Institutional reform and FDI decision in transition economies:

A qualitative study of Syria

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Abstract

The paper considers the impact of institutional reform on the decision of foreign enterprises and foreign entrepreneurs to directly invest in the transition economy of Syria. It responds to the calls for more open research design that can go beyond the borders of the quantitative findings of previous econometric research by adopting a qualitative research strategy. The results reveal that institutional reforms enhanced Syria's attractiveness to FDI. Institutional barriers proved to be less daunting to foreign investors whose backgrounds were culturally similar to that of Syria and/or already had experience in Syria or in a similar type of economy. The impact of background similarity and previous experience in similar contexts appeared to be less important when the foreign investor was a multinational enterprise than for individual entrepreneur. Moreover, these factors also appeared to be less important for large enterprises compared to small enterprises.

Keywords

Transition economies, International entrepreneurship, FDI, Qualitative research, Syria.

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Introduction

Theoretical perspectives which explain the types and patterns of foreign direct investment (FDI) fall into two major traditions: economic and behavioural. Economic tradition builds on Hymer's (1960/1976) monopolistic advantage theory. The most influential approaches in this tradition are the internalisation theory (Buckley and Casson, 1976), the eclectic paradigm (Dunning, 1980) and the product life cycle model (Vernon, 1966). The behavioural tradition is associated with the Uppsala model (Johanson and Vahlne, 1977) and its origins can be traced back to Aharoni (1966).

Research which has investigated the location choice of FDI, including the impact of host countries' institutional environments, relies heavily on utilising and validating the economics tradition (e.g., Asiedu, 2006; Estrin and Uvalic, 2014; Li and Park, 2006). In this tradition, researchers assume perfect rationality in their models and leave little or no scope for discretionary management decision making (Hutzschenreuter et al., 2007). However, the FDI decision is a social process which involves different people at different levels of an organisation (Aharoni, 2011). Therefore, understanding this decision requires an interaction with those people directly involved in the decision making process; talking and listening to them in order to understand their perceptions, understandings and interpretations. This is not possible via traditional econometric research which mainly uses, inter alia, multiple regressions.

Therefore, this study addresses the above gap in the literature and also responds to calls for more open, flexible and creative research designs which can reveal the meaning behind the numerical data in previous econometric research and capture a broader, more detailed and clearer picture of the research context (Coviello and Jones, 2004; Kim and Aguilera, 2015; Young et al., 2003).

The study follows a qualitative research strategy which is based on the '*pattern matching*' technique (Yin, 2009: 136) to determine the impact of institutional reform on the investment decision of foreign enterprises and entrepreneurs in the transition economy of Syria. Pattern matching involves first utilising an existing theory by developing theoretical propositions that show what the researcher expects to find. Then, she/he compares the pattern of the collected data with the predicted pattern to find out whether they match, and in this case, whether the theoretical propositions are confirmed or not. The latter means that further explanation and amendment to the theoretical propositions are needed to fit with the empirical findings. This paper therefore contributes a novel methodology which overcomes the rigidity of the traditional quantitative approach in the study of FDI location decision.

The next section presents the research problem and question. A theoretical proposition is then developed based on previous research on FDI location decision, with special reference to research which has focused on transition economies. As this paper attempts to bring an alternative approach to testing theory, the focus is on describing the methods and results, rather than on the theories being examined. Therefore, the rest of the paper describes the research methodology and the methods followed for data collection and analysis. Thereafter, the paper presents the empirical results and discusses them in the light of the previous literature. The final section draws some conclusions.

Research question

The primary idea of economic transition is to replace the institutions of a centrally planned economy with those of a market-based economy (Newman, 2000). After taking the transition decision, the development of FDI inducing policies became a focus of special concern to transition economies for a number of reasons. For instance, FDI could speed up the transition process and contribute to the growth of host countries through the spillovers which can be generated from advanced technology used by foreign enterprises (Borensztein et al., 1998) and by encouraging the creation of new local ventures as a result of the entrepreneurial talents and training which foreign enterprises may provide (Cubillo and Cerviño, 2004; Thompson and Zang, 2015). Moreover, FDI provides transition economies with the elements needed to integrate with the global economy, such as management skills, more effective corporate governance and relatively stable capital (Djankov and Murrell, 2002).

The majority of previous studies which have explored FDI locational decision in transition economies have been carried out in Central and Eastern Europe (CEE) and China. This study explores the impact of the reform of formal institutions and the development of FDI inducing policies on the decision of foreign enterprises and entrepreneurs to invest in the transition economy of Syria; a country which has not been explored previously. The significance of this context stems from the fact that, when the data was collected, Syria had been at the early stages of its transition to a market-based economy which is an ideal period for exploring the impacts of institutions on enterprise strategies (Hoskisson et al., 2000).

