In this study, perceptual mapping was used to identify the collective and individual positions of ten emerging nations. The perceived position of the “ideal” nation also was captured by the study’s findings. FDI executives who were surveyed indicated that some emerging nations have positioned themselves strategically in terms of their availability of and access to markets and resources. The stability of a nation’s political and economic environments, as well as its business environment, also contributes to its perceived position. Some nations appear better positioned to take advantage of their strengths, whereas others face significant obstacles.

Foreign Direct Investment (FDI) is an integral component of the globalization of the world’s economy, as well as a key aspect of every nation’s economic development efforts. Virtually all nations are eager to attract FDI, as exemplified by the immense financial investments that Mexico has attracted and continues to attract (Jenkins 1995). Indeed, the success of a given nation in attracting foreign capital is a direct result of that nation’s market or resources attractiveness, or both, and the presence and availability of investment opportunities.

In recent years, the social, economic, and political environments governing foreign direct investment in many previously closed economies have undergone something of a metamorphosis (Kamm 1992). These nations have changed from essentially closed economies or markets advocating protectionism,
subsidies, and increased regulations to more market- and growth-oriented positions, espousing regulatory reform, market expansion, and private sector development. In turn, these changes have encouraged many foreign direct investors to revise their list of nations considered desirable FDI candidates. While still largely composed of developed nations, many FDI lists now include nations considered as emerging. In this instance, an emerging nation is defined as one that has a low per capita income level and suffers a severe lack of marketing infrastructure (Johansson 2000).

While various reasons may explain the limited fiscal investment of US firms in emerging nations, perhaps the most readily apparent reason is the delicate balance that often exists between risk and reward. This balance traditionally has proven especially tenuous in emerging nations. While conspicuous in form and magnitude at times, in other instances, the risk associated with an emerging nation often is intangible and based largely upon perception.

This research was conducted in response to the previous comments and the limited amount of empirical information that exists concerning the real or perceived market position of various emerging nations as FDI alternatives. The basic purpose of the research was to identify the market position of ten emerging nations as perceived by American business executives experienced in foreign direct investment decisions. Specific objectives of the study were:

1. Empirically establish the perceived market position of ten emerging nations;
2. Develop perceived profiles of each individual nation;
3. Develop an aggregate profile of the ideal nation vis-à-vis the ten emerging nations studied.
BACKGROUND

The issue of foreign direct investment can be approached from the perspective of investing companies, as well as from that of recipient countries. There seems to be a consensus in the literature that multinational enterprises invest in foreign countries either to create a competitive advantage or to sustain the competitive advantage that they were able to create in their domestic markets (Hill & Jones 2000). This is possible because investing in foreign countries allows companies both to expand their sales and to realize locational advantages. Expanding sales can help increase a company’s market power and profits and enhance its low cost position. Companies also can achieve competitive advantage by benefiting from such national resources as abundant and cheaper raw materials, readily available labor supply, lower transportation costs, and financial incentives.

However, what is unclear is the role FDI plays in the recipient countries’ economic development efforts. Research has resulted in conflicting conclusions as to whether foreign direct investments are more productive than similar investments by domestic companies (Taylor 2000). Still, it is widely recognized that FDI is playing an increasing role in the global economy. According to a United Nations report, beginning in the early 1980s, FDI increased at an unprecedented compound annual rate of 29%, reaching a world stock of FDI of US $1,700,000,000,000 at the end of 1990 (UN 1992). Though most of the foreign direct investment outflows go to developed economies, FDI has become a critical ingredient of the gross domestic product and gross fixed capital formation for developing economies (Dunning 1993). As a result, FDI is increasingly becoming an important policy issue (Taylor 2000).

As noted earlier, the 1990s witnessed a bevy of governmental initiatives that codified changes in public policies
toward free enterprise and foreign direct investment in many emerging nations (Jones 2000; Orton 2000; Ramcharran 2000). Eastern European governments, particularly Poland, the Czech Republic, Hungary, and Romania, enacted competition laws and bilateral investment treaties aimed at encouraging foreign investment. In turn, the success of these four countries in their efforts to develop market-oriented economies has made them invited candidates to the European Union (Orton 2000). Clearly, these nations offer the best opportunities for multinationals seeking to invest in emerging countries. Besides Eastern European nations, India and Turkey also have launched, albeit with limited success, an assault on the remnants of their old command economies (Dhume 2000; McCrary 2000).

