



Determinants of Foreign Direct Investment in Kurdistan Region

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Abstract

Iraq has the second largest oil resource in the world, presenting good business opportunities for foreign investors. However, foreign investors have avoided the country due to its on-going unrest. This includes two wars (the Iran-Iraq war from 1980 to 1988, then the Gulf war in 1991), followed by United Nations (UN) sanctions, and most recently, since 2003 the country has become a battle ground for terrorists and insurgents in most parts of the country.

Kurdistan Region is a safe and sustainable part of Iraq compared to the rest of the country. Its rich natural resources (oil and gas), and competitive investment laws are expected to attract foreign direct investment (FDI) into the Region. However, despite Kurdistan Regional Government's (KRG) massive advertising campaign internationally, and the many incentives offered to foreigners to invest in the Region, there is little evidence of foreign multinational companies' willingness to commit to long term investment in Kurdistan Region.

This thesis is part of an overall research study, exploring the determinants of FDI in Kurdistan Region. In the previous documents the author investigated the Region's market attractiveness for FDI, through interviews with senior government officials in Kurdistan and Iraqi Central Government (Document Three), and foreign investors (Document Four) regarding their main concerns relating to foreign investors' investments in Kurdistan Region.

This study, investigating a different set of stakeholders, a number of UK and Turkey based organisations involved in FDI in the Kurdistan Region. It aims to investigate all the potential risks associated with investing in Kurdistan Region as well as to research how these organisations evaluate the Kurdistan market.

The findings of this research project suggest that although Kurdistan Region presents good business opportunities for FDI, investing in the Region is closely associated with political and market risks. These risks are a result of Iraq's recent history of violence, the current conflict between different ethnic groups over power and authority, and the Region's uncertain long term political risks which are affecting multinational companies' (MNC) modes of entry and preventing high-resource commitments (Uppsala theory).

The findings also suggest that participants' opinions regarding the Region's market attractiveness for FDI consideration are influenced by their own experiences, and the participants of this study play an encouraging role in MNCs' decisions to enter the Region.

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List of Abbreviation

CG: Central Government

FDI: Foreign Direct Investment

FI: Foreign Investment

IB: Independent Bodies

IS: Islamic State

KR: Kurdistan Region

KRG: Kurdistan Regional Government

KRG-UK: Kurdistan Regional Government High Representative in the UK

MEA: Middle East Association

MNC: Multinational Companies

NITI: Northern Ireland Trade and Investment

NGO: Non- Government Organization

UAE: United Arab Emirates

UK: United Kingdom

UKTI: United Kingdom Trade and Investment

UN: United Nations

US: United State of America

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Kurdistan Region in Brief

Kurdistan Region is an autonomous region in the north of Federal Iraq. It borders Syria to the west, Iran to the east, and Turkey to the north

Area, 40,643 square kilometres; capital city, Erbil (also known as Hewler); and currency, Iraqi Dinar (IQD).

Languages: mainly Kurdish; Turkmani, Arabic, Armenian, and Assyrian in some areas.

Population: currently around four million. The three governorates of Duhok, Erbil and Suleimaniah cover approximately 40,000 square kilometres - four times the area of Lebanon and larger than that of the Netherlands.

Security: Since March 2003 not a single coalition soldier has died, nor has a single foreigner been kidnapped in Kurdistan Region.

Iraq's constitution recognises Kurdistan Region as a federal state.



Source; Google Image, Map of Kurdistan Region, 2012

Summary of Previous Documents

I. Document Two (Literature Review)

In Document Two, the author reviewed the determinants of foreign direct investment in Kurdistan Region. The determinants of foreign direct investment in general were appraised in emerging countries, the Middle East, and post conflict regions. Iraq's situation was reviewed from investors' points of view.

Through the literature it was established that while Iraq is a prosperous location offering business opportunities to MNCs, it is also considered a post conflict region. Determinants of foreign direct investment (FDI) in Kurdistan Region were highlighted, outlining the Region's advantages and disadvantages for FDI consideration at both national and international level (appendix 1, p. 140) and this became the core theoretical basis for this research project.

Iraq holds the world's second largest oil reserves (Radler, 2002), and the country's economy relies heavily on oil. Due to its violent history, Iraq is in urgent need of reconstruction in all sectors (Khalaf and Sieff, 2009), presenting good business opportunities for foreign investors. However, the lack of security in the country, its unstable political and economic situation, the lack of effective infrastructure, and investment law, have resulted in a high level of corruption, which is preventing foreign investors from entering the Iraqi market.

In Document Two, it was established that Kurdistan Region's good geographic location and stable security (compared to the rest of Iraq), and friendly investment law, together with the region's natural resources (oil and gas) are considered to be advantages for FDI. However, because the Region is part of Iraq, the country's overall situation has a direct impact on its attractiveness in terms of FDI (Brown, 2005; Ismael and Ismael, 2005; Klein, 2004; Rangwala and Herring, 2005).

In Document Two it was concluded that the ethnic conflicts in central and southern Iraq, the country's high level of political risks, lack of legal framework and tax system in Iraq, corruption, and the lack of a banking system have been identified as the Region's main disadvantages for FDI consideration. The KRG and Central Government disputes over the production of oil and gas and the power and authority given to the regional government have also had a direct negative impact on the level of FDI inflow into the Region.

II. Document Three (Qualitative Research)

The prime objective of Document Three was to investigate, through interviews, the determinants of FDI in Kurdistan Region from the perspectives of Iraq's Central Government and the KRG's most senior officials. It also aimed to examine the effect of Central Government regulations and the implications of the situation in the rest of Iraq on KRG's strategy to attract foreign investors to the Region. However, the overall objective was to identify the cause and effect relating to the process of FDI in Kurdistan Region from the KRG and Central Governments' point of view.

According to the findings of Document Three, there is agreement between Central Government and KRG officials regarding the importance and the contributions of foreign investments to the country's overall economy (e.g. creating employment). KRG's huge advertising campaign to promote the Region in order to attract FDI, high level of security, the investment law which gives property rights and tax exemption to foreign companies, and the rich natural resources, in particular oil and gas, are the Region's key advantages for FDI consideration. Its good geographic location, as the gateway to the rest of Iraq, and regional strategic plan to continuously update and review the Region's competitive investment law to meet foreign investors' needs are also considered advantages.

Central Government's lack of support, and in some cases blocking of the process, is seen as a negative contributory factor toward foreign investment in Kurdistan Region. This is because policy making usually takes place at national level, therefore, in addition to local government (regional level) Central Administration could also have a direct impact on FDI inflow into the Region (Alfaro et al., 2003; Blomstrom and Kokko, 1997).

The lack of cooperation and harmonious relations between KRG and Central Government, the disputes over the power and authority given to the regional government, and unclear future political vision for the country as whole, and Kurdistan Region in particular, are also seen as disadvantages. Finally, Document Three concluded that the instability in the rest of Iraq also has a direct impact on Kurdistan Region's market attractiveness for FDI consideration.

III. Document Four (Quantitative Research)

In Document Four the author investigated the determinants of FDI in Kurdistan Region, from foreign investors' points of view. The determining factors affecting the process of FDI in Kurdistan Region at national level were explored (shade A from conceptual framework, see appendix 1, p. 140). This document also aimed to identify foreign investors' main concerns over investment in Kurdistan Region.

According to the findings of this research project, there is agreement among multinational companies (MNCs) about the vast investment opportunities in Iraq as a whole and Kurdistan Region in particular. The findings also suggest that most multinational companies' entered the Kurdistan market post-2003 (after Saddam Hussein's regime).

According to the findings, the Region's natural resources are considered to be a positive contributory factor in the process of FDI in Kurdistan Region. The results also show that both groups of participants highlighted the importance of the Region's security, the Regional Government's friendly policies toward FDI, and the stable political and economic process at regional level (compared to the rest of Iraq) to their investment. They believe that these were the deciding (veto) factors in their investment, which could have been deal breakers, even if all the other factors were positive.