Between 2005 and 2008, Syria underwent a 7% annual average growth of non-oil GDP (IMF, 2009) and experienced a 70% increase in FDI inflows (UNCTAD, 2009). There is a strong reason to believe that institutional reform in Syria affected its attractiveness to FDI since institutions are '*the rules of the game*' which determine the incentives and barriers faced by economic players (North, 1990: 3). For instance, foreign investors will not choose Syria as their FDI location unless they are allowed to enter and invest in it by its formal policies. Moreover, a sound institutional environment - efficient bureaucracy, low corruption, and secure property rights - encourages investment by reducing transaction costs and uncertainty, while a weak institutional environment makes investment riskier and, therefore, less likely to take place (Blonigen, 2005; Henisz, 2000). However, the enhancement of the institutional environment and the liberalization of FDI policy frameworks have not always been combined with increased FDI inflows in similar contexts. For example, while extensive policy changes in many CEE countries created more favourable conditions for private investment which were followed by a major increase in FDI, similar changes in some other countries in the same region failed to achieve increases in their FDI inflows (UNCTAD, 1998).

Therefore, this study addresses the following question: Did the reforms of formal institutions, which were undertaken by the Syrian government in the period from 2005 to 2010 as a fundamental part of the country's transition to a market-based economy, influence the decision of foreign enterprises and entrepreneurs to invest in Syria?

In the next section, a review of the literature which has explored the impact of formal institutions on FDI location decision is presented.

Literature review

Formal institutions, such as regulatory, political and economic institutions, are very important aspects of the investment environment which host countries can manage and direct in an attempt to attract more FDI inflows and they can be very influential in terms of the decision whether or not to invest in a particular location (Holmes et al., 2013). There is no single economy in the world which grants unrestricted right of entry to FDI as a country's FDI policies usually aim to achieve a variety of objectives, such as increasing or reducing FDI inflows and attracting FDI from certain sectors or a specific geographical origin (UNCTAD, 1996). Hence, it is not surprising that researchers have been increasingly interested in investigating the link between enhancing host countries' institutional environments and FDI inflows, especially in transition economies whose institutional environments are still under development.

Several studies have provided evidence that good institutions encourage investment by reducing transaction costs and uncertainty while weak institutions make investment riskier and, therefore, less likely to take place (e.g. Avnimelech et al., 2014; Blonigen, 2005; Henisz, 2000). Stein and Daude (2001) used a large number of institutional variables drawn from four different resources - the world governance indicators developed by Kaufmann et al. (1999), the International Country Risk Guide (ICRG) (PRS, 1995), the shareholders' rights index developed by La Porta et al. (1998) and the World Business Environment Survey (WBES) (W.B., 1999) - to test their link with inward FDI in emerging economies. They found that these indicators have a significant influence on inward FDI. Therefore, they concluded that if emerging economies want to be more attractive to FDI, it is important to improve the quality of their institutions. Similarly, Ali et al. (2010) and Mengistu and Adhikary (2011) found that enhanced institutional quality, such as an improved legal system, political stability, low levels of corruption and good public and civil services, have a significant positive effect on FDI levels and volatility.

The majority of recent studies, such as Buchanan et al. (2012), Groh and Wich (2012) and Lucke and Eichler (2016), used econometric approaches, similar to the ones adopted in earlier studies, to reinvestigate the impact of various institutional factors on FDI decisions in different developing, emerging and transition economies. Most of these studies concluded that institutional factors played a significant role in determining FDI inflows into the countries in their samples. Similarly, focusing on transition economies, Estrin and Uvalic (2014) explored the determinants of FDI into eight Southeast European countries during 1990-2011 using a gravity model for all the countries in their sample. Their findings also suggest that institutional factors are significant determinants of FDI in their sample of transition economies.

Based on the above discussion, it can be proposed that*: institutional reforms enhanced Syria's attractiveness to FDI and motivated foreign investors to enter its market*.

Nonetheless, some other studies have failed to establish a link between institutions and FDI inflows (e.g. Pusterla and Resmini, 2007; Wheeler and Mody, 1992). The lack of conclusive evidence concerning the impact of institutions on the location decision of FDI is attributed to the methodical limitations of previous studies and to the nature of the location decision of FDI. The domination of the economics tradition in studies which have attempted to explain the FDI location decision means that this decision has frequently been explored using sets of panel data which were econometrically analysed, while the psychological aspects of the foreign investment decision have been largely ignored. However, understanding this decision requires a direct interaction with those people directly involved in the decision making process, which is not possible via traditional econometric research. Therefore, the paper responds to this gap by adopting a qualitative research strategy within which deductive and inductive research approaches are integrated to create a dynamic research design which suits the nature of the FDI location decision and extends the boundaries of the quantitative findings concerning FDI locational decision and its determinants.