The last decade of the twentieth century offered ample opportunities and challenges for foreign direct investment in emerging economies. The fall of the Berlin Wall in 1989 and the disintegration of the Soviet Union marked a turning point in the role that both multinational enterprises and national governments played in facilitating the creation of a sustainable and balanced economic environment. Now, there is an agreement among these nations that foreign direct investment is beneficial (Wallace 1990). Though much of the interest of multinational investors remains focused on developed countries and the so-called newly industrialized economies of South-East Asia and Latin America (Dunning 1993), emerging nations are becoming increasingly attractive FDI alternatives.

Despite the progress that has been made in reforming political and economic systems, a number of obstacles continue to impede the flow of foreign direct investments into emerging nations. As Dunning (1993) suggests, the most important of these challenges are the political systems, values, and ideologies that most emerging nations inherited as a result of their centralized economies. These nations still have several obstacles that need to
be eradicated in order to develop market-oriented economies and to attract foreign investment (Ramcharran 2000).

For decades, FDI was perceived as a threat to communism and national sovereignty. As a result, government policy and legislation were devised to restrict severely foreign investment, particularly from the United States. Despite recent pro-FDI changes, these countries continue to suffer from this legacy. Hungary, for example, generally considered to be the most advanced post-communist country, with a successful economy and a fully functioning democracy, is nowhere near the level needed to sustain a properly functioning market economy (Jones 2000).

Like Hungary, several other emerging nations are suffering from decades of controlled economies. Despite its ambitious efforts, India is still unable to bolster investors’ confidence. The Indian Ministry of Industry has issued new guidelines on joint ventures that, while easing local ownership requirements, continue to force foreign investors to waste months or even years in negotiations with Indian partners (Viswanathan 2000).

While most emerging nations have put in place democratic or pseudo-democratic institutions, many continue to suffer institutional instability. For example, the recent conflicts in the Balkans, the military coup in Pakistan, the tensions between Greece and Turkey, political assassinations and resignations of democratically elected governments are constant reminders of the fragility of these new democracies. Often, to implement market economies, new democracies must impose hardships on a population accustomed to the welfare state. In turn, this reliance leads to a rise in the popularity of communist and socialist political parties that threaten new democratic and market-oriented institutions. Thus, the prospect that these nations can at any time fall back into political and economic instability can negatively affect the perceptions that foreign investors have of them.
While the preceding comments explain why US firms historically have chosen to invest in Western Europe, this practice changed somewhat during the 1990s as US emphasis shifted to developing Asian and Latin American nations, most notably China and Brazil. Investment in each of these countries could be justified by the scope of the market opportunity alone, especially in the case of China, which has essentially retained its centralized economy. However, generally absent from this new investment mix were other, less desirable emerging nations.

Various reasons may be posited as to why US firms have taken such a cautious approach to foreign direct investment in most emerging nations. As noted earlier, real or perceived risk remains the most viable explanation. For example, in a global study of risk, the emerging nations of India and Romania received overall risk composite scores of 55 and 53 respectively (scores range from 1-100, with lower scores representing higher risk). In contrast, Switzerland received the highest overall composite risk score, namely 94 (Erb, Harvey & Viskanta 1996).

Three different types of risk often are associated with a nation as a firm considers making a direct investment there. These risk types include the political and economic environment, domestic conditions, and economic relations (Dichtl & Koglmayr 1986). In all instances, executives charged with the responsibility for making the FDI decision must achieve “a more thorough understanding of the likelihood of various problems and opportunities in a country” (Kotabe & Helsen 1998). This understanding, while informed, is based upon the perceptions of that nation, region, or market. These perceptions form what is commonly known as “market position or location.”