The findings of Document Four also suggest that both groups of participants (investors and non-investors) consider Kurdistan to be an emerging market and the gateway to the rest of Iraq.

Furthermore, the Region's organizational efficiency, physical infrastructure, lack of a banking system, and cultural differences also affect the process of FDI, but they are less of a concern to multinational companies than some other important factors (e.g. political and security). Both groups of participants viewed these factors as trigger items, although these would not discourage them from investing in the Region.

The study also found that there were contradictory views between the two groups of participants. Those companies which invested in the Region did not believe Iraq's overall situation affected their decision to enter the market. However, those which did not invest in the Region believed that the country's overall situation did have a direct impact on their decision to invest in Kurdistan Region.

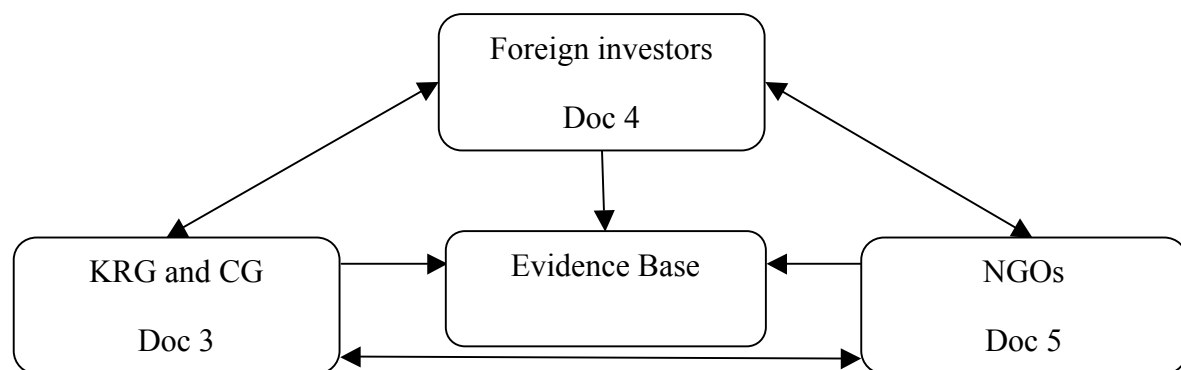
IV. The Findings of Previous Documents and the Emergence of Document Five

In the previous documents the author examined the perceptions of different stakeholders with a direct interest in the process of FDI in Kurdistan Region. KRG and Central Government officials aim to take advantage of FDI to benefit their economy and foreign multinational companies wish to profit from the Kurdistan market. However, to obtain a more balanced view of the process of FDI in Kurdistan Region, this research project investigated a different stakeholder (non-government organisations, NGOs) that does not have direct interest in the process of FDI in Kurdistan Region, but which could indirectly influence the level of FDI there. These stakeholders provide crucial advice to MNCs on foreign market attractiveness.

These stakeholders, from different NGOs in the United Kingdom (UK) and Turkey, are involved in giving advice on specific foreign market attractiveness to their domestic MNCs. Therefore, their influence in the MNCs' decision-making process and the wish to gain a more balanced view about Kurdistan Region's market attractiveness for FDI consideration, led the author to undertake this study. Thus, Document Five emerged as an essential aspect of the overall objectives of this research project.

The research project investigated the process of FDI in Kurdistan Region from a different perspective, internal and external bodies that affect the process. Linking the findings of Document Five and the previous documents (Figure 1, p.14) will help the author to make a more detailed analysis of the process from different stakeholders' points of view. This will ultimately assist the author to recommend some strategic solutions to KRG to increase the level of FDI in Kurdistan Region.

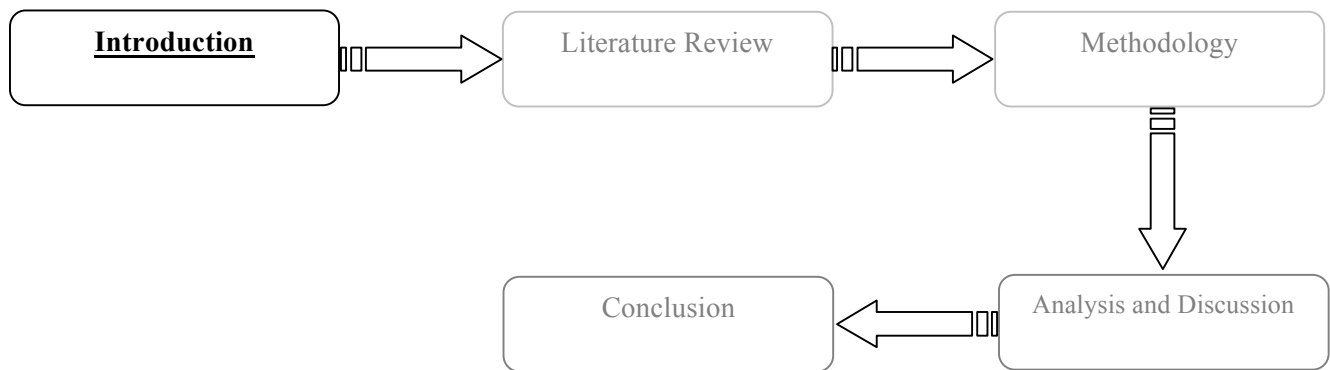
Figure 1: The Emergence of Document Five



Internal to Iraq and KR

External to Iraq and KR

Chapter One: Introduction



1.1 Background

The autonomy of the Kurdistan Region has survived longer than any other Kurdish autonomous experiment in recent history (Bengio, 1998). Galbraith (2003) suggests that, having enjoyed the first durable Kurdish state in modern history since 1991, the Kurds of northern Iraq have no intention of giving up their freedom and self-government. Since 2003, the KRG has established a good relationship with the United States of America (USA), Europe, and in recent years with neighbouring countries, in particular Turkey. The Region's rich natural resources, especially oil and gas, have given the Kurds the advantage to establish an independent state in the future (O'Leary et al, 2005).

In Iraq's new constitution, Kurdistan Region is recognized as a federal state within Iraq, giving more power to the KRG. Since the fall of Saddam Hussein's regime in 2003, the Kurdistan Regional Government (KRG) has not only invested heavily in political activities, it has also invested in its economy, aiming to attract foreign direct investments (FDI) into the Region. During this time, Kurdistan has become a very safe and stable part of Iraq, compared with the rest of the country.

The KRG has invested heavily in advertising campaigns all around the world, especially in the USA and Europe, to attract foreign investors to the Region. They promote Kurdistan Region as the safest place in Iraq, and as 'the gateway to the rest of Iraq' which has become the KRG's slogan in their advertising campaigns. However, they aim to establish the Region as a prosperous market for FDI consideration by trying to distance themselves from Iraq's overall market. The Region's rich natural resources particularly oil and gas, are creating good business opportunities for international investors in different sectors.

To facilitate FDI in Kurdistan Region, the Kurdistan National Assembly (KNA) passed the Investment Law in 2006. This is a comprehensive and investor-friendly law, offering generous incentives to outside investors, including the right to full property ownership, tax and customs duty exemptions, repatriation, and partnership in Kurdistan. This competitive investment law is aimed at increasing the level of FDI into Kurdistan Region.

Rich natural resources, a high level of security, a comparatively stable political process (compared to the rest of Iraq), a booming market, together with KRG's openness toward FDI are considered as the Region's main advantages, and it has become KRG's central focus to

attract FDI. One of the KRG's key strategies in attracting FDI is to invite foreign investors to base their companies in Kurdistan Region and then expand to the rest of Iraq once the country is more stabilised. According to the findings of the previous documents in this research project, this has convinced many multinational companies to enter Kurdistan Region's market. However, it is mainly the lack of security and the unstable political and economic situation in central and southern parts of Iraq that have resulted in foreign investors focusing on the Kurdistan market rather than that of the whole of Iraq.