In order to contextualise this research and identify issues for investigation, the following section discusses the major institutional reform efforts which were undertaken by the Syrian government after its decision to move to a more market-based economy in 2005.

The Syrian government's institutional reforms (2005-2010)

Since the transition decision was taken in 2005, the most important policy change in Syria was the liberalisation of FDI rules and regulations. This consisted of the reform of the core rules and regulations governing the entry and operations of foreign enterprises and the standards of treatment accorded to foreign entrepreneurs and the functioning of the markets within which they operated. For instance, during the early days of the 10th Five Year Plan (FYP) (2006 to 2010), the Syrian government undertook many measures to reform the financial sector with the aim of achieving a gradual implementation of market-based tools for conducting monetary policy, instead of the previous administrative tools (IMF, 2010).

The Syrian government took many other initiatives to equip itself with suitable legislative tools with which it could move the economy in a more market-based direction. These legislative initiatives tried to open the Syrian economy to private investment in general, and FDI in particular. In addition, these initiatives were necessary to regulate the functions and the relationships among economic players within the Syrian economy. For example, in January 2007, the Syrian government enacted Legislative Decree No.8 to replace Investment Law No.10 of 1991. The aims of Legislative Decree No.8 were to make the Syrian investment environment friendlier by offering private investors various incentives. For instance, it allowed private investors (foreigners and locals) to own or lease the land and buildings needed to establish or expand their investment projects. Moreover, the decree allowed the free repatriation of profits, invested capital and shares. In addition, Legislative Decree No.8 of 2007 explicitly stated that licensed private investment projects enjoy protection against expropriation and nationalization (PRS, 2011).

The Syrian government's efforts to create a friendlier environment for FDI also included trade policy liberalisation initiatives and new international trade agreements. For example, a revised list of goods that could not be imported was issued in April 2008. Many goods were no longer banned from import. In 2005, Syria had joined the Greater Arab Free Trade Area (GAFTA). This regional integration agreement also included the following sixteen Arab countries: Bahrain, Libya, Sudan, United Arab Emirates, Egypt, Morocco, Iraq, Oman, Tunis, Jordan, Palestine, Kuwait, Yemen, Qatar, Saudi Arabia and Lebanon. As a result of the GAFTA, trade was fully liberalised between these countries. Syria also signed a bilateral free-trade agreement with Turkey, which came into force in January 2007. Through this agreement and the economic co-operation between them, both Syria and Turkey aimed to create conditions which encouraged investments, especially joint ones, in both countries (PRS, 2009).

All these institutional changes aimed to create a friendly investment environment and a level playing field which would enable FDI to take place. They were accompanied by complementary measures to facilitate foreign investment activities undertaken in Syria. These measures included promotional actions, counselling, offering assistance to obtain the required investment-related permits, accelerating the stages of the approval process and the provision of after-investment services. These measures were important for the transition economy of Syria, as part of an attempt to eliminate bureaucratic barriers facing foreign investors (UNCTAD, 1995) and to improve Syria's image as a destination for FDI (Wells and Wint, 2000). On 27 January 2007, the Syrian Investment Authority was established by Article III of Decree No.9 to offer most of the above-mentioned business facilitations. This Authority was expected to play an important role in implementing the new investment policies and in achieving their goals by enhancing the investment environment (UNCTAD, 2009). According to the same decree, it was its responsibility to simplify and facilitate investment procedures, to promote investment projects, to track projects' implementation and to overcome obstacles which hindered their implementation and continuation.

Based on the above discussion, the Syrian government's institutional reforms since the transition decision was taken in 2005 can be categorised into two major groups: policy reforms and business facilitation activities (Figure1).

