem to have explicit or implicit assumptions of efficiency objectives for the firm – short-term profit maximization and marginalist analysis – while others have been developed more under the assumptions of strategic objectives for the firm – market power in terms of market position and share (Ietto-Gillies, 2005). In addition, some of the theories can be viewed as static – in terms of examining only the reasons leading to FDI – whereas others can be considered dynamic – in terms of investigating the procedure leading to the formation of a MNC (Bitzenis, 2003).

The theoretical models that sketch out the defining factors of FDI are initially classified in two categories: microeconomic and macroeconomic models. The microeconomic models focus on the conditions that lead the enterprises to invest abroad, while the macroeconomic models focus on the factors that determine the level of FDI flowing in and out of the economy.[11] Navaretti and Venables (2005) and Blonigen (2005) review the literature on macroeconomic determinants of FDI and emphasize on the exchange rate, taxes, institutions and trade.

Hymer predates most important debates on what today is called globalisation (see Pitelis, 2002) and his work (1970, 1971, 1972, 1979) is mainly consisting

[9] The transfer pricing between the mother company and the affiliate: short and long-term capital (Barrell & Pain, 1997: 64).
[10] The investment is treated as FDI if there is an equity stake in the company acquired larger than 10%, 20%, or 25%, depending on the country.
[11] Dunning's (1979) eclectic approach develops from their combination.

of his doctoral dissertation and a later phase where he analysed wider issues such as the relationship between the MNC and the state and the relationship between the MNC and the developed and developing countries. The concepts of control and market imperfections are regarded as the main points of his earlier contribution to the theory of the MNC (see Yamin, 2000). The former is crucial to the differentiation between portfolio, direct investment and other internationalisation modes such as licensing. The latter combined with the related market power of firms operating in oligopolistic markets are the explanatory factors of the MNC's behaviour. Hymer draws on the work of Coase (1937) in his 1968 article in order to expand his theory on the organisational side of the firm and some of the points he makes provide an introduction to the work of internalisation theorists.

Vernon faced similar problems but used a different approach. The starting point of Vernon (1966) is not the firm as a whole but the product. He uses the concepts of two major directions in the existing literature in order to develop his *international product life cycle* theory: the various stages of the product's life (Kutznets, 1953) and the theories of trade based on the technology gap (Posner, 1961). Innovation and technological advantages are the keys to Vernon's theory, which has dominated the literature for many years amidst criticisms and doubts. A first incisive critique was made by Vernon himself (1979) and was based on the idea that the macro environment had changed by the late 1970s and so had the degree of internationalization.

The *internalization* theory (Caves, 1971; McManus, 1972; Buckley & Casson, 1976; Teece, 1977; Rugman, 1981; Hennart, 1982; 2000) of the MNC has its roots in Coase's (1937) theory of the firm in which the firm grows as a result of attempts to economize on the costs of market transactions. These principles were further developed by Williamson (1975; 1981a; 1985; 1999) who extended them and applied the transaction costs notions to explain many aspects of the firm from its organization to its development and growth. The internalization theory makes the assumption of market imperfections of transactional type, rather than structural type as in Hymer's and Vernon's approach. These imperfections generate costs and uncertainties which are best avoided by internalizing the transactions. When the internalization occurs across national borders we have international production and the MNC. The resource-based FDI leads to internalization across border of the vertical type. However, internalization can be the outcome of an attempt to keep the results of research and innovation within the firm while extending the range of markets and production location across borders. In cases the latter occurs, the theory emerges from the assumption that the MNC wants to reduce the costs and uncertainty of operating on the market and emphasizes efficiency objectives and exchange rather than production relations within the firm (Cantwell, 2000).

Dunning used his expertise and knowledge of the field to develop what he has sometimes called a "systemic theory" or a "paradigm". He tried to explain the range of the MNC's activities – trade, licensing and FDI – and proposed a framework for the analysis of three advantages (Dunning, 1977; 1980): ownership, location and internalization.[12] Dunning's "eclectic" theory was criticized as nothing more than a "shopping list of variables" (Dunning, 2000a) to which he replied that his approach must not be seen as a theory but rather as a "system" or a "paradigm" i.e. as an umbrella for a variety of theoretical approaches (Dunning, 2000b).