The KRG's strategy has attracted many foreign investors into the Region (more than 2,500 foreign companies are registered). Turkish multinational companies are among the largest investors in the Region (Table 1, p.18). However, despite all the effort by KRG, its good investment law and massive advertising campaigns in the USA and Europe, there is little evidence of long-term foreign investments in the Region, especially from the USA and European countries. The findings of this research project suggest that this is because of all the associated risks involved in investing in Kurdistan Region, in particular the long term political risk.

Iraq is one of the riskiest countries for FDI (Hamilton and Webster, 2009), with unstable security, political and economic conditions creating many difficulties for foreign investors. The country's history of violence between the Kurds and Central Government, sectarian violence, and recent ethnic conflict between Shi'as and Sunnis in central Iraq, as well as the emergence of IS (Islamic State) resulted in Rugman and Hodgetts (2003) highlighting 'long term political risks' to multinational companies' investment in the Region. The effect of Central Government's regulations, the country's overall security and political instability, and the unclear political future of the Region add further risks, and have created a challenge to the KRG to convince foreign investors to make high-resource investments in the Region, as a result of mainly political and market risks (Bartov, et al, 1996; Jones, 2007; Reeb et al, 1998).

1.2 Research Aims and Objectives

MNCs' international engagement is largely shaped by the home country's economic activities and trade opportunities abroad (Peng and Meyer, 2001). The decision by a business to operate outside its national market involves a number of choices, such as franchising or licence agreements (Parker, 1998). However, before deciding on the mode of entry, firms need to conduct in-depth market research on their target market, considering not only market opportunities but the risks involved to their possible investment (Hamilton and Webster, 2009; Shenkar and Luo, 2008).

This research project aims to explore the determining factors affecting the process of FDI (from selected stakeholders' points of view) in Kurdistan Region. It intends to uncover the risks involved with investing there and the role which is played by the target population in influencing inward investment to Kurdistan Region.

The objectives of this study are to investigate the risks faced by MNCs' wishing to invest in Kurdistan Region and also to establish the effects of those identified risks on MNCs' modes of entry. It will also examine what factors are considered when evaluating the Kurdistan market's attractiveness (by sample population). Finally, this research project intends to explore the effects of the target population on multinational companies' decisions to enter the Kurdistan market.

Previous documents in this research project investigated the advantages and disadvantages of investing in Kurdistan Region from the KRG's and the Central Government's perspectives (Document Three) and from the point of view of investing firms (Document Four). Therefore, the prime objective of this document is to evaluate Kurdistan Region's market attractiveness for FDI consideration from different stakeholders' points of view. These stakeholders are different organizations from the UK and Turkey, which are actively involved in promoting foreign market participation, in particular in Iraq's and Kurdistan Region's markets to their national MNCs. The reason for selecting Turkey is that Turkish MNCs are among the highest number of foreign investors in Kurdistan Region and UK MNCs are among the highest number of foreign investors from Europe in Kurdistan Region, and they are the leading companies in architecture designs in the Region (Table 1, p.18).

<u>Country</u>	<u>2003</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Percentage</u>
<u>Turkey</u>	<u>12</u>	<u>183</u>	<u>221</u>	<u>153</u>	<u>1240</u>	<u>46.11</u>
Iran	1	43	54	48	316	11.75%
Lebanon	0	10	27	30	145	5.39%
United Arab Emirates (UAE)	3	13	21	34	131	4.87%
<u>UK</u>	<u>2</u>	<u>15</u>	<u>21</u>	<u>18</u>	<u>114</u>	<u>4.24%</u>
United State (US)	0	9	20	17	106	3.94%
Jordan	0	7	15	19	91	3.38%
Germany	1	15	21	5	81	3.01%
Italy	0	5	6	7	41	1.52%
Netherlands	0	2	2	1	27	1%

Table 1: Top Ten countries with MNCs registered in Kurdistan Region

Source; Kurdistan Regional Government (KRG), Ministry of Trade and Industry (2014)

According to Peng and Klaus (2011), non-government organisations (NGO's) play an important role in shaping the terms of global trade and business activities and, for that reason, businesses increasingly tend to work with them (Johnson and Turner, 2003; Parker, 1998,). Not all NGO's are critical to business but the role of those which are is not to 'command' businesses but to act as an 'advisory' board to help companies to address their concerns (Hamilton and Webster, 2009; Tayeb, 2000). The target population in this research is the type of NGO which acts as an advisory body in advising MNCs to understand the Iraqi market (in particular that of Kurdistan) more effectively.

The author intended to investigate different individuals' viewpoints in different organisations from the UK, USA, UN and Turkey. The selection of these organisations was determined based on their involvement in advising their domestic companies on Kurdistan Region's market attractiveness for their initial investments. However, because of the difficulties of organising interviews with UN and USA based organizations, and given the limited time, in the end (after consulting with the supervisors) the author decided to investigate only UK and

Turkey based organizations involved in evaluating foreign markets (in particular the Kurdistan market) for FDI consideration. However, this has not affected the validity of this research project because sufficient data was collected from these sources.

As mentioned in previous documents (Documents Three and Four), the author examined two different stakeholders' points of view regarding the attractiveness of the Kurdistan market for FDI consideration: The KRG and Central Government's most senior officials (Document Three) and then multinational companies which invested in Kurdistan Region and those that did not invest in the Region (Document Four). This document is the final stage of this research and in it the author examines some organisations in the UK and Turkey which are actively involved in advising their domestic multinational companies on foreign markets and in particular the Kurdistan market's attractiveness for their possible investment.

1.3. Research Questions

As this study is of an exploratory nature, due to it being a pioneer of its kind, the focus of this investigation has been on answering so-called “what” questions. The research project in this document aims to answer the following research questions:

1. What are the main risks facing MNCs considering investment in the Kurdistan Region of Iraq as a post-conflict, autonomous region and its effect (the risks) on MNCs’ mode of entry to the Region?
 - 1.1- What are the driving factors and the barriers facing MNCs when investing in Kurdistan Region?
2. What factors are considered by the target population to determine the attractiveness of Kurdistan Region’s market for FDI consideration?
 - 2.1- Do target populations follow a systematic or rational approach to determine the attractiveness of Kurdistan Region’s market for FDI consideration?
3. What is the effect of promotional boards and departments (target population) in those countries (UK and Turkey) hosting MNCs with potential to invest in Kurdistan, in facilitating inward investment and in representing the Kurdistan market’s appeal?

Question 1.1 is revisited in this document, having previously been addressed in Documents Three and Four using a different set of stakeholders (Appendix 1, p.142) illustrated the advantages and disadvantages of investing in Kurdistan region). The other questions above are the final phase of research the author has undertaken since the submission of Documents Three and Four.

By answering the above research questions and considering the findings of the previous documents, this research project aims to recommend some strategic solutions to increase the level of FDI inflow in to Kurdistan Region.

Answering the above questions should provide a solid base for further research that is of an explanatory nature with a focus on “why” and “how” questions.

1.4. Significance of the Study

This research project's overall objective is to produce original and new knowledge on the determinants of Foreign Direct Investment (FDI) in Kurdistan Region (northern Iraq). According to Clarke and Lunt, (2014), new knowledge is generated by applying existing knowledge in order to produce a new understanding of the subject of study to illustrate conclusions regarding knowledge about its implications (Lovitts, 2007).

This study applies existing knowledge on the factors affecting FDI when investing in a new market (e.g. Uppsala theory), therefore the process of data collection and analysis concerns actual knowledge-producing effort to empirically explore and analyse what kind of patterns might be involved in the process of FDI in Kurdistan Region from different stakeholders' points of view. These stakeholders include senior KRG and Central Government officials, MNCs (those which have invested and those which have not) and a number of organizations from the UK and Turkey which are involved in evaluating foreign markets, in particular Iraq and Kurdistan Region's market, for UK and Turkey's MNCs.

