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The Impact of Institutional Transformations on MNEs Entrepreneurship in Emerging Economies

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Abstract

This paper examines how an emerging economy's institutional context motivates different forms of MNE entrepreneurship, which, subsequently, leads either to economic development or economic growth. To do so, the paper distinguishes emerging economies' institutional environment into a state of stable conditions and a state of crisis and it reconciles such a distinction with Cantwell's et al. (2010) coevolution framework. Secondary statistic data, in conjunction with the appreciative method, have been applied to test the three hypotheses developed. Results reveal that in the periods 1990-2001 and 2008-2011 institutional avoidance and adaptation took place. In the period 2002-2007 institutional coevolution emerged, while in the period 2012-2016 institutional avoidance prevailed.

JEL Classifications: L22, L220, L24, L240
Keywords: Multinational enterprises, emerging economies, FDI, institutional development, economic development, economic growth.

1. Introduction

Co-evolutionary theory argues that firms and their environments influence each other over time (Child et al., 2012) in a bi-directional way (García-Cabrera & Durán-Herrera, 2016), producing institutional change (Millar et al., 2009). A critical part of it revolves around the process, the underlying mechanisms, institutions and Multinational Enterprises (MNEs), which are interrelated to generate economic development (Dunning & Lundan, 2008; Khavul et al., 2013).

Researchers have suggested various strategies that MNEs apply to address the impact of institutional reforms on MNEs' institutional entrepreneurship characteristics in emerging economies. Specifically, Cantwell et al. (2010) have illustrated as potential strategies three forms of coevolution, namely institutional avoidance, institutional adaptation and institutional coevolution. Krug and Hendrischke (2008) and Child et al. (2012) have underscored the networking, participation in rule-setting agencies or the collaboration between firms and governments. Under different circumstances, Ardichvili et al. (2003) have emphasized that MNEs' entrepreneurship strategies may involve entrepreneurial opportunity identification in relation to entrepreneurial opportunity exploitation, or strategies related to Lewin's (1947) change framework (García-Cabrera & Durán-Herrera, 2016), i.e., unfreezing, moving and freezing processes.

Despite the importance of the above, such approaches have left out a full explanation of whether coevolution leads to economic development (Fuentelsaz et al., 2018) or economic growth. The modification of this issue enhances the existing knowledge of the general phenomenon of coevolution into new avenues, including the introduction of effective management of entrepreneurship as well as the introduction of well-prepared institutional changes (Bakir & Jarvis, 2018) by policy makers. So, the research at hand proceeds to fill this gap in the literature.

Therefore, this paper aims to examine how an emerging economy's institutional context motivates different forms of MNE entrepreneurship, which, subsequently, leads either to economic development or growth. To develop a coherent reasoning, this research illustrates the impact institutional reforms of an emerging economy have on its inward foreign direct investment (IFDI), since IFDI activity is highly relevant to a country's economic development (Dunning & Fortanier, 2007) and growth.

The paper undertakes such an investigation in four steps. First, it focuses on emerging economies, which are characterized by insufficient and immature institutions (Peng, 2003; Dieleman & Sachs, 2008) due to the changing nature of their location's economic, institutional and business environments (Meyer & Peng, 2005). Such economies seem to be influenced easily by MNEs entrepreneurship (Reus & Rottig, 2009) because it contributes to the incremental creation of a new institutional stability, e.g., "the newly legitimated characteristics of an emerging institutional framework" (Chung & Beamish, 2005, p. 36). Second, following Chung and Beamish (2005), the paper approaches emerging economies' institutional frameworks as high-risk institutional environments that fluctuate and shift. Thus, it distinguishes emerging economies' institutional environments in those in a state of stable conditions and those in a state of crisis.

Third, it reconciles the above with Cantwell's et al. (2010) three forms of coevolution: institutional adaptation, institutional avoidance and institutional coevolution, hypothesizing that in emerging economies stable institutions contribute to institutional adaptation, which affects positively the host country's economic growth, or coevolution that affects positively the host country's economic development. On the contrary, unstable institutions due to crises, contribute to institutional avoidance, which affects negatively the host country's economic growth.

Last, in tandem with appreciative theory, the paper employs secondary statistic data for Turkey, namely, historical data derived from the formal institutions of the country, to test the above three hypotheses. Formal institutions play a greater role than informal ones in MNEs' FDI decisions, because host governments can change FDI policies rather quickly, while it may take several years to change non formal factors, such as market size and infrastructure (Delios & Beamish, 1999; Chung & Beamish, 2005). Appreciative reasoning is justified for two reasons: First, history matters (Tomizawa et al., 2020). Second, appreciative method is considered to be a qualitative means based on historical accounts which "aims to theorize on areas where quantitative data are not appropriate (Muchie & Baskaran, 2009).

Overall, our paper makes the following contributions: First, and in contrast to the mainstream and ad hoc presentation of conceptual frameworks, it applies and extends an existing conceptual framework by developing and validating three innovative research hypotheses. Second, it focuses not only on the outcome of the coevolution process, but also on the process that it is achieved, enhancing the emerging tendency of the literature (Khavul et al., 2013) towards a dynamic-historical analysis. Third, it articulates the evolutionary perspective of the macro-social story of the Turkish economy underlining the sight of the big picture, an overlooked sight which actually engulfs all the potential influences that affect the host country's development.