In marketing terminology, the product’s “location” is its position in the mind of a consumer. In this instance, the consumer is the foreign direct investor, who is concerned with how a product
(i.e., a given nation and its “bundle of attributes”) is perceived. More specifically, for foreign direct investment purposes, position refers to the investor’s perception of a nation vis-à-vis a competing nation as an investment option.

Positioning: Concept and Application

The positioning concept received its first application over thirty years ago. Since that time, it has enjoyed myriad applications, ranging from consumer products, to political campaigns, to job placement. According to Ries and Trout (1981), “positioning should not be confused with strategy, even though the two are inextricably related.”

Positioning starts with a product. A piece of merchandise, a service, a company, an institution, or even a person ..., but positioning is not what you do to a product. Positioning is what you do to the mind of the prospect. That is, you position the product in the mind of the prospect.

Positioning is defined formally as “the act of defining the product’s image and value offer so that the segment’s customers understand and appreciate what the product stands for in relation to its competitors” (Scanlon 1994). Stated in more pragmatic terms, for a product, business, or investment option to establish an appropriate, desirable position in the marketplace, it must demonstrate to its potential stakeholders how it differs from competing options. In so doing, the host entity (i.e., each emerging nation) is attempting to establish a competitive advantage.

Empirically establishing the position of ten emerging nations as FDI options was the purpose of this research. Information gleaned, while limited, may offer some insight as to how and why US foreign direct investors have made their investment decisions. These findings also may contribute to future FDI investment decisions and research, as well as provide some
assistance and direction to potential FDI recipients seeking to enhance their position as FDI destinations.

METHODOLOGY

Data for this research were obtained via a mail survey of a randomly selected sample of 500 executives chosen from the membership of the Industrial Development Research Council (IDRC 1999/2000). While the IDRC’s membership includes representatives from virtually all sectors, only representatives of domestic, for-profit organizations were included in this study. A four-page, self-administered questionnaire was developed, tested, and distributed to potential respondents with a cover letter explaining the project. The questionnaire obtained measures that identified the positions of ten emerging nations, as well as specific nation-related attributes. In alphabetical order, the ten emerging nations studied were Afghanistan, Bulgaria, Czech Republic, Hungary, India, Pakistan, Poland, Romania, Slovak Republic, and Turkey.

The most common method for quantifying the position of an entity (e.g., a nation) vis-à-vis competing entities is through the technique of Multidimensional Scaling (MDS). This procedure converts ratings of perceived similarities to a geometric representation of several positions relative to one another. By measuring the preference concerning available options, the “ideal” option also can be portrayed on a perceptual map created from perceived similarities. A discussion of MDS is provided in Attachment A.

One advantage of using MDS in positioning research is that, instead of evaluating each nation on a list of dimensions created by the researcher, the respondents indicate the dimensions considered when comparing foreign direct investment options. In turn, the perceptual map created is based upon multiple
dimensions, representing the salient “top-of-mind” attributes the respondents associated with the emerging nations studied.

To allow development of the perceptual map, respondents were asked to rate each of the ten emerging nations with respect to similarity on a five-point Likert scale (1=Very Dissimilar to 5=Very Similar). Respondents then indicated which nation they preferred and what they considered in arriving at that rating. A paired-comparison format was used.

While more than ten nations may be considered emerging, the ten nations included in this study were selected because of their emergent status (Johansson 2000) and geographic contiguity. Further, given the methodology employed, it was necessary to limit the number of nations; as such, the MDS procedure employed required 45 pair-wise comparisons. The inclusion of additional nations (e.g., Albania, Macedonia, etc.) would have required many more comparisons and lengthened significantly the required amount of time and effort.

A total of 132 usable responses were received, for an overall response rate of 26.4%. To detect any potential non-response bias, a telephone survey was conducted with 25 randomly selected non-respondents. Non-respondents were asked to indicate the extent of their familiarity with each of the ten nations being studied. Comparisons between respondents and non-respondents, based upon a chi-square analysis, revealed no significant (p<0.1) differences. While some extrapolation of these findings may be possible given the minimal non-response bias, the questionable role that the respondents may actually play or have played in the FDI decision (this study identified only FDI experience) may limit the study’s findings.