A number of studies have focused on the determinants of FDI in post conflict countries (such as; Dupasquier and Osakwe, 2006; Simpson, 2008; Ugochukwu, et al, 2013), however the lack of literature focusing on autonomous regions in the Middle East and in particular Kurdistan Region in Iraq, convinced the author to undertake this research project. This study offers first-hand knowledge on the process of FDI in Kurdistan Region.

The significance of this study is that it provides first-hand knowledge of the subject of study and contributes (adds) to the existing knowledge by offering a more focused analysis of the determinants of FDI in an autonomous region of a post conflict country in the Middle East. This is supported by Lovitts (2007) who states that applying new methods, as well as new ideas and questions, could generate shifts in knowledge, thereby providing a new understanding of the field of study. It focuses on Iraq and in particular Kurdistan Region's characteristics for FDI consideration.

The findings of this study could also be used by KRG officials and foreign investors who wish to gain knowledge about the Kurdistan market and different organisations in the UK and Turkey to provide advice to their own domestic MNC's about the Region's market

attractiveness for FDI consideration. It could also be used when looking at different locations with similar characteristics.

1.5. The Structure of the Research Document

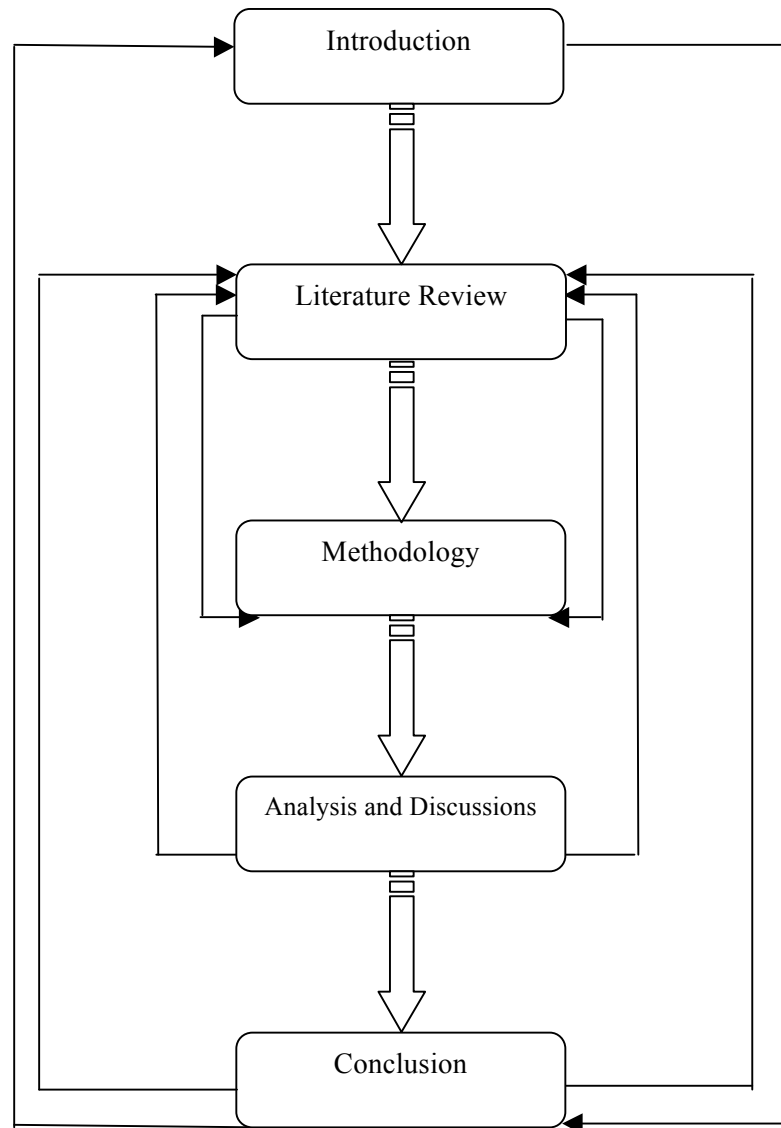
The next chapter in this study investigates the theory regarding determinants of FDI and all the associated risks for foreign investors in post conflict regions. It also examines foreign market entry, and managers' approaches to selecting a foreign market, as well as looking specifically at foreign investment in Kurdistan Region and the risks involved.

Chapter Three is the methodology, the justification for why a specific research philosophy was chosen for the purpose of this study. It also explains the research approach, research strategy, research design and qualitative methods (interviews). In addition, it explains the interview question guide and the justification of the sample population and size and as well as data presentation. Finally, it justifies the choice of content analysis to analyse collected data as well as the reliability and validity of data collected.

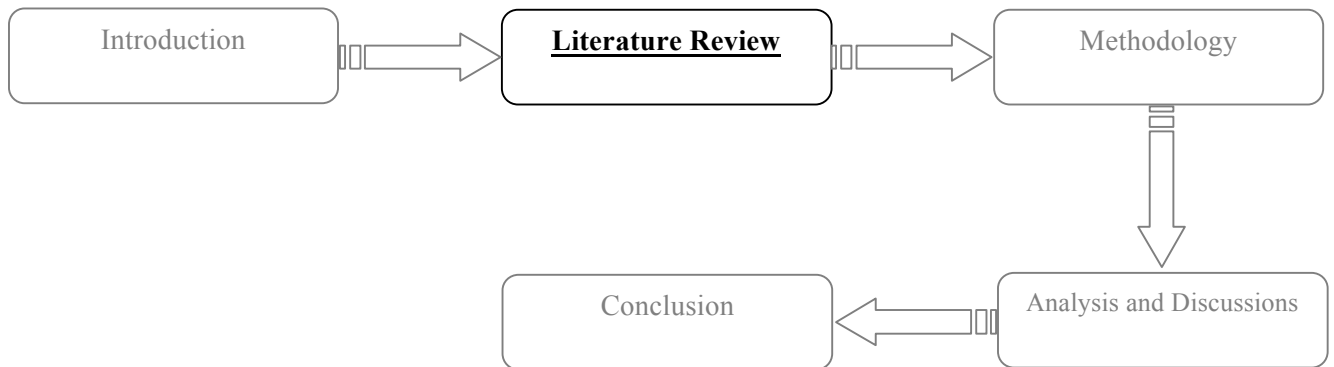
Chapter Four provides the analysis and a discussion of the collected primary data (interviews) using content analysis. The chapter starts with a description of both countries' investment (UK and Turkey) in Kurdistan Region followed by an analysis of the political and market risks involved in investing in the Region, after which the advantages and disadvantages related to the consideration of Iraq and Kurdistan Region for FDI are reviewed. It describes in detail the stakeholders' approach to decision making, and how the Kurdistan market is viewed and evaluated. Finally, all other relevant unexpected factors which arose that affect stakeholders' points of view regarding Kurdistan Region are examined.

Finally, Chapter Five concludes the study by identifying the advantages, disadvantages, and risks involved in investing in Kurdistan Region, and all the factors that can affect the sample population's decisions to evaluate Kurdistan Region's market attractiveness for FDI consideration. It also recommends a number of short and long term strategies for the KRG to increase the level of FDI in to the Region. At the end of the chapter, the author describes the significance and limitations of this study and suggests further studies (Figure 2, p.23: The structure of this thesis).

Figure 2: The structure of this thesis



Chapter Two: Literature Review



2.1. Introduction

In today's globalized and competitive business environment, many companies are forced to find a new foreign market in which to operate internationally (Wood and Roberston, 2000). Removal of trade barriers in an increasingly globalized environment have resulted in increased competition and greater opportunities for firms' international expansion (Dunning, 1999; Malhotra, et al, 2009; Papadopoulos and Martin, 2011). Meyer (2004) suggests that multinational companies play a crucial role in linking rich and poor economies and in transmitting capital, ideas, and knowledge across borders. Trading across borders by MNCs results in positive and negative outcomes for stakeholders in both the home, and the host countries. As a result, foreign direct investment is at the centre of debate on the advantages and disadvantages of globalization and on the impact of globalization on emerging economies (Meyer, 2004).