The rest of the paper is structured as follows. The next section reviews the literature relevant to the relationship among evolutionary theory, MNEs, institutions and economic development. This is followed by the development of three hypotheses. The third section elaborates on the case of Turkey, testing and validating the hypotheses developed. The following section presents the conclusions drawn from the discussion, focusing on managerial and policy implications. Finally, the limitations of this research and some suggestions for future research are presented.

2. Literature Review

At the end of the 1990s, institutional scholars (Kostova et al., 2008; Westney, 2009) have re-examined the assumptions of institutional theory challenging the argument of embedded agency, the deterministic approach organizational institutionalism exerts on how organizational forms and practices are shaped by their environment (Hotho & Pedersen, 2012). Two new approaches have been developed to synthesize the coevolution reasoning as a dialectic relational framework (Child et al., 2012) based on the dynamic confluence of MNEs and their environments that produces institutional change. Institutions are the outcome of human agency, i.e., purposive action by individuals, firms, coalitions and other actors (Child et al., 2012) or else institutions are active entities. "Not only institutions influence actors' behavior, but also these actors might, in turn, influence, and possibly change, institutions" (Battilana et al., 2009, p. 66). Actors who actively may destruct an existing institutional setting (Battilana et al., 2009) are termed institutional entrepreneurs (DiMaggio, 1988). "The incremental and marginal adjustments to the complex mix of rules, enforcement, and norms that constitute the institutional framework" (Chung & Beamish, 2005, p. 35) are termed institutional change.

A major part of the literature explores emerging economies' links among institutions, economic policies and development (Anderson & Lee, 2008; Reus & Rottig, 2009). This domain has also evolved to illustrate the process that coevolution affects the economic development of an economy, arguing that coevolution is not just a mere result (Khavul et al., 2013; García-Cabrera & Durán-Herrera, 2016). Instead, it consists of all those critical underlying mechanisms developed incrementally, contributing to institutional change.

More specifically, García-Cabrera and Durán-Herrera (2016), based on Lewin's (1947) change framework, have proposed the following as potential MNE entrepreneurship strategies: status quo, unfreezing, institutional opportunity recognition, institutional opportunity exploitation and re-embeddedness. Krug and Hendrischke (2008) and Child et al. (2012) have underlined networking, participation in rule-setting agencies, or collaboration between firms and governments. Ardichvili et al. (2003), underlining entrepreneur's personality traits, have proposed the opportunity identification process, social networks and prior knowledge as antecedents of entrepreneurial alertness to business opportunities.

Furthermore, based on Baumol's (1990) framework distinction of entrepreneurship, Su (2020) has proposed a three-phase framework, namely path dependent, long-term and institutional transitions, that MNEs follow to react to the process of institutional transitions.

In contrast to the above, the most succinct framework is attributed to Cantwell et al. (2010). This framework underlines a general and unified reasoning that encapsulates the dominant, despite scattered approaches of institutional adaptation, institutional avoidance and coevolution. The framework approaches coevolution as an incremental process in which MNEs and institutions are perceived as equal players that may contribute to the process of economic development. However, the presence of institutional voids (Khanna & Palepu, 1997) offers opportunities for co-evolution. Thus, as pivotal agents, MNEs may react to such non-ergodic (unpredictable) voids by developing three forms of entrepreneurship: i) institutional adaptation, ii) institutional avoidance, and iii) institutional coevolution.

Taking into consideration all the above, the aim of the paper is to recognize how the institutional context of an emerging economy motivates different forms of MNE entrepreneurship, which, subsequently, affect an emerging country's economic development or growth. Our research employs as baseline Cantwell's et al. (2010) framework in order to extend the above literature by developing three hypotheses and testing them under the lens of the emerging economy of Turkey. Before the hypotheses are developed, it is important, first, to distinguish the concepts of economic growth and economic development. Economic development herein is perceived as "the evolution of more complex institutions that deal with the uncertainties–imperfections arising from more complicated forms of exchange and involving both market and non–market actors" (Dunning & Fortanier, 2007, p. 33). Furthermore, economic growth is perceived in terms of increasing GDP per capita (Dunning & Fortanier, 2007).

3. Development of Hypotheses

There is unanimity among researchers that emerging economies are characterized by environmental uncertainty because institutional rules are absent, insufficient or poorly enforced (North, 1990; Hoskisson et al., 2000; Hitt et al., 2004). Chung and Beamish (2005, p. 36) argue that uncertainties in such economies "vary in their intensity, according to whether the environment is stable or in crisis". Therefore, the examination of emerging economies' institutional frameworks should be distinguished into the stable ones and those under crisis conditions.

Considering this distinction, first we focus on the stable emerging economies in which adaptation mainly takes place (Cantwell et al., 2010). Dunning (1993) argues that MNEs enter in such countries because they are guided by the exploitation argument, i.e., MNEs invest in emerging economies in order to exploit and maintain their specific ownership advantages. However, the exploitation argument exposes MNEs to adverse side-effects, namely environmental uncertainty (Uhlenbruck et al., 2006), that is, the unpredictability that derives from the firm's external environment (Anderson & Gatignon, 1986).