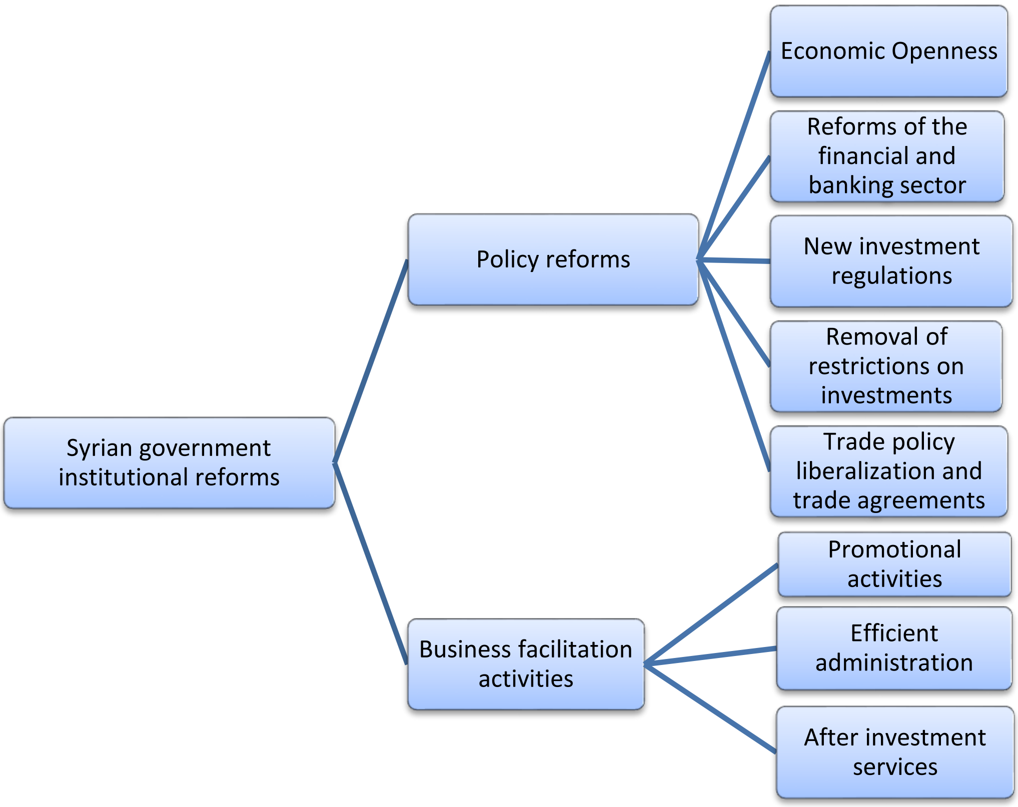

Figure 1. The Syrian government's institutional reforms between 2005 and 2010.

The framework in Figure 1 is used to explore the role of the Syrian government's institutional reforms in attracting FDI into Syria and was used as a guide for data collection and later as a template for data analysis in this study; as is explained in the following sections.

Research strategy and data

This study adopted a qualitative research strategy and used 30 semi-structured interviews as the data collection method. This methodological approach is the result of the nature of the location decision of FDI arising from the interaction of a set of conditions and persons. Hence, in order to answer the research question of this study, direct communication with the people involved in deciding the location of FDI in Syria was required. Therefore, key decision makers who were directly involved in making the locational decision of FDI in Syria formed the research population for this study. This included foreign entrepreneurs in Syria and their representatives, such as their Syrian partners and their consultants, and regional managers of foreign enterprises in Syria. Focusing on foreign entrepreneurs as well as MNEs in Syria was to enable us capture any differences in their internationalisation behaviour. Interviewing the consultants to these two types of businesses was important to obtain information not only about current FDI projects they represented in Syria, but also those ones which had decided not to invest in Syria.

The major source of information about the research population, including the respondents' projects and contact addresses, was the Syrian Investment Authority.

Due to the variation among FDI projects, stratified random sampling (Bryman and Bell, 2007) was the most appropriate method for providing a representative sample of the research population. Therefore, the research population was stratified into four groups based on two criteria - sector and origin. In relation to the sector criterion, the research population was divided into manufacturing FDI and services FDI. In relation to the origin of FDI criterion, the research population was divided into FDI inflows from the Middle East and neighbouring countries and FDI from other countries. The choice of these two criteria is based on the literature, which highlights differences between the responses of multinational enterprises (MNEs) based on the sector they invest in (e.g. Riedl, 2010) and based on their countries of origin (e.g. Estrin et al., 2000; Peng, 2000). Then, samples were chosen from each of these four groups using a simple random sampling technique (Bryman and Bell, 2007).

After a series of calls and negotiations to gain access to the people on the lists obtained from the Syrian Investment Authority, interviews were conducted with 30 respondents; 20 of them were from the manufacturing sector and 10 were from the services sector. The backgrounds of the interviewees are indicated in Table 1.

Table 1. Participants per Position.

Foreign entrepreneur in Syria	Syrian partner for a foreign entrepreneur in Syria	General manager/CEO of a foreign enterprise in Syria	Consultant to foreign entrepreneurs and enterprises in Syria
9	8	7	6

The participants represented the views of enterprises and entrepreneurs from various countries. These included: Turkey, UAE, Kuwait, France, China, Saudi Arabia, the Philippines, UK, Italy, Germany, Iraq, Egypt and Morocco. All the interviews were conducted in 2011, prior to the start of the Syrian Civil War.