Foreign market entry is a channel through which multinational companies operate in a new market to expand their operations abroad (Mowla, et al, 2014) and is largely shaped by 'the institutional environment of the home country and the institutional distance between the home country and the host country (Peng and Meyer, 2011, p.347). Malhotra et al (2009) suggest that host countries' market conditions and new competitive business markets have encouraged many managers to take the decision to enter foreign markets in order to gain advantages or continue their operations. MNCs' decisions to expand outside domestic markets can take many forms, such as green field investment, acquisitions, and joint ventures (Parker, 1998, Shenkar and Luo, 2008).

While foreign markets offer new business opportunities they can also bring a great deal of risk. Papadopoulos and Martin (2011) suggest that even though they present different investment opportunities, "foreign markets are highly diverse, and feature multiple risks. The risks and potential profits associated with doing business in them vary tremendously" (p.135). However Malhotra et al (2009) suggest that while new markets pose a risk, they also offer great potential and returns; hence, the managers of multinational companies' contemplate decisions based on a trade-off between risk and potential investment returns. Therefore, the process of evaluating and selecting a new foreign market requires multinational companies' managers to make difficult decisions.

In order for multinational companies to evaluate a specific foreign market (e.g. Kurdistan Region) as effectively as possible, they need accurate data and market information. This will help to make the selection process much easier, drawing on relevant market information (Douglas and Craig, 2011). However, in less developed and emerging markets (such as Kurdistan Region), information is often limited or unavailable (Papadopoulos and Martin, 2011) creating problems for those wishing to assess the host country's market (e.g. The Kurdistan market). Even basic data (e.g. regarding income level) could be unreliable or inaccurate which would make the decision making process difficult and complex, in such situations firms usually tend to rely on other organisations' knowledge, such as NGOs involved in rating different countries' market conditions (Aguilar et al, 2012; Zheng, 2012).

Most emerging markets, especially in the Middle East, have tried to benefit from FDI in their struggle to achieve sustainable economic growth (Metwelly, 2004). This has encouraged them not only to implement many friendly policies to attract FDI but also to introduce supportive microeconomic policies (Metwelly, 2004). This has presented good business opportunities (e.g. Kurdistan in Region) to multinational companies, however the lack of accurate data and market conditions mean that managers are faced with great challenges in deciding whether or not to invest in a particular market. This does not take into account the level of risks in Middle Eastern countries which is associated with MNCs' long term investment.

The rise of emerging markets has attracted academic attention due to the spate of rapid transformation and economic growth (Anttonen et al, 2005; Demirbag et al, 2008; Sim and Pandian, 2007). According to Arnold and Quelch (1998), an emerging market can be defined as a country with rapid economical pace development and its policies are adopted by government in which it favours economic liberalisation and adaptation of free market. Emerging markets are different to developing markets, and they are generally seen as less integrated (Bekaert and Harvey, 1995). The barriers to integration are either micro-economics (e.g. poor credit rating, economic policies, and liquidity risks) or market-specific (e.g. market development and market size). Thus, one of the proposed aspects of the differences is relatable to the level of the political risks (Bekaert and Harvey, 1995, Perotti and Oijen, 2001).

Traditionally, the high level of risks and lack of knowledge in some less developed and emerging countries have prevented many multinational companies from committing to long-term investment (Alon, 2006). However, although some emerging economies have been characterised by the level of their political instability, recent studies indicate that this is shifting (Freeman and Sandwell, 2008; Zhang et al, 2007). This is mainly because the high level of competition and lower level of profit in developed countries causes many multinational companies to enter new emerging markets, despite the risks involved (Baena, 2009).

There is very little information and data available to multinational companies regarding the Iraqi market in general and that of Kurdistan Region in particular. While the Region offers advantages to multinational companies (e.g. natural resources such as oil and gas and a competitive investment law), it is also associated with significant risks (in particular political risks). Therefore, this research study does not suggest that the Iraqi market in general and that of Kurdistan in particular are characterised as an emerging market (such as China and Taiwan), but despite all the associated risks, because of the business opportunities available to foreign investors, it offers business potentials to multinational companies and as result many MNC's (Table 1, p.18) have entered the region. However, this study analysed the risks associated with FDI in emerging markets with specific focus on the implications of investing in Iraq, and in Kurdistan Region in particular. This includes the assessment and characterisation of all associated risks such as 'political' and 'country' risks with empirical assessment framed by an account of the literature on country and political risk.

This chapter reviews foreign direct investment and associated risks, foreign market entry, managers' approach to selecting foreign market, and foreign investment in Kurdistan Region, as well as the risks involved in investing in Kurdistan Region. Finally, based on this study's literature review, a conceptual framework is developed, demonstrating all the associated risks facing multinational companies wishing to invest in the region and it also presents the main interview questions for the purpose of this study objectives.

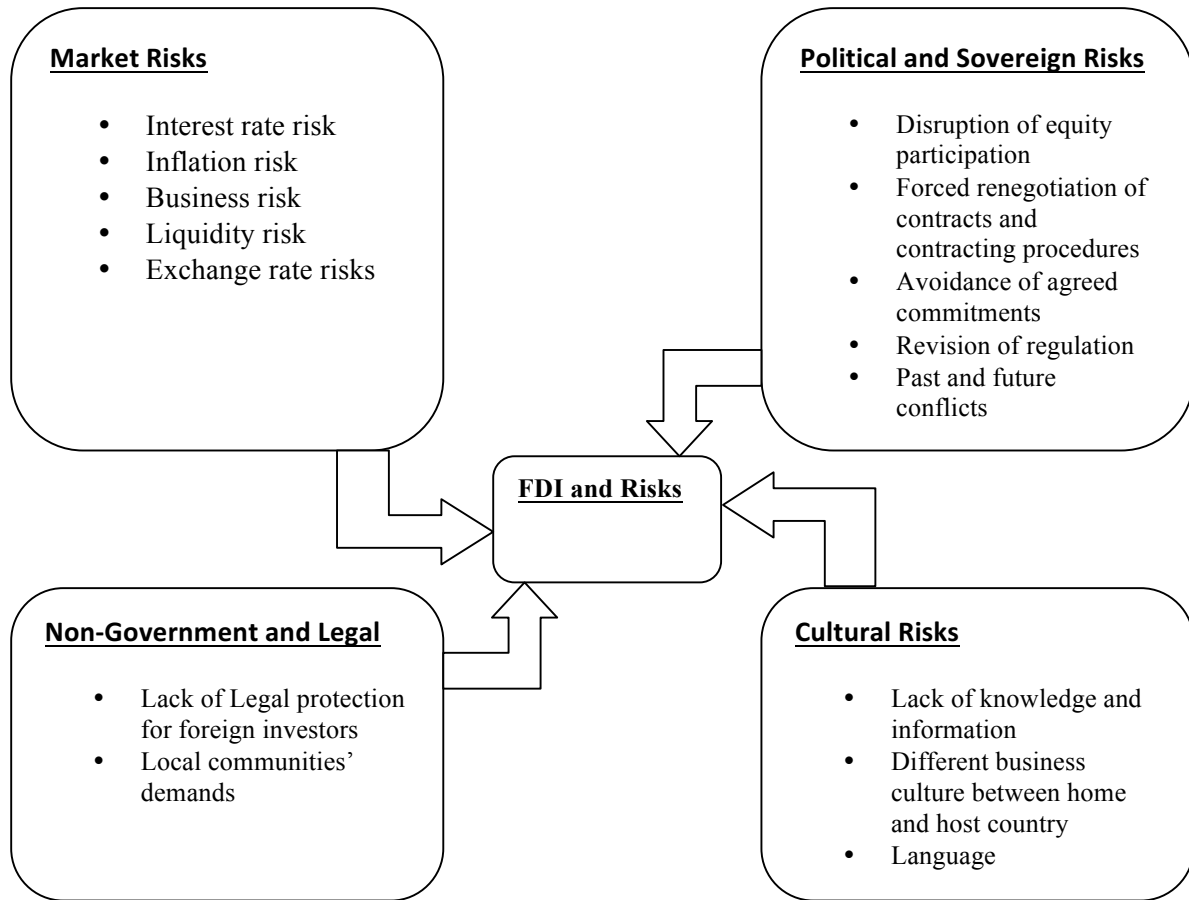
2.2. Foreign Direct Investment and Risks

Much of the early literature on foreign direct investment (such as; Hymer 1960 and Kindleberger 1969) suggests that the internationalisation of firms leads to lower risks (e.g. market risks) and higher benefits to multinational companies; however, more recent studies

suggest that internationalisation is directly associated with risk especially where the focus is on less developed or emerging countries (Aguiar, et al; 2012; Al-Khouri and Abdul Khalik, 2013). The internationalisation of multinational companies can involve legal, geo-political, and/or financial and economic risks (Burgman, 1996; Elango and Pattnaik, 2006; Lee and Kwok, 1988). The mix of risk factors and the level of each risk factor affecting foreign investment differ according to the host country's situation and the nature or focus of the investment project (Jenson, 2003).