Thus, MNEs manage such idiosyncrasies adapting themselves to the host institutional environment via the legitimacy argument (Uhlenbruck et al., 2006). Legitimacy is rewarding since conformity increases organizational legitimacy, access to resources and, ultimately, organizational survival (Hotho & Pedersen, 2012). For instance, corruption in emerging economies is perceived as "piece-rate pay for bureaucrats, which induces a more efficient provision of government services, and it provides a leeway for entrepreneurs to bypass inefficient regulations" (Mo, 2001, p. 66).

According to Lu (2002), adaptation motivates other MNEs to follow their paradigm, because imitation is "an adaptive mechanism that helps MNEs to make decisions in uncertain environments" (Lu, 2002, p. 24). Therefore, when new MNEs enter an emerging economy's institutional environment, they introduce growth-oriented and not development opportunities, at least in the short-term, because they take for granted the host institutional environment in which they are going to invest (Cantwell et al., 2010). They adapt themselves to it, without, however, intervening to change it. In this direction, scholars (Baumol, 1993; Wennekers & Thurik, 1999; Audretsch & Thurik, 2001) linking entrepreneurship and growth theory have mainly concluded that entrepreneurial creativity need not necessarily be socially beneficial; still, new products, processes, ways of organizing etc., all essential aspects of the growth process are outcomes of entrepreneurship (Rosenberg, 1992; Wennekers & Thurik, 1999). Following this line of thought, the following hypothesis is tested:

Hypothesis 1: The more stable institutions are in an emerging country, the more likely MNEs are to proceed with institutional adaptation, which affects positively the host country's economic growth.

The second critical aspect that affects emerging economies' environmental uncertainty is crisis conditions (Chung & Beamish, 2005). Crises introduce further transformations which, in turn, lead to further "complexity and volatility" for such economies. Researchers (Mody, 1999; Newman, 2000) have argued that in the long-term such economies implement drastic policy reforms, so as to address institutional uncertainties. However, in the short-term, such reforms introduce chaos in the way business environments operate (Chung & Beamish, 2005). This takes place because such economies in pre-crisis conditions tend to be government protected, whereas, in post–crisis conditions, they are characterized by the implementation of neoliberal (International Monetary Fund (IMF) imposed) transformations that signal the 'opening' of previously 'closed' sectors. This 'opening' leads MNEs to suffer institutional uncertainty during crises, such as nationwide demonstrations and strikes, which disrupt work schedules, supply chains, raise the cost of capital and subsequently and increase the costs of maintaining the personnel (Henisz & Delios, 2004). Such conditions, in their turn, bring about two further implications. First, they force MNEs to voice institutional avoidance or to abstain from investing in such economies, negatively affecting the capabilities of economies in crisis to attract FDI inflows (Persson & Tabellini, 2003). Second, they signal the absence of "technological innovations and learning effects, leakage from the training provided by MNEs to local suppliers or distributors, who in turn are harmonized with global practices" (Cantwell et al., 2010, p. 578).

According to the imitation argument, institutional avoidance motivates other MNEs to follow their paradigm, thus spreading fashionable features from one organization to another (Tolbert & Zucker, 1983), as analyzed earlier. As a result, the abstinence of MNEs in the host country creates a growth gap, which impairs the already bad economic conditions produced due to the crisis conditions. Following this line of thought, it is hypothesized that:

Hypothesis 2: The more unstable institutions in an emerging country are due to crisis conditions, the more likely MNEs are to proceed with institutional avoidance, which affects negatively the host country's economic growth.

Stable conditions are not only fertile for adaption process, but also for coevolution (Cantwell et al., 2010) which, however, differs from adaptation in at least two aspects. First, coevolution perceives MNEs as entrepreneurs willing to increase their participation in sectorial association fora and jointly perform institutional experiments in order to reduce the risks associated with such transactions (Durán-Herrera & García-Cabrera, 2013). This implies that MNEs are "actors who initiate changes that contribute to transforming existing or creating new institutions" (Battilana et al., 2009, p. 66). The second aspect is that coevolution involves and perceives adaptation through a dynamic and interactive process. MNEs adapt their competitive advantages "and associated routines of behavior for the local environment, in order to extend their own range of competence, and hence their overall innovation potential" (Cantwell, 1989, p. 533). This implies that MNEs absorb the host country's characteristics to enrich their existing competitive advantages.

Therefore, a win-win coevolution game for MNEs and emerging economies arises. MNEs benefit from the adaptation in the emerging host county's institutional environment, producing new competitive advantages that MNEs may use in other similar emerging economies (Cantwell et al., 2010). Emerging economies benefit from the presence of MNEs entrepreneurs who initiate changes that lead to the creation of new institutions (Battilana et al., 2009) that purposefully contribute to the development of the host's institutional environment (Cantwell et al., 2010, p. 578). This is explained by the fact that MNEs introduce technological innovations in the emerging economy by not taking only economic goals into account (Dunning & Fortanier, 2007), but also by inducing a range of extra-economic development aims, in particular those relating to social and ecological issues. In addition, they highlight "the role of high-quality institutions both as a key means to achieve these development objectives and as an end in itself" (Dunning & Fortanier, 2007, p. 26).