While some studies have considered financial flows (Aliber, 1970; 1971) or the context of countries' different growth pattern (Aliber, 1993) as the main determinant for FDI, others have further developed the implications of oligopolistic structures for the geographical pattern of FDI (Knickerbocker, 1974; Graham, 1978; 1990), as well as for international production and its effects (Cowling & Sugden, 1987).

Cantwell (1989; 2000) has put forward a dynamic, evolutionary approach to the growth of the MNC, in terms of innovation and technological accumulation. He suggests that as firms develop their innovation activities in order to enhance their ownership advantages, they result in spillover and agglomeration effects that lead to endogenous location advantages. His notion of multiplicity of centers of innovation implies a hierarchy of firms in terms of technological accumulation but not a hierarchy of countries. Cantwell presents a model of technology creation and diffusion and contradicts Vernon's conclusions of technology transfer.

The development of *new trade* theories with their stress on agglomeration advantages and the geography of production have led to a variety of contributions (Helpman, 1984, 1985; Helpman & Krugman, 1985; Krugman, 1985, 1998; Markusen, 1984, 1995, 1998; Carr *et al.*, 2001) in which the activities of the MNC are basically seen as multi-plant locations to be explained by a combination of costs structure – including transport and other spatial costs – and the existence of internal or external economies leading to agglomeration advantages.

[12] Each advantage is susceptible of further expansion.

Motives for FDI

The FDI literature identifies three as the most common investment motivations: resource-seeking, market-seeking and efficiency-seeking (Dunning, 1993). Dunning (1993) suggests that although most MNCs engage in FDI that combines the characteristics of each of these categories, the gravity of each motive on the formulation of the MNC's strategy may also change, as a firm becomes an established and experienced foreign investor.

The availability of natural resources, cheap unskilled or semi-skilled labor, creative assets and physical infrastructure promotes resource-seeking activities. Historically, the most important host country determinant of FDI has been the availability of natural resources, e.g. minerals, raw materials and agricultural products (Navaretti & Venables, 2005). Labor-seeking investment is usually undertaken by manufacturing and service MNEs from countries with high real labor costs, which set up or acquire subsidiaries in countries with lower real labor costs to supply labor intensive intermediate or final products. Frequently, to attract such production, host countries have set up free trade or export processing zones (Dunning, 1993).

Market-seeking investment is attracted by factors like the host country's market size, per capita income and market growth. For firms, new markets provide a chance to stay competitive and grow within the industry as well as achieve scale and scope economies. Apart from market size and trade restrictions, MNCs might be prompted to engage in market-seeking investment, when their main suppliers or customers have set up foreign producing facilities and in order to retain their business they need to follow them overseas Market-seeking also includes the search for strategic assets that enable the MNC to sustain and advance its international competitive advantages (Dunning, 1993).

The motivation of efficiency-seeking FDI is to rationalize the structure of established resource based or market-seeking investment in such a way that the investing company can gain from the common governance of geographically dispersed activities. The intention of the efficiency-seeking MNC is to take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a limited number of locations to supply multiple markets (Dunning, 1993).

The FDI motivations discussed in this section emerge from Dunning's eclectic paradigm of international production (see Dunning, 1988, 2003; Cantwell, & Narula, 2001). Ownership, location, and internalization are the three potential sources of advantage that may underlie a firm's decision to become a MNC. A key feature of this approach is that it focuses on the incentives facing individual firms. This is now standard in mainstream international trade theory, but was not at all so in the 1970s, when FDI was typically seen through a Heckscher-Ohlin lens as an international movement of physical capital in search of higher returns (see for example Mundell, 1957).

Ownership advantages are key to explaining the existence of MNCs. Firms are regarded as collections of assets and candidate MNCs possess higher-than-average levels of assets having the character of internal public goods. These assets can be applied to production at different locations without reducing their effectiveness. Firm specific or ownership advantages are:

- monopolistic advantages that the MNCs receive in the form of privileged access to output and input markets through ownership of scarce natural resources, patent rights, etc.
- technology, knowledge broadly defined so as to contain all forms of innovation activities.
- economies of large size such as economies of learning, scale and scope, broader access to financial capital, and advantages from international diversification of assets and risks.