As Table 1 indicates, respondents include a variety of professionals from organizations located in all areas of the country. Perhaps as a result of a greater regional concentration, respondents from the eastern portion of the US are over represented. Thus,
these findings do reflect a regional bias, the impact of which remains in question.

Table 1: Description of Respondents

<table>
<thead>
<tr>
<th>Region</th>
<th>FDI Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>East</td>
<td>Less than 3 years 14%</td>
</tr>
<tr>
<td>Central</td>
<td>3-10 years 37%</td>
</tr>
<tr>
<td>South</td>
<td>Over 10 years 49%</td>
</tr>
<tr>
<td>West</td>
<td>14%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Organization</th>
<th>Position in Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>Vice President 35%</td>
</tr>
<tr>
<td>Non-manufacturing</td>
<td>Director/Manager 25%</td>
</tr>
<tr>
<td></td>
<td>President/CEO 30%</td>
</tr>
<tr>
<td></td>
<td>Principal/Partner 10%</td>
</tr>
</tbody>
</table>

Familiarity with Emerging Nations

Respondents were asked to indicate their familiarity with each of the ten emerging nations using bipolar adjectives, either extensive or limited. Extensive familiarity with a nation indicated that a respondent (his/her firm) was familiar with and had considered selecting or had selected a particular nation as the recipient of a foreign direct investment. Limited familiarity with a nation indicated that a respondent (his/her firm) was familiar with a particular emerging nation, but had not considered that emerging nation for a foreign direct investment.

As expected, all respondents had at least some familiarity with the ten emerging nations studied. In turn, this familiarity provided the perceptual basis for subsequent responses. However, the degree of familiarity with each nation varied. As indicated in Table 2, respondents were most familiar with the Czech Republic, Hungary, India, Poland, and Turkey. Conversely, respondents
were least familiar with the emerging nations of Afghanistan, Bulgaria, and Pakistan. Moderate familiarity was associated with Romania and the Slovak Republic.

Table 2: Degree of Familiarity with Emerging Nations

<table>
<thead>
<tr>
<th>Nation</th>
<th>Extensive Familiarity (%)</th>
<th>Limited Familiarity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A – Afghanistan</td>
<td>8</td>
<td>92</td>
</tr>
<tr>
<td>B – Bulgaria</td>
<td>13</td>
<td>87</td>
</tr>
<tr>
<td>C – Czech Republic</td>
<td>23</td>
<td>77</td>
</tr>
<tr>
<td>D – Hungary</td>
<td>28</td>
<td>72</td>
</tr>
<tr>
<td>E – India</td>
<td>27</td>
<td>73</td>
</tr>
<tr>
<td>F – Pakistan</td>
<td>7</td>
<td>93</td>
</tr>
<tr>
<td>G – Poland</td>
<td>24</td>
<td>76</td>
</tr>
<tr>
<td>H – Romania</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>I – Slovak Republic</td>
<td>17</td>
<td>83</td>
</tr>
<tr>
<td>J – Turkey</td>
<td>37</td>
<td>63</td>
</tr>
</tbody>
</table>

Perceptual Mapping of Emerging Nations

The perceptual map of nations that was developed exhibited three dimensions. These are portrayed in Figure 1 as Stability of Political and Economic Systems, Availability of and Access to Markets/Resources, and Business Environment. In reviewing the findings presented in Figure 1, some clarification may be necessary. The perceived positions of all nations studied, as well as that of the ideal nation, are identified as relative points located along and above (denoted by a solid line) or below (denoted by a dotted line) the three axes (line length denotes the extent above or below the midpoint of each axis).