Multinational companies' operations in international markets (especially in emerging markets) are likely to be associated with a different range of risks. Furthermore, MNCs' international operations in emerging countries are particularly complex in emerging markets that exhibit high levels of political risks (Aguiar et al, 2012). Political risks are derived from anti-foreign government intervention via legislative and regulative means that have a negative impact on the accumulation of wealth by foreign investors (Smith-Hillman and Omar, 2005). These risks can be in the form of renegotiation of contracts, taxation, and subsidisation, which can be as a result of any form of political risk (Smith-Hillman and Omar, 2005), market risk (Papadopoulos and Martin, 2011), physical or geo-cultural distance (Lopez-Duarte and Vidal-Suarez, 2013; Whitelock and Jobber, 2004), and sovereign risk based on the host country's past experience (Jensen and Young, 2008). Figure 3 (p. 29), depicts the different types of risks associated with FDI in less-developed countries.

Figure 3: The different types of risks associated with FDI in less developed countries



The author's adaptation based on: Al-Khoury and Abdul Khalik (2013); Bartov et al (1996); Cosset and Roy (1990); Delios and Henisz (2003b); Dunning (1998); Dunning and Lundan (2008); Elango and Pattnaik (2006); Evrnsel and Kutun (2007); Feder and Uy (1985); Hamilton and Webster (2009); Hymer (1960); Jones (2007); Kwok and Reeb (2000); Lee (1993); Peng and Klaus (2011); Pickering and Kisangani (2006); Przeworski and Fernando (1993); and Reeb et al (1998).

It is argued that when MNCs invest in a foreign market, they confront 'liabilities of foreignness' sometimes called 'psychic distances' (Elango and Pattnaik, 2006). The liabilities of foreignness can be all the differences between home and host countries. These differences are usually viewed as environmental uncertainties, cultural differences and language (Delios and Henisz, 2003b). Therefore, investing in a less developed foreign market not only adds cost to FDI but the 'business culture' differences may also affect the process.

Taking into account the above statements, together with the findings of previous documents, whilst the business culture and language in Kurdistan Region can be problematic for foreign investors, it is not a significant threat to the long term investor.

Studies have found that market risks, the host country's level of economic development (GDP), the government's current account balance, and the level of country debt are all significant determinants of a country's risk (Cosset and Roy, 1990; Feder and Uy, 1985; Lee, 1993). The host country's market size and growth can also pose risks to multinational companies (Aharoni, 1966; Al-Khourri and Abdul Khalik, 2013; Davidson, 1980; Root and Ahmed, 1978). This is because there is a positive relationship between GDP and FDI. Schneider and Frey (1985) and Tsai (1994) argue that higher domestic income and higher growth rate result in greater demand (goods and service), thereby making the host country more attractive to multinational companies.

Iraq's violent history, the Iran – Iraq war, and the Gulf war, and its recent turbulent situation, have not only destabilised the economy but they have left the country with a great level of debt which could create an unfavourable environment for FDI. Lack of knowledge of the host country's market, together with a lack of valid data about the GDP of Iraq as a whole and Kurdistan Region in particular, could create uncertainty about the Region's future economic activities which could impact on the level of FDI inflow to the Region (Cosset and Roy, 1990; Feder and Uy, 1985; Lee, 1993).

According to Kwok and Reeb (2000), one implication of expansion is that there are risks involved in increasing corporate internationalisation. When firms from less stable economies invest in a foreign market, they decrease their risks and increase their debt (e.g. higher taxes and higher labour costs) and by contrast, when firms from a more developed and stabilised economy invest in a foreign market (less developed market) they tend to increase their risks (e.g. political risks) which leads to decreased debt usage (less tax, and better deals) (Kwok and Reeb, 2000). These increased risks may be the result of a variety of factors such as political risks, market risks, etc (Bartov, et al, 1996; Jones, 2007; Reeb et al, 1998).

According to Jones (2007: 144), 'country risks take the form of interest rate risk, market risk, inflation risk, business risk, liquidity risk, or exchange rate risk'. Furthermore he suggests that country risks also refer to political risk which is considered by investors before they invest in a region. Moran (1998: 61) suggests that 'political risk is nothing more than

uncertainties, which can take many forms including disruption of equity participation, forced renegotiation of contracts, forced contracting procedures, avoidance of agreed commitments, revision of regulation (sovereign interference), or any political/cultural change which may impact on priorities and disrupt business plans’.

One reason for the small inflow of FDI into some low-cost countries (e.g. emerging or Middle Eastern countries) is that these countries exhibit a high level of political risk (Aguiar, et al, 2012; Al-Khouri and Abdul Khalik, 2013; Lucas, 1990; Mukundhan and Nandakumar, 2013). Kwok and Reeb (2000) argue that investing in less developed and emerging countries is associated with risks and agency costs. They also suggest that emerging markets have potentially greater banking system risks, payment risks, infrastructure risks, customer risks, labour risks, and political risks. These risks can impact the level of FDI inflow to an emerging market, because MNCs prefer to invest in low risk markets.

Jensen and Young (2008) point to the substantial literature on the risks of violence to investment. As a result of violence and government malfeasance to foreign investment, the likes of breach of contract, which is a type of political risk, can affect foreign investment in emerging countries; for example, the nationalisation of Iranian industry after the revolution in 1978 resulted in all previous contracts in many industries being cancelled.

Political risk is a crucial factor that, to a great extent, reduces the attractiveness of host countries for FDI consideration (Aguiar, et al, 2012; Alfaro, et al, 2005; Faran, 2014; Goswami and Haider, 2014). This has a direct impact on firms’ entry strategies (Heinsz, 2002). According to Aguilar, et al (2012: 145), if a host country is considered a political risk, it will be unwilling or unable to guarantee a favourable business and investment environment. Iraq’s current unstable political situation poses potential risks to foreign investors because any change in the political process could affect MNCs’ investment in the country.

A study by Middle East Monitor in 2009, published by the World Bank, indicates that the main risks which concern foreign investors considering investing in emerging markets are: political risks, market risks, access to finance, and corruption.

Taking all of the above into account, and considering Iraq’s position as a whole, it can be argued that the country’s violent history and current unstable situation has created a very unfavourable environment for FDI (Hamilton and Webster, 2009). Since 2013, internal

conflicts between different ethnic groups (Shi'as and Sunnis), continued insurgencies and terrorist activities, disputes over power and authority given to the KRG, and on-going disputes between the KRG and Central Government over the production of oil and gas in Kurdistan Region, have affected MNCs' decisions to invest in the Region on the basis that there is considerable risk.. While the presence of foreign banks can encourage FDI inflow (Poelhekke, 2015), subsequently the lack of a banking system and high level of corruption also affects the FDI process in Kurdistan Region (Habib and Zurawicki, 2002).