Examples include product development, managerial structures, patents, and marketing skills, all of which are encompassed by the catch-all term of Helpman (1984) “headquarter services”. While this is clearly a multi-dimensional factor, it is common to model it in terms of a single index of firm productivity. The most sophisticated treatment along these lines is found in recent work on heterogeneous firms by Helpman *et al.* (2004), which combines the simplest version of the horizontal motive for FDI with the assumption that firms differ in their productivities.

Location advantages focus on the question of where a MNC chooses to locate:

- Economic advantages consist of quantities and qualities of the factors of production, transport and telecommunication costs, scope and size of the market.
- Political advantages include the common and specific government policies that influence inward FDI flows, intrafirm trade and international production.

- Social and cultural advantages include psychic distance between the home and the host country, language and cultural diversities, general attitude towards foreigners and the overall position towards free enterprise.

Internalization advantages influence how a firm chooses to operate in a foreign country, trading off the savings in transactions, holdup and monitoring costs of a wholly-owned subsidiary, against the advantages of other entry modes such as exports, licensing, or joint venture. The MNCs choose internalization where the market does not exist or functions poorly so that transactions expenses of the external route are high.

Research Design

The aim of this study is to identify the motives for FDI in Greece. On 5 September 1997 at the 106th International Olympic Committee Session in Lausanne, Athens was elected as the Host City for the Games of the 28th Olympiad in 2004 (www.olympic.org – official website of the Olympic Movement). Academic literature suggests that hosting major sporting events has a positive contribution to the host area economy, expecting a boost in infrastructure, financial flows and economic development (see Bernan *et al.*, 2000; Veraros *et al.*, 2004). Accordingly, there is an investigation of the foreign investors' motives during the period 1995-2003.

The investigation is carried out via a questionnaire (Appendix 1) that has been tested in similar researches conducted in Bulgaria (Bitzenis, 2006a; 2006b; 2007) and consists of two parts. In the first part, the questions aim to provide necessary background information on certain issues that were considered important in characterising the sample population. In the second part, each question includes seven groups of sub-questions. These groups of sub-questions were initially selected based on the eclectic paradigm of international production (as presented briefly in the previous section), but necessary amendments are made based on the universal model (Bitzenis, 2003). The universal model (Bitzenis, 2003) embraces most of the theories determining FDI and concludes that no theory dominates the decision-making process of FDI, as different opportunities arise depending on the changing international business environment. Enriching a "shopping list of variables" (Dunning, 2000a) with elements of the universal model (Bitzenis, 2003), becomes necessary in order to identify the possible motives of foreign investors, as it is not within the aim of this study to explore the boundaries of a specific theory of MNCs.

The second part of the questionnaire includes seven groups of hunters (seekers) and an indication "others" to be completed by respondents:

- recourse-seeking –factor hunters or natural resource hunters (access to low cost of acquiring natural resources and raw materials),
- market-seeking – market hunters (size of the market, prospects for market growth, increasing market share), strategic market hunters (follow the competition, follow the clients, a way to survive, acquiring of assets, international pressures, globalisation etc.), exploitation of ownership advantages (brand name, know-how, past experience, existing business links etc.),
- efficiency-seeking – efficiency hunters (economies of scale, of scope, risk diversification), hunters of financial aspects (favourable investment law framework, subsidies, tax exemptions) and locational hunters (historical links, cultural closeness or distance, geographical proximity, stability, climate etc.).

The research is descriptive and the sample is determined on a quota basis – non random selection – involving the selection of subjects based on the identification of specific characteristics to increase representativeness according to

- the inclusion of MNCs from different types of industries,
- their volume of investments,
- and the number of their employees.