These findings indicate that several nations appear to be clustered together on similar dimensions. In contrast, one nation, India, appears to occupy a unique and strategically advantageous
position on all three dimensions. One group of nations, consisting of Hungary, Poland, and the Slovak Republic, appears to be clustered together and is perceived as possessing relatively stable political and economic systems, but needing to develop other

Figure 1: Perceptual Map of Emerging Nations

assets. A second group of nations, this one consisting of the Czech Republic, Romania, and Turkey, appears to be clustered together and is generally perceived as possessing a market and resource advantage, but suffering somewhat politically and economically.
A final group of nations, consisting of Afghanistan, Bulgaria, and Pakistan, appears to be clustered together and is perceived as being less desirable FDI locations as a result of questionable overall qualities.

Most interestingly, India appears to occupy a unique and strategically desirable position. Perhaps because of the relatively recent removal of strict local ownership requirements and the fact that India has almost a billion consumers, India is viewed as being a prime FDI destination. As can be observed in Figure 1, India’s most pressing need appears to be in reaffirming the long-term stability of its political and economic systems.

At a nation-specific level, several findings were of note. The Republic of Slovakia is regarded as enjoying a relatively stable political and economic system, yet is perceived as being less accommodating to business and having limited availability of and access to markets and resources. Hungary and Poland occupy very similar positions, in that each offers a relatively stable economic and political system and is somewhat accommodating to potential suitors, but each still must work to develop its market infrastructure.

Respondents perceive the ideal nation as possessing overall qualities that can be construed as acceptable, but not excessive. Executives apparently attach importance to all qualities and recognize that each factor contributes to the FDI equation. Unfortunately, this research did not ascertain the relative importance of each investment criterion.

As noted earlier, India appears most strategically positioned relative to the availability of and access to markets and resources. Most other nations, except Afghanistan, Bulgaria, and Pakistan, appear to occupy an acceptable or neutral position on the availability and access dimension. Half of the nations studied are perceived as possessing business climates or environments that are less than accommodating. Afghanistan, Bulgaria, Pakistan,
Romania, and the Slovak Republic are perceived as being somewhat deficient in this area. While this research did not ascertain the specific elements that constitute the business environment, this area arguably represents the most strategic area of need (Kamm 1992).

In contrast, the most difficult and traditionally dubious dimension that can be addressed is the political and economic environments of emerging nations. Three of the emerging nations studied are perceived as having relatively stable environments. Those nations include Hungary, Poland, and the Republic of Slovakia. Two other nations, India and Turkey, occupy essentially neutral positions on this dimension. All other nations studied are perceived as having less stable environments, especially Afghanistan, Bulgaria, and Pakistan. Two nations, the Czech Republic and Romania, appear poised to improve their positions on this dimension.

Given the overall ideal point perceived by respondents, three nations appeared poised to take greatest advantage of repositioning opportunities. Those nations include India and Turkey (via greater economic and political stability) and Poland (via a more accommodating business environment). However, several other nations, including the Czech Republic, Hungary, and the Slovak Republic, also appear to be in position to advance their FDI positions with focused economic development programs. While each of these nations generally must pursue a different repositioning strategy, each possesses one or more qualities that make it potentially desirable as a foreign direct investment option.

Reciprocally, it is not difficult to conclude which nation occupies the weakest perceived investment positions: given its location on all dimensions, Afghanistan appears to hold this dubious distinction. However, two other nations appear to face significant FDI challenges: these are Bulgaria and Pakistan.
CONCLUSION AND IMPLICATIONS

This article discusses foreign direct investment from the perspective of the investing companies, particularly how US business executives perceived investment opportunities in emerging nations. Using three criteria, namely stability of political and economic systems, availability of and access to markets and resources, and business environment, the study developed a perceptual mapping of ten emerging nations. India was seen as offering the best opportunities for FDI, while Afghanistan was perceived to be the least desirable FDI location. The remaining countries were positioned between these two nations. Overall, the findings demonstrate where and how each of the emerging nations studied is perceived individually and collectively.