The interview guide used included questions designed to explore the participants' impressions of the institutional reforms illustrated in Figure 1, i.e. the Syrian government policy reforms and its investment facilitation activities. Most of the interviews were conducted in Arabic. Only four interviews were conducted in other languages; two of them were in Turkish, with the assistance of interpreters, and two other interviews with an interviewee from Italy and another from the Philippines were in English since both of them spoke English and did not speak Arabic. All the interviews were then transcribed and translated into English by the author.

Analysis of the interviews

The qualitative data in this study was collected based on a well-defined and a clear conceptual framework (Figure 1). A group of techniques provided by King (2004) for using *templates in the thematic analysis of text* was considered to be the most suitable approach for analysing the collected data because of its flexibility, i.e. its applicability to different epistemological and theoretical approaches. The strength of template analysis is that it combines inductive and deductive approaches to the analysis of qualitative data. This is because in template analysis, codes are predetermined and then revised and amended as data are collected and analysed.

The framework illustrated in Figure 1 was the initial template which was used for coding and analysing the collected data. King (2004) assumes that in the course of the coding process, the initial template will be subject to revision and some amendments will take place. To be sure, it is difficult, and it might be unreliable to continue the analysis using the same initial codes, or *a priori* codes (Gibson and Brown, 2009), without any changes (Miles and Huberman, 1994). For example, the empirical exploration of the data may reveal that some of these codes are not relevant, hard to gather data on, not particularly revealing, or simply not interesting. In addition, an early examination of the data using the initial set of codes may reveal new issues which should be explored and, therefore, *empirical codes* emerge (Gibson and Brown, 2009). Hence, it was necessary to allow new themes and codes to emerge inductively while the data was being coded and analysed. As a result, new elements were found which were related to the issue under investigation and these were added to the template.

The changes to the initial template and the making of notes about them were undertaken using N-Vivo computer software for qualitative data analysis. However, N-Vivo only assists and facilitates the analysis of qualitative data; it does not undertake thinking on behalf of the researcher. Therefore, the intervention of the human mind during the analysis and the interpretation of qualitative data is necessary (Gummesson, 2003).

The research strategy of this study is based on Yin's (2009) *pattern matching* technique to determine the impact of institutional reform on FDI location decision in the transition economy of Syria. Following the procedures of the *pattern matching* technique, the paper first utilised the existing literature and developed a theoretical proposition which shows what the researchers expect to find. The next step is to compare the pattern of the data collected with the predicted pattern, i.e. the theoretical proposition, to find out whether they match, and in this case, whether the theoretical proposition is confirmed or not. Therefore, in the following section, the findings are presented and discussed in the light of the literature. In doing so, the patterns of these findings are compared with the patterns found in the literature, which enables the adequacy of the theoretical proposition to be tested.

Findings and discussion

The analysis of the interviews confirmed that the institutional factors explored in this study, including the Syrian policy framework reforms and business facilitation activities, had a positive impact on the attractiveness of Syria's investment environment for foreign enterprises and entrepreneurs.

The impact of the Syrian policy reforms

Economic openness activities carried out by the Syrian government, as result of its decision in 2005 to move from a centrally planned economy to a more market-based one, facilitated FDI in sectors which were previously closed, such as the banking, paper, cement, sugar, metal and motor industries. For example, a general manager of an enterprise based in the UAE which runs 5 star hotels in Syria stated that: *'Without allowing us to invest and without offering us the required facilities, including the necessary regulations, we wouldn't be able to invest in Syria'*.

Several empirical studies provided evidence for the positive relationship between free markets and foreign investment (Bengoa and Sanchez-Robles, 2003; Justesen, 2008; Quazi, 2007). The positive role of this trend in the Syrian economy after the transition decision, in terms of foreign enterprises decision to invest in Syria, was confirmed by many other interviewees, such as a general manager of an Egyptian construction company which also invested in the Syrian cement sector who said that: *'In the past, our* *company couldn't think about investing in Syria because of the government control of the cement sector. However, opening up the Syrian economy brought us this good investment opportunity'.*

These findings are consistent with those of quantitative studies (e.g. Bevan et al., 2004; Resmini, 2000; Riedl, 2010) and explain why most of the foreign investments that the study investigated in Syria did not take place until the changes in the institutional environment had taken place. For instance, a general manager of a group of five star boutique hotels owned by a British entrepreneur in Syria said that: *'All these traditional historic buildings (that could be used as boutique hotels) were in Syria for decades and they were so interesting for us. However, they became available only after enacting new legislation based on the Syrian government transition decision that was taken in 2005'.*

The institutions of the market-based economy provided protection for FDI against many types of risk, such as expropriation and nationalization, and created a friendlier investment environment in Syria. For instance, a Syrian partner for a Saudi/German MNE investing in the health sector in Syria said: *'Moving to a market-based economy meant there was better protection for everyone's rights, no matter whether they were Syrians or foreigners'.* These findings are in line with the findings of other studies which have explored the impact of institutional environment on the location decision of FDI, such as Ali et al. (2010), Henisz (2000) and Javorcik (2004).