Based on indicators and documents presented by the HCI, Chambers of Commerce and Industry in various locations in Greece and embassies, the sample includes a list of 150 MNCs that have already invested in Greece. Data collection took place via the internet (email), fax, mail or appointment. Purposive sampling is considered more appropriate for the reason that a questionnaire requires the views of people managing MNCs with significant contribution to economic activity in Greece, as described by indicators mentioned. The questionnaires were collected between June and September of 2004.

The option for qualitative research is closely related with the attempt to better understand the determinants of FDI from a managerial perspective by considering the contextual variables surrounding a manager within the FDI decision-making process.

The application of a logit or probit model would be appropriate for the examination of such data; however, if this would be the case in this study, the dependent variable would represent only foreign enterprises investing directly in Greece, thus leading to a biased outcome. Instead, descriptive statistics are employed, and an extra question raised regards the similarity of the findings with those of previous studies, as Holland *et al.* (2000) concluded that econometric evidence supports the findings of survey studies.

Particular attention was directed toward ensuring that individual survey respondents were equipped to represent the position of the company as whole. The data presented and analyzed in the findings is derived from representatives who hold positions such as Chief Executive Officer, President or Chairman, Chief Financial Officer, and senior management posts, who are involved directly in strategic planning.

Findings and Discussion

A proportion of 34.6% – 52 out of 150 – of the MNCs included in the sample contribute to the collection of the categorical data. Such a proportion is considered by many authors as an adequate response rate for surveys administrated online (Sheehan, 2001; Hamilton, 2003), since 67.69% of the response rate occurred via emails.

An additional factor contributing to the sample's representativeness is the proportional distribution of MNCs in various sectors of economic activities. The industrial sector accounts for 53.84% (Mining 5.77% + Manufacturing 40.38% + Construction 7.69%) and FDI inflows in Greece for the period 1995-2003 were 48,31% (Mining 3.63% + Manufacturing 42.23% + Construction 2.45%). The trade/food sector accounts for 25% and FDI inflows in Greece for the period 1995-2003 were 14.12%. The services sector accounts for 21.16% (Transportation & Communication 7.69% + Leasing/Real estate 5.77% + Hotels 3.85% + Financial Services 3.85%) and FDI inflows in Greece for the period 1995-2003 were 37.56% (Transportation & Communication 21.68% + Leasing/real estate 5.89% + Hotels 4.24% + Financial Services 5.74%). The MNCs from USA accounted for 23.08% of the respondents and FDI in Greece from the USA the period 1995-2003 were 8.50%. MNCs from Luxemburg/offshore centers accounted for 17.31%, and the respective FDI in Greece for the period 1995-2003 were 23%. MNCs from Germany accounted for 9.00% and the respective FDI in Greece for the period 1995- 2003 were 15.38%. MNCs from the Netherlands accounted for 9.62% and the respective FDI in Greece for the period 1995-2003 were 23.60%. British, French and

Italian MNCs accounted for 7.69% respectively and FDI in Greece for the period 1995-2003 were 6.20%, 9.90% and 3.60% in that order.[13]

Table 2: Motives for FDI in Greece

FDI Motive	%	FDI Motive	%
Prospects for Market Growth	86.50	Cultural Distance[14]	32.70
Political Stability	78.80	Follow the clients	28.80
Economic Stability	76.90	Low Cost of Skilled Labor	28.80
Market Size	61.50	Risk Diversification	23.10
Social Stability	59.60	Existing Business Links	23.10
2004 Olympiad	57.70	Availability of Finance	21.20
Links to Neighboring Countries	55.80	Acquisition of MNC’s Assets	21.20
International Environment Pressures	53.80	Investment Incentives of Law 2601/98	21.20
Establishing an Export Base	42.30	Free Trade Zones	19.20
Economies of Scale	40.40	Follow the Competition	17.30
Avoid Double Taxation	38.50	Culture Closeness	17.30
Brand Name	34.60		

The 52 respondents invested in Greece 1.465 billion US$, which is 29.9% of total FDI inflows for the period 1995-2003. 41.38% of the respondents invested in Greece an amount between 25 and 50 million US$, 33.69% invested an

[13] Indicators from Bank of Greece’s governor’s annual reports: 1996-2004.
[14] Williamson (1975) extensively analyzes the nature of the transactions costs involved in using the market mechanism for transferring intangibles and concludes that in the presence of cultural differences between headquarters and foreign subsidiaries, avoiding external markets as the avenue of knowledge transfer could be advantageous.

amount between 50 and 100 million US$ and 20.16% invested an amount between 1 and 25 million US$.