The results of the research may have implications for research and FDI decisions. One area of interest for future research is the study of the relative importance of each of the three criteria used to develop the perceptual mapping of emerging nations. Though the business environment may arguably represent the most strategic dimension (Kamm 1992), research is needed to determine how US executives rank this area in comparison to stability of political and economic systems and the availability of and access to markets and resources. Also, further research should be undertaken that either investigates US executives’ perceptions of other emerging nations or uses a more regionally balanced sample of investing companies. Another topic for possible future research would be to determine whether US executives’ FDI investment decisions toward poor nations (e.g., African countries) are influenced by the same set of criteria. Such research would be informative, because there may be significant structural differences between African countries (e.g., strong ties with former colonial powers of Europe) and emerging nations.
The findings of this study may also contribute to guiding future FDI investment decisions, from both the perspective of investing companies and that of recipient nations. As competition is becoming more global, more US companies will undertake FDI to create or to sustain their competitive advantage. For companies that have little, if any, FDI investment experience, this research can help managers identify the factors that other individuals and institutions, more experienced with FDI, considered in making the strategic decision of whether and where to invest in emerging nations. Finally, the results of this study can provide assistance and direction to emerging nations that need to attract substantial FDI for their economic development efforts. Given the growing importance of FDI in the gross domestic product and gross fixed capital formation of emerging nations, the challenge and opportunity for these countries lie in their desire and ability to effect meaningful and enduring change in their political, economic, and business environments. To attract more FDI, each of these nations must develop a program designed to capitalize on or to ameliorate each aspect of its perceived position.

REFERENCES


Attachment A: Multidimensional Scaling

Multidimensional Scaling (MDS) is a technique for measuring perceptions of respondents to stimuli, which are represented as points in geometric space. The axes of this space represent perceived attributes that characterize these stimuli.

MDS uses similarities between pairs of stimuli to find a psychological distance between those stimuli. If one pair of stimuli is deemed more similar than another pair, the psychological distance between the first pair is less than that between the second pair. MDS programs take this set of distance data and find a spatial configuration or pattern of points in some number of dimensions whose distance best matches the input data.

The underlying objective of MDS is to find the dimensionality and configuration of the points whose distances best fit the data. The goodness-of-fit measure, called the stress
value, is described as the positive residual sum of squares, which can be expressed as a percentage.

The correct number of dimensions is found by identifying the smallest possible number of dimensions that still have satisfactory stress levels. Because of the key role that visual inspection plays in interpretation of the dimensions, Green (1975) suggested that the number of dimensions be limited to three or fewer, regardless of the stress values. The problem that confronts the researcher is the tradeoff between the possibility of a better fit, with more dimensions, and ease of interpretation, with fewer dimensions.

After the number of dimensions has been determined, the next step is to interpret and label the dimensions. The MDS technique has no built-in procedure for labeling the dimensions. Respondents are usually asked to describe how the stimuli were “alike and/or different,” after they had completed the similarity scale for each pair. The information gained from these comments is used along with the researcher’s evaluation of the configuration itself.

**Ideal Point**

MDS provides a means to evaluate the underlying dimensions and the individual’s perception (position) of competing nations along those dimensions. However, this information is somewhat limited, because even if the respondents perceive the locations on a set of common dimensions, the dimensions may not have the same degree of saliency to each individual, inasmuch as differing importance is attached to the perceived attributes. Therefore, preferences may differ among individuals or groups of individuals.

On another level, it is informative to know, given the position of each nation on the established dimensions, which nation is most preferred. Because no one nation may be “ideal,” a
composite ideal mode can be inferred through a series of paired comparisons, where the preferences for each nation, two at a time, are determined.

These pair-wise preferences are converted to an interval scale. For example, suppose almost all the respondents prefer nation A to nation B. Then the proportion of total comparisons in which A is preferred to B will be close to 100%. However, suppose that, when nation B is compared to nation C, only 55% of the respondents prefer B to C. Intuitively, the difference between the scale value associated with A and B will be much greater than the difference between the scale value associated with B and C. Therefore, the greater the percentage of respondents who prefer a particular nation over another, the greater the difference in scale value and the greater the separation between the two nations. The larger the scale value, the greater the preference for the nation. From the relationship among underlying dimensions, the ideal location can be identified. When this ideal point is added to the MDS perceptual map, each of the nations studied can be compared to this ideal location.