In this direction, Kipping and Bjarnar (1998) have shown that MNEs contributed to the economic development of Europe through the transfer of their employment practices from US to Europe during the 1950s and 1960s. In the same vein, Ozawa (2005) has underlined the positive contribution of US MNEs to the institutional transformation and development of Japan. Ramamurti (2005) has also argued that coevolution is perceived as the outcome of MNEs sponsorship of common technology and regulatory standards in the various emerging institutional settings. Following this line of thought, the following hypothesis is developed:

Hypothesis 3: The more stable market–supporting institutions in an emerging country are, the more likely MNEs are to proceed with institutional coevolution, which affects positively the host country's economic development.

4. The Case of Turkey

Based on the analysis presented in the previous sections, this study proceeds to examine the above hypotheses, providing a number of real examples that allow us to test their validity. We apply the appreciative method to the emerging economy of Turkey as an appropriate and sui generis institutional framework, capable of underscoring the reconciliation of coevolution theory with the different forms of economic development.

The appreciative method is being accused of circumventing a full explanation of how the co-evolutionary process between the MNE and the institutional environment happens (Muchie & Baskaran, 2009). However, it remains a valuable qualitative means, based on historical accounts, which "aims to theorize on areas where quantitative data are not appropriate, e.g., new forms of business organization, new institutions" (Muchie & Baskaran, 2009, p. 138).

Turkey, on its part, reflects an appropriate institutional environment because by the 2000s Turkey was an important FDI destination, reaching high inward FDI rates from countries from all continents (Adamoglou & Kyrkilis, 2016). Moreover, it reflects a complex institutional system which is in a constant flux (Cantwell et al., 2010), due to oscillating from a "rhetorical phase and institutional crisis (1989–2001) to "re–regulation processes (2001 onwards)" (Önis & Bakır, 2007, p. 149). Because of these attributes Turkey has experienced a number of institutional and economic crises underlining many of its institutional inefficiencies in a clear and concise fashion.

Before the analysis takes place, it is important to emphasize that the categorization of influences herein follows the methodology used by Carney and Gedajlovic (2002), namely endogenous and exogenous influences. Carney and Gedajlovic (2002, p. 4) describe endogenous influences as the "institutional and market forces that emanate locally from within societies and include the impact of both established and emergent firms and their adaptations to each other as well as to other elements in their endogenous environments". Moreover, they state that "exogenous influences are non-local social, economic, political or technological forces that emanate from outside a business system, but which nevertheless impact in important ways firms and their environments" (Carney & Gedajlovic, 2002, p. 4). Furthermore, for methodological reasons the period of interest, i.e., 1990–2016, is divided into two main sub–periods: I) The liberalization period 1990–2011, which consists of i) *the turbulence period: 1990–2001*, ii) *the economic and institutional development period: 2002 – 2007, and* iii*) the global crisis period: 2008–2011,* and II) The Recession Period 2012–2016.

4.1 The liberalization period (1990 – 2011)

4.1.1 The turbulence period: 1990–2001

After 1980 Turkey embarked on a process of economic liberalization (Müftüler-Baç & Lauren, 2003). This attempt meant that the Turkish economy was fully subjected to globalization influences, such as technological advances, market diversification opportunities (exogenous influences) without, however, being well–prepared to confront the consequences of such reforms (Önis & Bakır, 2007).

As a result, in 1994 Turkey faced its first crisis "when a misguided attempt to keep domestic interest rates low, led to a sudden capital outflow" (Rodrik, 2012, p. 44) and market indicators dropped (endogenous forces). This situation was accompanied with a "rhetorical transition" phase where regulative institutions were being set up (endogenous forces) and an "institutional crisis" occurred (endogenous forces) (Önis & Bakır, 2007, p. 149) because of the emergence of such institutions as legal entities. The key negative point was the instability of the Turkish political system, which was "illustrated in the rise of seven successive coalition governments from 1990 to 2002" (endogenous forces) (Önis & Bakır, 2007, p. 149).

In this framework, privatizations, a major generator of FDI, never took off, one of the most notable examples being the Turkish government's inability to sell the Turkish Telecom (Grigoriadis & Kamaras, 2008). Protracted disputes between the Uzan Group and two of the world's most prominent telecom equipment suppliers, Motorola and Nokia, prevailed (Grigoriadis & Kamaras, 2008). New incoming FDI did not take place either built upon past alliances with local groups or consisted of new joint ventures in such an unstable environment, introducing an institutional avoidance process for the Turkish economy. Thus, in the period 1992–1994 the Turkish economy recorded a sharp decrease of IFDI and GDP of 28 per cent and 2.1, respectively (see Table 1).

Despite this situation, Turkey joined the EU Customs Union in 1996 (endogenous force). This partnership required Turkey to lift all custom taxes to trade with EU countries and to apply EU tariff rates to non–EU countries (endogenous forces) (Özkale & Karaman, 2006). The tax–free selling opportunities to EU markets, in addition to the availability of cheap labor in Turkey, were major incentives for MNEs to start investing in Turkey (Ayden et al., 2018), introducing an institutional adaptation process.