In general, the primary motives include expectations for growth as reflected by the prospects for market growth, economic stability, market size, the 2004 Olympiad and links to neighboring markets and institutional factors, in terms of political and social stability and pressures from the dynamic international business environment. The findings of the survey are illustrated on Table 2 and indicate prospects for market growth (86.50%), political (78.80%) and economic stability (76.90%) as the main motives for FDI in Greece.

Market-seeking are first-order motives in this study and market-seeking investors are represented in the sample from motives such as prospects for market growth and market size, links to neighboring countries, establishment of an export base, brand name, follow the clients and the competition, existing business links, acquisition of assets and free trade zones.

The quality of institutions is likely an important determinant of FDI activity, particularly for less-developed countries for a variety of reasons as it is often argued that countries with different institutional strengths have distinct comparative advantages to attract FDI (see Blonigen, 2005). Efficiency-seeking are second-order motives in this study and the search for efficiency and strategic assets is represented in the sample from motives such as political, economic and social stability, the 2004 Olympiad, pressures from the international business environment, economies of scale, taxation, cultural distance and closeness, risk diversification, availability of finance and investment incentives by the government. Political, economic and social stability characterize the quality of Greek institutions.

Resource-seeking are third-order motives in this study and resource-seeking investors are represented in the sample from the motive of low cost of skilled labor.

Although the market size and its prospects for growth and the 2004 Olympiad are among the primary motives, the connection between market growth and the 2004 Olympiad is derived instantaneously, as academic literature suggests that hosting major sporting events has a positive contribution to the host area economy, expecting a boost in financial flows and economic development. However, the 2004 Olympiad's impermanent influence on growth is indicated by previous studies on Greek attractiveness to FDI (see introduction).

Table 3: Prospects for Market Growth

M2growth * SECTOR Crosstabulation

			SECTOR			
			MANUFAC TURING	TRADE-FOOD	BANKS-SERVICES	Total
M2growth	YES	Count	22	12	11	45
		% within M2growth	48,9%	26,7%	24,4%	100,0%
		% within SECTOR	78,6%	92,3%	100,0%	86,5%
		% of Total	42,3%	23,1%	21,2%	86,5%
	NO	Count	6	1	0	7
		% within M2growth	85,7%	14,3%	,0%	100,0%
		% within SECTOR	21,4%	7,7%	,0%	13,5%
		% of Total	11,5%	1,9%	,0%	13,5%
Total		Count	28	13	11	52
		% within M2growth	53,8%	25,0%	21,2%	100,0%
		% within SECTOR	100,0%	100,0%	100,0%	100,0%
		% of Total	53,8%	25,0%	21,2%	100,0%

Table 4: Prospects for Market Growth and MNC's Origin

ORIGIN3 * M2growth Crosstabulation

			M2growth		
			YES	NO	Total
ORIGIN3	EU 25	Count	32	5	37
		% within ORIGIN3	86,5%	13,5%	100,0%
		% within M2growth	71,1%	71,4%	71,2%
		% of Total	61,5%	9,6%	71,2%
	REST OF WORLD	Count	13	2	15
		% within ORIGIN3	86,7%	13,3%	100,0%
		% within M2growth	28,9%	28,6%	28,8%
		% of Total	25,0%	3,8%	28,8%
Total		Count	45	7	52
		% within ORIGIN3	86,5%	13,5%	100,0%
		% within M2growth	100,0%	100,0%	100,0%
		% of Total	86,5%	13,5%	100,0%

MNCs of all types and from all sectors (86.50% of the sample) have seen Greece as a promising market with prospects for market growth (see Table 3). The Pearson Chi-Square test (p-value $0.165 > 0.1$) implies that the prospects for market growth as a motive is indifferent to the sector that each multinational belongs to. Identical findings are also produced from examining the connection between the prospects for market growth and the origin of the MNC. 86.5% (32/37) of the EU_{25} MNCs and 86.7% (13/15) of the MNCs outside the EU_{25} select this motive. As illustrated on Table 4, according to the Fisher's exact test (0.438) there is no association between the prospects for market growth and the MNC's origin.