Market liberalization activities had a positive impact on foreign investors' perceptions of the Syrian investment environment by removing various market distortions, providing better supervision of market activities and improving positive standards of treatment of foreign entrepreneurs. For example, a consultant for many Turkish entrepreneurs in Syria said that: *'Most of the Turkish entrepreneurs invested in Syria after the issuing of the Investment Law no.8 in 2007. This was basically because of the fact that this law gave them the right to own investment land, while before they couldn't. In addition to that, the new legislation offered private investors more exemptions. For instance, they now have the ability to* *import investment equipment duty free'.* This claim was supported by many other interviewees, such as another Turkish entrepreneur, who said: *'Foreign investors are now allowed to buy and own land for their projects. This encouraged me and many other Turkish entrepreneurs to invest in Syria'.* Similarly, an Iraqi entrepreneur who started a carpet manufacturing project in Syria recalled that: *'I had been doing business with Syria for about six years, but I only started my investment in Syria three years ago when I noticed that Syria was stepping forward towards a more market-based economy'.*

The Syrian trade policy liberalization initiatives and the trade agreements which its government signed enhanced the attractiveness of the transition economy of Syria to FDI. This was because of the role that these initiatives and agreements played in providing access to other markets and various efficiency factors from which FDI in Syria could benefit. For instance, a consultant for many FDI projects in Syria which were mainly in the manufacturing sector said that: '*Most of my Turkish clients didn't only focus on the Syrian market, but they also considered their investments in Syria as an investment in all other Arab countries*'. He explained that this was because of Syria's membership of the Greater Arab Free Trade Area (GAFTA) which allowed them to export their Syrian products duty-free to other Arab countries.

In addition, expanding the potential market size by liberalizing trade policy not only attracted new FDI into Syria, but also encouraged existing FDIs in Syria to expand. For example, a Turkish entrepreneur who owned a textile project in Syria suggested that: *'At the beginning I was only interested in the Syrian and the Turkish market. However, these trade agreements widened the horizon of our business since it opened new markets for us. I am planning to expand my investment in order to export my production to other Arab countries and to take advantage of these agreements'.*

These findings are in line with the findings of quantitative studies which have explored FDI locational determinants within transition economies and emerging markets (e.g. Asiedu, 2002; Asiedu, 2006; Bevan and Estrin, 2004; Bevan et al., 2004; Erdal and Tatoglu, 2002). These studies find that economic integration agreements and liberal trade policies have a positive impact on FDI inflows, especially in smaller size economies, since FDI had a higher propensity to export under such policies. In other words, economic integration agreements facilitate trade activities among member countries. This encourages foreign investors to invest in any country which they perceive suitable for their FDI, despite the size of its market, since they can export their products to the other members of the same economic integration agreement and can import resources from those countries.

The impact of business facilitation activities

Business facilitation activities positively reinforced the above policy reforms; thereby enhancing the attractiveness of Syria as a destination for FDI. For instance, various promotional activities were necessary to attract the attention of foreign investors and to change their general impression of the Syrian economy as closed and unfriendly to FDI. These findings are in line with Wells and Wint's (2000) argument that countries which sought better responses to their FDI policy liberalization efforts needed to carry out promotional activities, especially in view of recent intense competition to attract FDI. Moreover, as UNCTAD (1998: 99) state '*it is one thing to change a policy, but quite another thing to get the information to FDI decision makers – let alone convince them to make an investment'*.

A variety of factors played a promotional role in terms of the locational decision of FDI in Syria, such as the availability of private banks which had a global reputation. Foreign investors were more interested in investing in Syria when they realised that such banks were investing and operating in the same country. This situation gave them more assurance regarding the stability of the economy and the financial services they could expect. For instance, an Iraqi entrepreneur in a textile project said that: *'The existence of private banks gave me a clue about the Syrian economy and the Syrian government's credibility in its new economic direction'*.

In addition, many interviewees considered the existence of other FDI projects as a sign of lessening risk, especially political risk. For instance, the CEO of a French enterprise investing in a food stuff manufacturing project in Syria stated that: *'The more FDI that Syria has, the less the political risk will be in the minds of foreign investors'*.