More specifically, MNEs approached the host institutional environment as given, without trying to change it, and adapted to Turkey's institutional environment in order to capitalize on the country's low ownership advantages. Turkish firms were considered to be lagging behind in terms of technological, managerial and marketing expertise (Child & Markoczy, 1993), as opposed to MNEs originating from well-institutionalized environments (USA, Germany, the Netherlands and UK) which were the main countries of origin of the IFDI in Turkey for the period under-examination (Investment Support and Promotion Agency in the Republic of Turkey, 2013). In parallel, imitation motivated other MNEs to follow their paradigm, without, however, affecting the institutional development of the country. Hence, as shown in Table 1, IFDI flows improved after 1996, showing an increase of 11.5 per cent for the period 1996–1997. Furthermore, in the 1995–1996 period Turkey's GDP per capita recorded an increase of 7 per cent (UNCTAD, 2021).

However, the 1997 East Asian and the 1999 Russian currency crises (exogenous forces) soon eroded such opportunities (Yavaci & Dogan, 2012). Capital inflows from abroad slowed down by 20 per cent in the period 1997–1999 (Ayden et al., 2018), leading Turkey to experience an economic crisis (endogenous forces). However, the government was already heavily constrained in responding to the crisis, signing a stand–by agreement with the IMF in December 1999 (endogenous forces) (Miller, 2006) which further impaired the country's economic situation, due to the ambiguity of the effectiveness of the IMF program (World Bank, 2006). In parallel, "expenditure on education fell and an increase in the value-added tax had a regressive effect on maintaining the social stability of the country" (Miller, 2006, p. 463).

These burdens led the Turkish economy to the twin crises of November 2000 and February 2001 (endogenous influences) (Karademir & Yaprak, 2012). Turkey was trapped in a high debt, high unemployment, speculative growth environment and the independence of its institutions, which were under the services of the IMF and World Bank interventions (Miller, 2006). In addition, "politically, the country was a minefield" (Miller, 2006, p. 459). The final result was a striking demonstration of the public's rejection of the coalition government. The Justice and Development Party (AKP) won 34.3 per cent of the vote (Miller, 2016).

The paradox for the period 1999–2001 was that Turkey, despite the crisis and subsequent institutional underdevelopment it experienced, recorded an increase of GDP per capita and IFDI activity of 0.28 per cent and 341.3 per cent, respectively introducing an institutional adaptation process for the Turkish economy (UNCTAD, 2021). One possible explanation for this is that MNEs realized that "AKP refurbished itself with a more friendly view towards the West, ready to do business with the global finance capital and willing to auction-off the strategic public assets to the transnationals" (Bretton Woods Projects, 2008, p. 1). Thus, this change encouraged MNEs to invest in Turkey in order to exploit their strong competitive advantages in an economy lagging behind their country of origin (Chung & Beamish, 2005).

4.1.2. The economic and institutional development period: 2002–2007

During 2002-2007, a virtuous cycle was introduced for the Turkish economy, contributing to the stabilization of the economy. In exogenous terms, important aspects of the conditions prevailing in Turkey over the period included the confluence of increasing globalization, technological advances, the continuing process of liberalization and the adoption of a new friendly foreign policy which targeted at decreasing international conflicts with neighboring countries (Karademir & Yaprak, 2012).

In endogenous terms, what became the springboard for implementing “the neoliberal model of New Public Management (NPM)” (Acemoglu & Johnson, 2012, p. 11) norms and values was the establishment of numerous independent regulatory agencies. On the monetary front, critical point was the establishment in 2000 of a new body, the Bank Regulatory and Supervisory Agency (BRSA) (endogenous forces) (Çanaçki, 2005). On the fiscal front, the 2002 Public Finance and Department Management (PFDM) Law and the 2003 Public Financial Management and Control (PFMC) Law signaled the ban of the 1990s fiscal legacy and prior practices that left a margin for non–transparency and lack of accountability in government expenditure (Atiyas, 2012; Acemoglu & Ucer, 2015).

In the privatization field, a host of regulatory transformations had also been implemented by 2001, the emphasis being on the deregulation and privatization of telecommunication, energy and electricity industries. To that respect, the Information and Communications Technologies Authority (ICTA) was established in 2001, while Türk Telekom was privatized in 2005 in combination with the energy and electricity industry, since both of them were dominated by public monopolies. It is estimated that while privatization revenues before 2000 had been below $9 billion, in the 2001–2010 period they increased to more than $30 billion (Acemoglu & Ucer, 2015).

At the business level, serious efforts were made during this period by officials to improve the investing climate by eliminating institutional and bureaucratic obstacles to FDI through new legislation (endogenous forces). The enactment of Law No. 4875 in June 2003, which replaced Law No. 6224, was a crucial step forward in this direction (Çanaçki, 2005). According to OECD statistics (2018), IFDI reached $745 million in 2003 and $8.4 billion in 2005 (endogenous factors) (Ayden et al., 2018), transforming Turkey into an important FDI destination. The country’s popularity as an FDI destination can be seen in the shares of investments both in developing countries and elsewhere around the world, as well. In 2003, Turkey’s share of world IFDI stock was 0.4 per cent, rising to 0.9 per cent by 2010 (Ayden et al., 2018). Furthermore, its share of world IFDI flow rose from 0.3 per cent in 2003 to 1.5 per cent at the end of 2006 and at 3.7 per cent in 2007 (Ayden et al., 2018). In parallel, the Turkish GDP performance accelerated markedly during this period, when real GDP grew on average by 6.8 per cent annually, more than double the average growth posted during the boom-bust decade of the 1990s (Macove, 2009).