As illustrated on Table 5, the prospects for market growth as an FDI motive has been mentioned by 45/52 MNCs (86.5%), and the 2004 Olympiad as an FDI motive by 30/52 MNCs (57.7%). Although according to the Fisher's exact test (0.438) there is no association between the prospects for market growth and the 2004 Olympiad, 60% of the MNCs (27/45) that have mentioned the former have also mentioned the latter.

Table 5: Prospects for Market Growth and the 2004 Olympiad

M2growth * L12olympics Crosstabulation

			L12olympics		
			YES	NO	Total
M2growth	YES	Count	27	18	45
		% within M2growth	60,0%	40,0%	100,0%
		% within L12olympics	90,0%	81,8%	86,5%
		% of Total	51,9%	34,6%	86,5%
	NO	Count	3	4	7
		% within M2growth	42,9%	57,1%	100,0%
		% within L12olympics	10,0%	18,2%	13,5%
		% of Total	5,8%	7,7%	13,5%
Total		Count	30	22	52
		% within M2growth	57,7%	42,3%	100,0%
		% within L12olympics	100,0%	100,0%	100,0%
		% of Total	57,7%	42,3%	100,0%

As illustrated on Table 6, the Pearson Chi-Square test (p-value 0.805 > 0.1) implies that the 2004 Olympiad as a motive is indifferent to the sector that each multinational belongs to. Identical findings are also produced from examining the connection between the 2004 Olympiad and the origin of the MNC. As illustrated on Table 7, according to the Fisher's exact test (0.438) there is no association between the prospects for market growth and the MNC's origin.

Table 6: 2004 Olympiad

SECTOR * L12olympics Crosstabulation

			L12olympics		
			YES	NO	Total
SECTOR	MANUFACTURING	Count	15	13	28
		% within SECTOR	53,6%	46,4%	100,0%
		% within L12olympics	50,0%	59,1%	53,8%
		% of Total	28,8%	25,0%	53,8%
	TRADE-FOOD	Count	8	5	13
		% within SECTOR	61,5%	38,5%	100,0%
		% within L12olympics	26,7%	22,7%	25,0%
		% of Total	15,4%	9,6%	25,0%
	BANKS-SERVICES	Count	7	4	11
		% within SECTOR	63,6%	36,4%	100,0%
		% within L12olympics	23,3%	18,2%	21,2%
		% of Total	13,5%	7,7%	21,2%
Total		Count	30	22	52
		% within SECTOR	57,7%	42,3%	100,0%
		% within L12olympics	100,0%	100,0%	100,0%
		% of Total	57,7%	42,3%	100,0%

Table 7: 2004 Olympiad and MNC's Origin

ORIGIN3 * L12olympics Crosstabulation

			L12olympics		
			YES	NO	Total
ORIGIN3	EU 25	Count	22	15	37
		% within ORIGIN3	59,5%	40,5%	100,0%
		% within L12olympics	73,3%	68,2%	71,2%
		% of Total	42,3%	28,8%	71,2%
	REST OF WORLD	Count	8	7	15
		% within ORIGIN3	53,3%	46,7%	100,0%
		% within L12olympics	26,7%	31,8%	28,8%
		% of Total	15,4%	13,5%	28,8%
Total		Count	30	22	52
		% within ORIGIN3	57,7%	42,3%	100,0%
		% within L12olympics	100,0%	100,0%	100,0%
		% of Total	57,7%	42,3%	100,0%