Moreover, the prior experience of FDI projects in Syria appears to have an important promotional role for the Syrian economy as a destination for FDI prior to the Civil War, especially in terms of FDI from the same home countries. Therefore, the poor experience of early foreign investors in Syria negatively influenced further inflows of FDI. Most of the interviewees expressed such a view. For example, a Turkish entrepreneur and partner in many FDI projects in Syria says that*: 'Investors undertake studies regarding every potential location including the perceptions of other investors who have invested before in the same location and the problems they faced'*.

Inexperienced public sector staff and the inefficiency of the Syrian Investment Authority in facilitating investment procedures had a negative impact on foreign investors' experience and impressions about the investment environment in Syria. This is because, as a result of these factors, foreign investors often found themselves facing rigid bureaucracy and corruption. For instance, a Saudi entrepreneur who was a partner in a petrochemical project in Syria said: *'Despite the fact that the Syrian government has always tried to simplify our investment procedures, there have always been obstacles, especially in terms of putting new laws into action'*. This point was recalled by almost all the interviewees. For instance, a Turkish entrepreneur who was investing directly, as well as providing consultations for Turkish investments in Syria, said: *'The practical application of the new laws was very difficult and prevented any new investor from thinking of expanding his investment'*. These findings support those of other studies that host countries are increasingly advised to make more effort regarding after investment services, including day-to-day operational matters (UNCTAD, 1995; UNCTAD, 1998; Young and Hood, 1994).

However, the research revealed that the above problems were less daunting when foreign investors had previous experience in the Syrian economy or in an economy with similar conditions. The research showed that those foreign investors with such experience were well prepared and had developed suitable skills to deal with an investment environment which was similar to that of Syria. For instance, the Philippine CEO of the Philippine MNE that was developing and running one of the two main container terminals in Syria said that: *'We have experience from all over the world and even in many places that are worse than Syria, so we were prepared for the situation in Syria'*. This confirms the argument of Peng (2000) that a MNE which had expertise in dealing with transition economies would have a stronger position within those economies compared with a MNE which is investing in those countries for the first time.

It was also found that cultural similarity between the host country (i.e. Syria) and some home countries in the sample (e.g. Turkey and Iraq) played a similar role to that of having previous experience. These factors reduced the negative influence of some deficiencies in the institutional environments such as ambiguity in the policy framework. This was by making foreign investors feel more familiar with the investment context and more confident of their ability to deal with the investment conditions in the new location. For example, an Iraqi entrepreneur in Syria said: '*As* entrepreneur *from a similar Arab country (Iraq) we anticipated that we would be facing problems when dealing with the Syrian institutions and authorities, which made us more prepared and patient'*. These findings are in line with the findings of some other studies, such as Du et al. (2011) and Procher (2011), which found that the distance between the FDI home country and the host country (measured by cultural and geographical proximity) influenced the locational decision of FDI.

Conclusion

Although the locational decision of FDI is made by individuals and involves different people at different levels of an enterprise, the psychological aspects of foreign investment decision making have been largely ignored (Aharoni, 2011). In order to provide insights which could not be offered by the more common quantitative approach, this study followed a qualitative research strategy to explore the impact of institutional reform on the decision of foreign enterprises and entrepreneurs to directly invest in the transition economy of Syria. The location decision of FDI was seen as a decision made by foreign entrepreneurs in conjunction with their partners and consultants. Therefore, an understanding of the impact of institutional factors on the locational decision of FDI in Syria required the exploration of the perceptions of the key players who were directly involved in making the locational decision of FDI in Syria.

Based on the above view of the nature of the location decision of FDI, the '*pattern matching'* technique (Yin, 2009: 136) was the ideal approach to determine the impact of institutional reform on FDI decisions in the transition economy of Syria. Following this approach, a theoretical proposition was developed after utilising existing literature [*Institutional reforms enhanced Syria's attractiveness to FDI and motivated foreign investors to enter its market*]. Then, data was collected using semi structured interviews which were thematically designed using a framework (Figure 1) which had been developed based on the reform measures undertaken by the Syrian government as a key element of the country's transition to a market-based economy. The interviews were with those who were directly involved in making the location decision of FDI in Syria. This included foreign entrepreneurs in Syria, their partners, their consultants and regional managers of foreign enterprises directly investing in Syria. The interviews with consultants to FDI were very important sources of information about not only current FDI projects they represented in Syria, but also those ones which had decided not to invest in Syria. All the interviews were conducted in 2011, and prior to the start of the Syrian civil war.