In this context, it was not surprising that automobile giants, such as Mercedes, FIAT, Hyundai, Toyota, Ford and others, invested heavily in the country for many years (Ayden et al., 2018), activating also MNE entrepreneurship in the Turkish economy. The last argument is illustrated by the statements of six MNEs (Fiat TOFAŞ and Eldor Corporation. The other four companies requested anonymity to speak more frankly and therefore are referred to as North American-1, North American-2, European and East Asian) that invested in Turkey, according to the survey of the International Labor Organization (ILO) (Akyuz, 2018).

According to Akyuz (2018), three (*North American-2*, *European* and *Fiat TOFAŞ*) out of the six MNEs implemented the asset-augmenting attitude, that is, their subsidiaries developed knowledge within the subsidiary rather than transferring and adapting the knowledge of the parent company. This attitude was based on the argument that such MNEs had higher local content ratios than the other three MNEs which implemented the asset-exploiting (adaptation) strategy. Therefore, such MNEs created appropriate channels for local suppliers to familiarize themselves with new production methods which, subsequently, contributed to the diffusion of positive spillovers in the Turkish economy (this was particularly evident in the case of North American-2) (Akyuz, 2018).

This process was also enhanced by other means. All six MNEs developed knowledge locally by employing high-qualified people and offering favorable environments for the local employees to gain better skills which increased the chances of spillovers through labor mobility and spin-offs (Akyuz, 2018). Moreover, all six MNEs provided training, especially on quality management, production methods and human resources management and implemented routine controls by Supplier Quality Engineers, in order to address production problems and propose new solutions that are in line with their prerequisites. More specifically, North American-1, North American-2 and Fiat TOFAŞ had held technical workshops to train all suppliers together on some aspect(s) of production (Akyuz, 2018).

All these facts, illustrate that an institutional coevolution took place in Turkey for the period under-examination. On one hand, the context which Turkey found itself in after 2001 provided the basis for the country to produce "second–generation reforms" (Atiyas, 2012) with economic and institutional reforms going hand in hand (Önis & Bakır, 2007). On the other, MNEs, realizing that Turkey is determined to apply structural reforms that change the host institutional environment perceived the Turkish institutional setting as a chance to solve their own coordination problems. Thus, they implemented solutions that were in line with their prerequisites producing at the same time positive spillovers for the country. In this way an institutional coevolution process was introduced in the Turkish economy for the period 2002–2007.

4.1.3. The global crisis period: 2008–2011

Many aspects of such events came to a sudden stop around 2007 (Rodrik, 2012), leading Turkey to an institutional regression. At about 2010 negotiations between EU and Turkey came to an abrupt end, cultivating at the same time an anti–Turkish stance of some EU members (France with Sarkozy's platform standing out among them) (exogenous forces) (Chislett, 2015). This negative condition was exacerbated by Turkey's reluctance from 2011 onwards to put into effect human rights reforms in compliance "with the Copenhagen criteria" (endogenous forces) (Adamoglou & Hajidimitriou, 2020, p. 536).

In parallel, Turkey, as one of the many countries hit by the global economic downturn, signed a loan agreement with IMF to address the impact of the global financial crisis (Guardian, 2008). The agreement brought about new austerity measures which, in tune with the standstill of institutional transformations (endogenous forces), produced demonstrations, social unrest and disruption of supply chains (Guardian, 2008).

In this setting, Turkish IFDI in the sub-period 2008–2009, recorded a sharp decrease of 56.7 per cent, which was accompanied by a simultaneous decrease of 4.7 per cent in the real GDP per capita (UNCTAD, 2021). However, the paradox herein is that the IFDI and GDP per capita activity in the sub-period 2010–2011 showed an improvement, recording an increase of 77.7 per cent and 11.1 per cent, respectively. This process is interpreted as an adaptation one, since Turkey's IFDI and GDP per capita increased without, however, being accompanied by an institutional development process. Instead, it was related to a vicious cycle of institutional stagnation. Therefore, similar to the sub–period of 1999–2001, adaptation herein is explained by the willingness of the incoming MNEs to exploit and maintain their firm's specific ownership advantages (Dunning, 1993).

4.2 The Recession Period (2012–2016)

In this period, the "Turkish economy experienced one of its worst economic down–turns after the Second World War" (Öztürk & Aras, 2012, p. 330) which was accompanied by institutional regressions. The economic down–turn was caused by numerous exogenous forces, starting with the Syrian civil war at Turkey's borders which created a vacuum to be filled by escalating ISIS and PKK terrorist activities (Isiksal et al., 2017). This condition was deteriorated by the refugee wave which added a major socio–economic burden on the country, with an estimated spending of at least $25 billion on the refugees (Isiksal et al., 2017). In the aftermath of these events, negative endogenous forces took place making Turkish Lira to depreciate 10 per cent in the first half of 2015. The problematic situation was also exacerbated by the military coup attempted on 15 July 2016 which caused Turkish lira to plummet "instantly another 5 per cent", recording its biggest fall since 2008 (Kayhan & Kar, 2016, p. 35).