Conclusion, Limitations and Direction for Further Research

In order to determine the barriers of inward FDI in Greece for the period 1995-2003 – a phase of increased expectations on foreign investment from hosting the 2004 Olympiad – a research was carried out using a questionnaire, which was sent to 150 MNCs that had invested in Greece in that period. The response rate was 34.6% resulting to a sample of 52 MNCs. The findings indicate that market-seeking are first order motives, efficiency-seeking are second-order motives and resource-seeking are third-order motives. The survey's results support the findings of previous studies[15] (see introduction) leading to the conclusion that although Greece is underachieving in attracting FDI, the main motives behind FDI inflows are market and efficiency-seeking. An interesting observation is that the prospects for market growth and its size, along with the 2004 Olympiad (as a motive for location-hunters) are the primary motives behind market-seeking FDI, while Georgopoulos and Preusse (2006) identify some important location weaknesses concerning the Greek ability to attract FDI. This difference in the order of motives can be due to the influence of the 2004 Olympiad.

Issues of concern and limitations with our study is that the investigation of the motives of MNCs when investing in Greece has been done by using questionnaires completed by the local managers of the MNCs' subsidiaries. The underlying assumption made is that the views of the local managers reflect the views of the mother company when deciding to invest. This assumption is not necessarily and always true. A local subsidiary's manager can have a different perception of the domestic environment than the headquarters' managers. The motives for FDI in 2004 are also discussed, whilst an investment might have been made between 1995 and 2003. Given that there is a time difference, the current evaluation of the local environment from the domestic managers of MNCs does not necessarily reflect the motivations of the MNC in the past when they entered the Greek market, at the time when they actually made the decision to invest in Greece. Our questions were directed for the time that the investment took place, but the influence of current conditions cannot be avoided. Meanwhile, a goal for a future research, a full sample should include those MNCs that considered Greece as an option but at the end opted out in pursuing the investment. Independently, of the issues just outlined the authors still strongly believe that there is a contribution to the literature from this novel approach in determining barriers of FDI in Greece.

[15] Consistent with the observation of Holland *et al.* (2000).

Directions for further research, in addition to overcoming the aforementioned weaknesses of our study, should target the impact of the Olympics 2004 on the level of entrepreneurship and the business environment by identifying whether the momentum associated with the positive outcomes due to the Olympics was further exploited and changed the business landscape in Greece on a permanent basis. Therefore, it can be concluded that it is crucial for Greece to enhance the motives and reduce the barriers to FDI so as to stimulate entrepreneurship and create a positive business environment in order to receive significant FDI inflows. The research reveals that while the Olympic Games cannot be a motive anymore for FDI, policy makers have to enhance and maintain the momentum after the Olympic Games by translating the Olympic Games motive into market growth, and maintaining political, economic and social stability.

Abbreviations

EMU – Economic and Monetary Union
EU – European Union
FDI – Foreign Direct Investment
GDP – Gross Domestic Product
GNI – Gross National Income
IMF – International Monetary Fund
MNC – Multinational Corporation
OECD – Organization for Economic Cooperation and Development
SGP – Stability and Growth Pact

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APPENDIX 1

FIRST PART

(a) How did you know learn about this questionnaire?

FAX		WEBSITE	
E-MAIL		INTERVIEW	
POST LETTER		TELEPHONE	

(b) Could you please give us some general information?

Please complete the following.

Background Information

Company's Name:	Core:
Your Name:	Core:
Do you have an email?	/__/YES /__/ NO
Your E-mail Address?	
Do you have fax number?	/__/YES /__/ NO
Your fax number:	
Enter your company's Web-Site Address:	
(c) Company's home Country:	
(d) Kind of business:	
(e) Year of Investment in Greece:	
(f) Amount of Investment in $ US:	

(g) Which of the following ways has your company used in order to invest in Greece? (Please tick with the letter /_x_/ in each box that you are interested in)

- **/__/** Acquisition opportunities through Greek Privatization Programme
- **/__/** Acquisitions
- **/__/** Foreign Direct Investment (FDI) - Greenfield Site
- **/__/** Brownfield Investment - Expansion or Re-Investment
- **/__/** Joint Ventures / Strategic Alliances
- **/__/** Licensing or other Partnership Agreements
- **/__/** Branch or Subsidiary
- **/__/** Portfolio Investment
- Other………………………………………………………………………

(h) Is your Company planning on making additional investments in Greece?