Democratic systems have a positive impact on the level of FDI inflow. In more open societies, trade becomes more frequent and free (Moore, 2003, p.64). According to Jenson (2003), the greatest benefit of democratic countries is that their credibility as a host market is increased in the eyes of the international financial market. This is mainly because democratic countries ensure the protection of foreign investors' property rights and more market transparency, which encourages FDI inflow (Li and Resnick, 2003).

Moran (1998) suggests that unlike developed countries, in emerging countries, checks and balances to executive power bureaucracies, judiciaries, and legislatures are less effective; instead, excessive power is in the hands of certain politicians. In the case of Iraq, this could affect the level of FDI inflow to the country, because new policies and legislations could emerge as a result of changes in government or political power transactions in the hands of a few politicians which could pose a risk to long term foreign investment (Jensen and Young, 2008).

In contrast, some studies suggest that the net benefit of foreign direct investment in emerging countries (e.g. Middle Eastern countries) outweighs these risks (Delios and Henisz, 2003a; Janeba, 2002). This is why, despite these associated risks, multinational companies still invest in less developed countries (Delios and Henisz, 2003a). However, by investing in a politically risky environment, MNCs are risking their long term investment.

These risks range from the nationalization of industries (Cuba and Iran), to the cancelling of contracts (India and the Philippines), restrictions to repatriating capital (Argentina and Malaysia) or political violence and war (Sierra Leone, the Democratic Republic of the Congo, and Liberia) (Aguiar et al, 2012; Jensen and Young, 2008). However, political risk insurance companies (e.g. the World Bank's Multilateral Investment Guarantee Agency, (Lloyd's of London, Zurich Sovereign, and AIG) offer cover against both violence and the

avoidance of agreed commitments from governments. This insurance covers up to 90 percent of total investments (Hansen, 2005) but, the insurance costs are high because of the host countries' higher political risks which can increase operation costs.

The past history of violence and changes in political power, and the current unstable political process in Iraq as a whole and Kurdistan Region in particular, are a clear indication of possible future crises to the political process which could affect long term foreign investment (Jensen and Young, 2008). However, despite all the risks involved in investing in Kurdistan Region, because of the high rate of return (Delios and Henisz, 2003a; Janeba, 2002), foreign investors are still interested in the Kurdistan market but remain hesitant to commit to long term investment (FDI), except in oil and gas. Foreign investors' interest and their entry mode is highlighted in the next section of this study.

The lack of previous studies and accurate data (limited knowledge) on Iraq's and Kurdistan Region's market conditions, present a gap in the literature on Iraq as whole and the Kurdistan Region's market conditions for FDI consideration, which makes this study unique. All the above mentioned risks in this section came up in the literature. Political risks, market risks, physical distance, and legal and non-government risks are the main themes that are tested empirically by this study to establish the main risks facing MNCs when investing in Kurdistan Region from the selected population's perspective.

2.3. MNCs' Foreign Market Mode of Entry

Many studies have tried to explain firms' entry to foreign markets from an economic perspective, but more recently researchers have also examined sociological influences (Zheng, 2012). Whitelock and Jobber (2004) identified five factors which could explain the decision to enter a new foreign market, including a country's environment, physical (or geo-cultural) distance, market-based factors, competition, information and market knowledge. These factors are explained in more detail below.

Country environment includes the host country's political climate, economic situation, security, culture, market opportunities, good investment law, lower investment barriers, and geographic location (Behrman, 1968; Douglas and Craig, 2011; Goodnow and Hansz, 1972; Kaya, 2014; Khan and Akbar, 2013; Lee et al, 2014; Lu et al, 2014; Papadopoulos and Jansen, 1994; Tse et al 1997; Welch and Wiedersheim-Pual 1978). The host country's

environmental factors play a crucial role in multinational companies' investment decision making processes.

Some studies suggest that geo-cultural distance has no impact on a firm's entry into a new foreign market (Mitra and Golder, 2002; Robertson and Wood, 2001); in contrast, other scholars believe it has a direct impact (Benito and Gripsrud, 1992; Ojala and Tyrvainen, 2007; Weitzel and Berns, 2006; Whitelock and Jobber, 2004). Geo-cultural factors are included as a barrier created by a host country's geographical divisions such as, communications, transportation, social perspectives, attitudes and language barriers. Market-based factors include the market size and growth (Mitra and Golder, 2002; Terpastra and Yu, 1988) and market potential (Agrawal and Ramaswami, 1992). Competition from local firms also has an impact on market entry (Goodnow and Hansz, 1972).

Zheng (2012) suggests that a firm's entry mode choice not only depends on the effect of external environmental factors, but also on the risk preferences based on their own experiences. Thus, when firms enter a new foreign market, international experience, information, and knowledge play an important role in their decision making process (Erramilli, 1991; Kuo et al, 2012; Sakarya et al, 2007; Whitelock and Jobber, 2004). This is due to what Whitelock and Jobber (2004; p.1441) suggest is an 'exogenous variable', since the primary source of that knowledge (even based on personal experience) is exogenous to multinational companies.

According to Sakarya et al (2007), foreign investors' market selection depends on how that market is defined. Depending on the objectives, the decision making process requires prior information and knowledge to analyse the host country's business opportunities (Papadopoulos and Martin, 2011) and to mitigate environment uncertainties and the risks associated with their investment (Hoskisson et al, 2000). This market analysis and selection process makes foreign investors' decision making process difficult and complex (Malhorta et al., 2009; Whitelock and Jobber, 2004).

The initial screening stage for foreign investors involves choosing from a large variety of foreign markets, using the information available to foreign investors on a theoretical basis (Malhorta et al., 2009; Whitelock and Jobber, 2004). Ranking the various foreign markets necessitates comparing all the markets on the basis of one or more common measures (Koller, 1999). This is very important because international market selection is a major

determining factor of international performance (Brouthers et al, 2008) especially in the early stage of international expansion (Papadopoulos and Martin, 2011). This will help multinational companies to make the selection process as effective as possible, however it is still not an easy process.

According to Papadopoulos and Martin (2011) a number of proposed models share some similarities in terms of what affects multinational companies' decision making processes when selecting a foreign market. However, there has been little consensus as to what an 'ideal' international market selection process might look like. This is mainly because differences in location mean having to rely on different levels of analysis and different empirical traditions (Anderson and Sutherland, 2015; Buckley et al, 2007).

Some researchers suggest that when examining foreign market opportunities for initial market entry, firms normally adopt a sequential approach, starting by focusing on host countries' macro-level data then selecting a number of countries to assess in greater detail (Craig and Douglas, 2005; Kumar et al, 1994). Douglas and Craig (2011) suggest that while this approach provides a basis for ranking countries according to their investment appeal, further data needs to be collected about specific customers or market segments. World Bank, Transparency International, and the UN Conference on Trade and Development (UNCTAD) and credit ranking agencies are among many other organizations aiming to help multinational companies and governments to assess specific market conditions (Aguar et al, 2012).

According to Douglas and Craig (2011), countries may share the same characteristics in terms of macro-economics but they differ in terms of other contextual factors such as regional and cultural variations within a specific country. In contrast Janeba (2002) suggests that countries differ not only in terms of economics but also in the level of policy commitment toward FDI (Lee et al, 2014).

After evaluating and deciding to enter a specific market, foreign investors establish their operations using different methods. If a firm faces difficulties in making direct investment, they tend to investigate and find an alternative choice such as exporting, opening an office, or franchising (Dlabay and Scott, 2006; Meyer, 2004; Yalcin and Sala, 2014; Zheng, 2012).

Based on the above, it is clear that foreign market selection is a difficult and complex process and that a number of factors can influence multinational companies' foreign entry. There is

no evidence of an ideal international market selection process, therefore it is important to examine managers' approaches to selecting a foreign market in more detail. So, as a part of its research objectives, this study analyses the methods used by target populations when evaluating the Kurdistan market's attractiveness and their motives for doing so. In the next section of this study, the author demonstrates managers' approaches to selecting a foreign market.