The turnaround of the country's economic policies was reflected also in the institutional performance of the country. Two serious institutional setbacks occurred: First, the much–needed independent tax authority was never created, leaving Turkey mainly relying on indirect consumer taxes. Second, the "Fiscal Rule" was never implemented in order to underpin Turkey's fiscal adjustment and restrain the deterioration of the Turkish economy due to the crisis (Acemoglu & Ucer, 2015). Negative institutional turning point was also the mass mobilizations and social unrest that took place in Turkey in 2013. While the unrest started out as a small sit–in by a handful of people who wanted to prevent the uprooting of trees in Gezi Park (Guardian, 2013), it ended in violent demonstrations that demanded the resignation of Prime Minister Erdoğan and the ruling Justice and Development Party (AKP) government (Guardian, 2013).

MNEs main response to these conditions was reflected in the introduction of an institutional avoidance strategy. In particular, the IFDI activity declined by 3.6 per cent in the sub-period of 2013–2014 and by 4.9 per cent during the period 2012–2016 (UNCTAD, 2021). This avoidance validates that "disruptive events", such as deep recessions or currency crises, civil conflicts and coups, depress growth (Barro, 1996) deranging labor forces and supply chains, damaging infrastructure, raising the costs of capital, and eventually forcing MNEs to shut down.

5. Discussion

Having reconciled the appreciative method with secondary statistics data, it is indicated that in the sub-periods of 1996-1997, 1999-2001 and 2010-2011 institutional adaptation prevailed, since crisis conditions do not explain the increase of IFDI and GDP per capita in Turkey. Incoming MNEs originating from countries with sound-structured institutions, such as USA, Germany, Netherlands and UK (Investment Support and Promotion Agency in the Republic of Turkey, 2013), perceived Turkey's institutional inefficiencies as opportunities to exploit their own core competencies. Adaptation, on its part, introduced a parallel process where existing MNEs motivated new ones to enter the country because it is the adaptive mechanism that helps MNEs to make decisions in uncertain environments, such as Turkey. Such imitation, however, as it was not accompanied by institutional development, led Turkish economy to a growth process, validating *Hypothesis 1*. This verifies Dunning's (1993) argument that it is not the absolute level of ownership advantages that determines the ability of a country's firms to enter a particular market, but the strength of specific advantages' *vis-a-vis* those of another country's firms (Dunning, 1993).

Considering the periods of 1992-1994, 2008–2011 and 2012 – 2016, MNEs expressed their entrepreneurship towards the Turkish economy via the pattern of institutional avoidance, validating *Hypothesis 2*. In these periods there were no reforms implemented in the Turkish business sector, whereas IFDI flows and GDP per capita recorded a sharp decline. Furthermore, Turkey faced a series of protests and social unrests that brought about a wide range of negative impacts for its labor force, supply chains and costs of capital, forcing MNEs to abstain from investing in the Turkish economy. In this direction, two main interpretations prevailed. According to Durán–Herrera and García–Cabrera (2013), such circumstances possibly made MNEs reluctant to negotiate with government agents for institutional transformations in sectors that were crucial for MNEs, deteriorating the already bad condition of the country. According to UNCTAD (2017), the coinciding global crisis led to the decline of Turkish FDI–related activities and, subsequently, to sharp decline in the financial and insurance sectors of the country.

Considering the 2002–2007 period, a coevolution process emerged as *Hypothesis 3* states. Turkey applied structural economic and institutional reforms that led the country to experience an economic development process. In parallel, realizing that Turkey is determined to apply structural reforms that change the host institutional environment, MNEs proceeded by implementing solutions that were both in line with their prerequisites and produced positive spillovers for the Turkish economy. Subsequently, an institutional coevolution process for the country for the period 2002-2007 was introduced validating *Hypothesis 3*.

6. Conclusions

The aim of our research is to examine how the institutional transformation of an emerging economy motivates different forms of MNE entrepreneurship, which subsequently, leads either to economic development or growth. The paper undertook such an investigation in four steps. First, it focused on an emerging economy, namely Turkey, employing the dynamic perspective of emerging economies which distinguished them into stable and under crisis conditions. Second, it reconciled the above with the three forms of Cantwell’s et al. (2010) coevolution framework, producing three hypotheses. Third, it tested and validated the above hypotheses, employing secondary statistics data in tandem with appreciative theory, and more particularly, historical data derived from the formal institutions of the country.

In this framework, this research made the following contributions: First, and in contrast to the mainstream and ad hoc presentation of conceptual frameworks, it applied and extended an existing conceptual framework by developing and validating three innovative research hypotheses. Second, it emphasized not only the outcomes of the coevolution process, but also the process through which it is achieved, enhancing the emerging tendency of literature towards a dynamic-historical analysis. Third, it articulated the evolutionary perspective of the macro-social story of the Turkish economy underlining the sight of the big picture, an overlooked sight which actually engulfs all the potential influences that affect the host country’s development.