/__/Yes **/__/** No

SECOND PART

Please specify, which of the following SEVEN factors have attracted your company to invest in Greece? {You can mention any number of incentives}

1. Locational hunters

How would you characterize the approach of the Greek Government towards Foreign Direct Investment (FDI)?

a. **/__/** Government trying to attract FDI by special incentives

b. **/__/** Passive approach from the Government, no special treatment of foreign investors

- **/__/** Economic Stability
- **/__/** Political Stability
- **/__/** Social Stability
- **/__/** New currency (Euro)
- **/__/** The attraction of the South East European Market - to have a link to other S.E.E. countries non-members of E.U.
- **/__/** Geographic Proximity - low transportation and transaction costs
- **/__/** Historical links between home and host country
- **/__/** Lack of infrastructure (services, telecom etc.) as an incentive/opportunity for investment
- **/__/** Cultural Closeness
- **/__/** Cultural Distance
- **/__/** Infrastructure (Internal and international transport network + telecom network) Facilities
- **/__/** Olympics 2004
- Other

2. Resource hunters

- **/__/** Skilled Low-cost Labour cost
- **/__/** Semi/ Un-Skilled Low-cost labour Force
- **/__/** Low Cost labour-intensive production for exports
- **/__/** Low cost of Raw material (energy, oil, gas, etc)
- **/__/** Searching for resources, availability of raw material
- **/__/** Inexpensive Land Low-Cost Production and Creation of an export base
- **/__/** Access to high technology
- Other……………………………………………………………………………..

3. Market hunters

- **/__/** The size of the Greek market (Customer base)
- **/__/** The prospects for market growth
- **/__/** Increasing the Profits (Market Share)
- Other…………………………………………………………………

4. Market hunters from a strategic point of view

- **/__/** Increasing market share (First mover advantage)
- **/__/** International Pressures from Competition - Physical Presence in Different Countries
- **/__/** Acquiring the assets of an existing foreign corporation - Globalization
- **/__/** Lack of local Competition in the Host Country
- **/__/** Pressures of competition in the Home country
- **/__/** A Way to Survive (Market share)
- **/__/** The Product Cycle Theory

- **/__/** Follow the Competition (counter-attack, ATTACK, offensive/defensive)
- **/__/** Follow the suppliers
- **/__/** Follow the clients
- **/__/** Local Unsatisfied demand for products
- **/__/** The local market is saturated
- Other………………………………………………………………………………...

5. Efficiency hunters

- **/__/** Economies of scale
- **/__/** Economies of scope
- **/__/** Risk Diversification (product, location sites)
- Other………………………………………………………………………………...

6. Exploiting the Ownership advantages

- **/__/** Existing Business links
- **/__/** To avoid trade barriers (tariffs, quotas, currency constraints, etc.)
- **/__/** Brand Name, know how, multinational, familiarity with host country
- **/__/** Last experience of Business contacts in Greece (representative office, exports)
- **/__/** Adopting the local tastes, needs, customs, language
- **/__/** Other…………………………………………………………………………

7. Hunters of Financial aspects

- **/__/** Availability of finance
- **/__/** Strong currency of the home country
- **/__/** Any favorable regional trade agreements for surrounding countries

  (Setting up an export base)
- **/__/** Corporate Tax (35%)
- **/__/** V.A.T. (18%)
- **/__/** Free Trade zones
- **/__/** Avoidance of Double Taxation
- **/__/** 1st set of Investment Incentives of L. 2601/98 (Subsidies-Interest Subsidies-Leasing Subsidies)
- **/__/** 2nd set of Investment Incentives of L. 2601/98 (Interest rate Subsidies-Tax Allowances)
- **/__/** Special Incentives of L.2601/98 in regions with high unemployment or special subsidised zones
- **/__/** Incentives of L.2601/98 for investments in high technology services and software development
- **/__/** Incentives of L.2601/98 for investments for the reduction of the pollution and the protection of environment
- **/__/** Incentives of L.2601/98 for investments in the exploitation of renewable energy sources and incentives in the substitution of liquid fuel or electricity with gas fuel
- Other…………………………………………………………………