Data was then analysed using a group of techniques provided by King (2004) for using *templates in the thematic analysis of text*. Template analysis allowed the combination of inductive and deductive approaches to the analysis of the interviews since codes were predetermined in Figure 1 and then revised and amended as data were collected and analysed. The final step according to the *pattern matching* technique was comparing the pattern of the collected data with the predicted pattern (the theoretical proposition) to find out whether they match, and in this case, whether the theoretical proposition is confirmed or not.

The research findings revealed that institutional reform and business facilitation activities undertaken by the Syrian government enhanced Syria's attractiveness to FDI, which confirms the theoretical proposition of this study. In other words, the findings of the study support the patterns found in previous quantitative research which explored the impact of various institutional factors on the locational decision of FDI in similar contexts (e.g., Bevan and Estrin, 2004; Bevan et al., 2004; Estrin et al., 2000; Li and Park, 2006).

However, the flexibility of the methodological approach and the analytical technique which was followed in this study enabled factors which had an influence on the impact of weaknesses in the institutional framework on the locational decisions of FDI in Syria to emerge inductively during the analysis of the qualitative data. These factors are foreign investors' previous experience in a similar context and similarity in of culture between FDI home and host countries. The study revealed that these factors affected the locational decision of FDI in the transition economy of Syria by tempering the negative impact of various weaknesses in the institutional environment on foreign investors' decisions to invest in Syria. This was because in both cases foreign investors were less concerned about these weaknesses since they expected them, were familiar with them, and were prepared and equipped with suitable skills and tools for overcoming them.

The uniqueness of the Syrian context and the openness of the qualitative data provided a further explanation of the role of these factors in affecting the locational decision of FDI. This explanation has two facets: the Syrian context and the characteristics of FDI which is taking place in this context.

Previous experience as a factor which affected the locational decision of FDI in Syria was not limited to foreign investors' former presence in other transition economies (Peng, 2000), but also included their experience within other countries in the Middle-East and North-Africa which have similar values, traditions and administrative practices, such as Egypt and Iraq. Having a Syrian partner was the main strategy which was followed when foreign investors did not have such previous experience. Foreign investors found that having a strategic Syrian partner was an encouragement to investment in Syria even when their backgrounds were culturally and socially similar to Syria. In this case, the development of strategic local partners was used to overcome many administrative problems via their personal experience and connections in the investment location.

The results also show that the influence of previous experience and background similarity on the locational decision of FDI varied according to the characteristics of the foreign investor. This was observed during the conduct and the analysis of the interviews. The outcome of the discussions with CEOs and regional managers of MNEs and large enterprises about these factors was different from the ones conducted with foreign entrepreneurs and partners in smaller FDI projects. The interviews revealed that the influence of these factors on the locational decision of FDI was stronger when the foreign investor was an entrepreneur, such as FDI projects which are owned by one person and/or some partners, rather than a MNE. This is because small firms possess different qualities from larger MNEs which make their international business behaviour different (Boocock and Anderson, 2003; Ripollés et al., 2002). Large MNEs usually have broader investment strategies and develop skills and routines to manage complexities and overcome procedural problems in host countries (Aharoni and Ramamurti, 2011; Shi and Hoskisson, 2012). Therefore, it was noticed during the interviews that individual foreign entrepreneurs were likely to give up more quickly than MNEs if they faced ambiguity or bureaucratic problems at the early stages of their investments. However, when individual foreign entrepreneurs had previous experience with similar investment conditions and/or were culturally close to Syria, their sensitivity to such problems was reduced.

The interviews revealed that background similarity and previous experience were less important for large enterprises than small enterprises, in relation to their FDI locational decisions in Syria. This was because large enterprises were more willing and had more ability to overcome various obstacles in the investment environment than small enterprises. In other words, large MNEs had more resources to establish and coordinate internationally dispersed activities and were well-positioned to develop global brand names and exploit economies of scale and scope globally (Cubillo and Cerviño, 2004).

The above findings imply that the generalisations arising from previous econometric studies which have explored the locational decisions of FDI are insufficient to explain the complexity of factors which may affect them because of the uniqueness of each case and its context. In other words, 'firms are heterogeneous in their perception of institutional constraints and opportunities in foreign markets, and in their ability to cope with them' (Guler et al., 2010: 186). For instance, entrepreneurs and decision makers in MNEs come from different cultures and have different experiences and therefore they make choices differently (Brouthers and Brouthers, 2001; Park and Ungson, 1997). The flexibility of the qualitative approach of this paper allows the consideration of different contexts, cultures and experiences compared with other quantitative approaches which depend only on variables which can be measured mathematically, even though the ones that cannot be measured may be more important. Unfortunately, a follow up study on the Syrian context is not possible because of the ongoing Civil War. This suggests the desirability of replicating this methodological approach within other contexts in order to achieve a better understanding of the locational decision of FDI.

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