From a broader perspective, our findings indicated that institutional context matters, when it comes to predicting the impact of MNEs on emerging markets. “MNEs do not automatically play a positive role in attracting MNEs. Whether they play such a role depends on the institutional framework within which they make their investments.” (Cao et al., 2017, p. 825).

In particular, it is concluded that institutional forces may stabilize or create strong pressures or opportunities for change; at other times, firms may act to create change or to support the existing rules in the institutional environment. “Institutional reforms may not only have a positive effect on institutional munificence" (Chung & Beamish, 2005, p. 36), but such drastic transformations may also produce a negative effect on the environment. In this sense, it is indicated that MNEs have the capacity to influence the host institutional setting through different forms of entrepreneurship, circumventing the deterministic reasoning of embedded agency that has been presented so far by institutional theory. Therefore, MNEs should perceive themselves as institutional entrepreneurs, who may actively destruct an existing institutional setting. In the same vein, MNEs should perceive institutions as active entities stemming from human agency, i.e., purposive action by individuals, firms, coalitions and other actors.

7. Managerial and Policy Implications

The present study underlines those emerging economies are not steadily stable over the years. Instead, such environments are also characterized by crises that increase the risk MNEs face in such economies. Thus, whereas the characteristics of MNEs may be relatively stable and isomorphic within a stable emerging institutional environment (e.g., within the pre-crisis institutional environment), they may change dramatically in the face of drastic institutional transformations. Such a development may gradually create a new institutional stability or isomorphism (e.g., the newly legitimated characteristics of foreign subsidiaries in the post-crisis institutional environment), that lead the country to development, growth or underdevelopment. Taking the above into consideration, MNEs may behave in a proactive way, although with calculated risk-taking strategies in which the pursuit of an emerging economy opportunity can widen MNEs "growth options, enabling them to enter new and profitable business sectors, which are rapidly opening to foreign investors through policy reforms" (Chung & Beamish, 2005, p. 37).

The present study also underlines "how specific institutional contexts frame, structure and enable policy choice" (Jarvis & Bakir, 2018, p. 2018). As Dunning and Fortanier (2007) asserted, the reconciliation of MNE entrepreneurship and economic development "compels academics and policymakers to reassess, first, the ways in which MNEs respond to the reappraised nature and purposes of development, and second, how MNEs help to shape it further" (Dunning & Fortanier, 2007, p. 26). Therefore, the evolutionary perspective presented herein motivates policy makers to understand that the internationalization of production should no longer be conceived as an exogenously–given fact with an equal impact on all countries, as the international context of national development policy has gained in importance (Gore, 2000). Instead, it should be perceived to its realistic three–dimensional basis that clearly relates to MNEs, institutions and economic development. The critical question that now emerges is how this realistic three–dimensional basis is achieved.

The answer is found in the close collaboration between MNEs and states. MNEs, as one of the main wealth creators, national governments and supra-national entities, as one of the main fashioners of policy, should work as partners, facilitating the conceptualization of economic development. To this end, policy makers should introduce prerequisites requiring that MNEs will guarantee with their presence the development of the host institutional environment. This could be attained through MNE activities related to Corporate Social Responsibility (CSR), such as implementation of environmental, health and safety management systems at their production sites, as well as through their engagement in philanthropic projects.

9. Limitations and avenues for future research

This paper lays a sound foundation which may be developed into further research. However, as with any study, it is not without limitations. The first limitation is its designated time horizon, since Turkey, as many other emerging economies, is in a constant struggle to define its political, economic and institutional identity (Reus & Rottig, 2009). The next limitation refers to the need of a complementary empirical analysis, which can be validated either through a quantitative analysis, a qualitative one or a combination of the two. Furthermore, this research analysis points towards many unanswered conceptual questions that only rigorous empirical research can answer. For instance, what makes some firms better able to coevolve with their institutional environment than others? What factors contribute to the absorptive capacity of local firms in conjunction with institutional innovation?

Thus, further research could expand the time horizon studied from 1990–2016 to 1990–2020, since Turkey is in a constant struggle to define its political, economic and institutional identity. Another possible reorientation of our analysis would be the transfusion of the above in specific sectors, such as manufacturing, electronics and automobiles, which are sectors characterized by high levels of MNE involvement and innovation and "typically involve numerous government agencies and multiple levels of approval" (Uhlenbruck et al., 2006, p. 407).

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Appendix

Table 1. Inward FDI Flows & Stocks in US$ millions

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Inward FDI Flows											
684	810	844	636	608	885	722	805	940	783	982	3,352
Inward FDI Stocks											
11,150	11,960	12,804	13,440	14,048	14,933	15,655	16,460	17,400	18,183	18,812	

Table 1. Inward FDI Flows & Stocks in US$ millions (Continued)

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inward FDI Flows									
1,082	1,702	2,785	10,031	20,185	22,047	19,851	8,585	9,086	16,143
Inward FDI Stocks									
18,826	33,239	38,617	71,416	95,516	155,699	81,338	144,820	188,447	138,053

Source: UNCTAD, 2021.