2.4. Managers' Approaches to Selecting a Foreign Market

Multinational companies' location and control decisions are a critical part of managerial decision making in international business. According to Kuo et al (2012), firms' international operations pose considerable challenges in the process of communication and management. Meyer (2004) suggests that managers of multinational companies are not only concerned with selecting the right foreign market but they are also typically concerned with having a positive impact on the host country's economy. This is in order to maximise economic prospects and to avoid creating risks or triggering adverse reactions from local stakeholders, such as local politicians' and NGOs' concerns about ethics.

Selecting the right market is an essential and critical factor in international expansion for multinational companies (Sakarya et al, 2007; Whitelock and Jobber, 2004). As result, international market selection has become a great challenge, which requires specific in-depth analysis of the host country (Buckley et al, 2007). Lack of data on the market in Iraq in general, and Kurdistan Region in particular, makes foreign investors' decision making particularly difficult and complex.

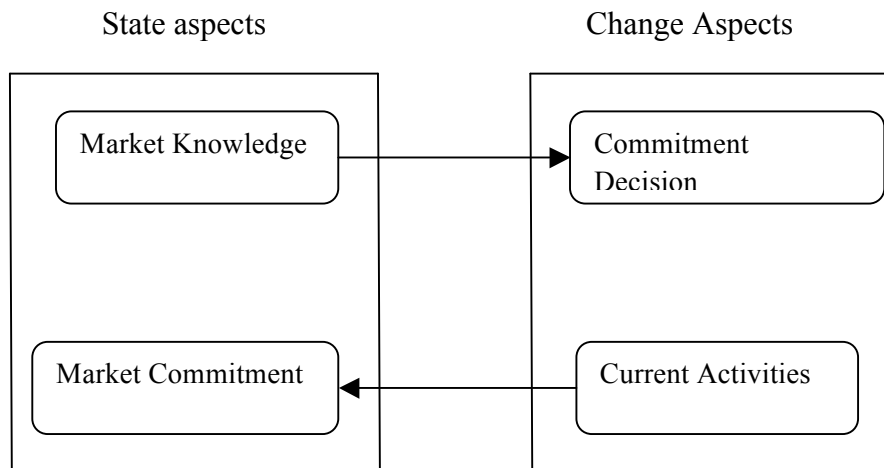
According to Buckley et al (2007), research in the area of market selection is derived from two intertwined theoretical traditions. The first one developed from trade theory and the economics of industrial organization. Within the international business literature, Dunning (1981) and Buckley and Casson (1976) are the two most dominant paradigms in this field. According to this tradition, multinational companies' choice of location is based on profitability and economic rent extraction (which can be followed by seeking protection of profitability and rent) (Buckley et al, 2007). The second approach is based on 'Uppsala tradition' (e.g. Johanson and Vahlne, 1990). According to this approach, managers make decisions based on limited information and risk aversion (Buckley et al, 2007).

Dunning (1980, 1981, and 1993) developed the “eclectic” or “OLI” (ownership, location and internalization) concept which aims to bring together elements of theories and empirical research to answer “why” and “where” MNC’s would invest (abroad) (Dunning 2000). According to Dunning (2000) “the extent, geography and industrial composition of foreign production undertaken by MNCs is determined by the interaction of three sets of independent variables” (p.163). The ownership and internalization advantages are divided from the exploitation of firm-specific resource and capabilities and the reduction in transaction cost (Dunning, 1998).

According to Dunning (1998), the location of FDI is driven by a search of market conditions, available resources, efficiency and strategic assets. These characteristics of each market differ from one to another depending on geographic locations and therefore the motive behind multinational companies’ decisions to invest in a foreign market differs (Na and Lightfoot, 2006). However, Dunning, (1997) suggests that the reason for international companies investing in a particular region is to achieve certain advantage which does not exist in other host countries.

The Uppsala model of internationalisation by Johanson and Vahlne (1990- 1997) has its source in the classical theory of firms’ resource-based views. According to Uppsala theory, firms’ internationalisation often takes place step by step. Figure 4, (p.38) is an illustration of such internationalisation according to Uppsala theory which has two aspects, the state aspect which is the market knowledge (market-specific knowledge and experiential knowledge) and market commitment (the degree of resource commitment) to the host market, and the change aspect which is the firm’s decision to commit resources (based on the opportunities or obstacles to investment) and business activities (Johanson and Vahlne, 1997). According to Johanson and Vahlne (1990), market knowledge and market commitment can affect firms’ resource commitment and the way their current activities are performed. Thus, MNC’s awareness of the opportunities and problems of a specific market (market evaluation) is affected by firms’ experiences which are gained by their activities in that specific market.

Figure 4; Illustration of MNCs' Internationalisation Process (Uppsala Model)



Ref; Johanson and Vahlne, (1990)

The Uppsala model states that a firm tends to internationalise to a location which is physically close to the target market by low resource-commitment, only committing to higher modes if they gain experiential knowledge in that target market (Langhoff, 1997; Oviatt and McDougall, 1994). The Uppsala model asserts that a firm's internationalisation is driven by market knowledge and market commitment which is seen as a function of physical distance between the home and host countries. Thus, a firm's high-resource-commitment will only take place when they accumulate experience in each given market (Johanson and Vahlne, 1997). Therefore, the essential concepts of the Uppsala model are knowledge, knowledge gained, learning, business opportunities, uncertainty, and commitments.

Forsgren (2002) criticised the Uppsala model and suggests that MNCs can invest in a foreign market despite of their low market knowledge, especially if the risks of not investing is greater than investing in that market because of the low profit and fierce competition in home market. Furthermore, Forsgren (2002) states, MNCs can access other firms knowledge (the one which already invested in target market) because the world now is more homogenous and accessing information is easier. However, Johanson and Vahlne (2009) argue, that the model is not build to explain why firm chooses to enter the market but focus on the activities after the decision to operate internationally. Furthermore, Johanson and Vahlne (2009) state that even if a firm is gaining knowledge from other sources, they still need knowledge to identify which firm to acquire or to imitate. The criticism led them to introduce the network view (gaining knowledge from the actions of others).

Despite the business opportunities only a small number of foreign investors have committed long term investment in Kurdistan Region (e.g oil and gas companies) and most firms have only registered their offices in the Region (low resource commitment) (table 1, p.18). This could either be because of firms' lack of market knowledge about the country's market or it may be related to all the associated risks involved to investing in Kurdistan Region. Considering these factors, it can be said that, the Uppsala theory is applied by MNCs when entering the Kurdistan market. However, later in this study, the author will discuss whether this theory is applied and if so, to what extent the Uppsala theory holds true to the Kurdistan market for MNCs.

In south-south investment (investment from a developing country to another developing country) MNCs' managers' foreign entry mode choice involves two decisions (Erramilli, 1992). Erramilli (1992) suggests that the first concerns whether the production should be conducted in the home or the host country, which concerns foreign (local) production versus exporting. The second relates to the level of control of production. It is a decision between full commitments or sole ownership modes (e.g. exporting or wholly-owned FDI) versus shared control modes (e.g. exporting, franchising, and joint venture) (Uppsala theory). However, in post-conflict countries MNCs' managers' foreign entry mode choice is affected by a variety of factors (Aguilar, et al 2012; Jenson, 2003).

In post conflict countries (as a result of external or internal instability) foreign investors link the past violence to future investment which affects the decision making process and the level of FDI inflow (Blomberg and Mody, 2007; Li, 2006). In contrast, other studies suggest that past violence has no effect on multinational companies' decision making processes (Fatehi-Sedeh and Safizadeh, 1989; Sethi et al, 2003). However, some more recent studies suggest that a host country's political risks (e.g. internal and external violence and other forms of political risks such as default, financial crisis, nationalisation, etc.) influence managers' decision making processes (Jenson, 2006). Taking all of the above into account, because Kurdistan Region is part of a post conflict country, its current internal turbulence is impacting on MNCs' decision making and the level of FDI as well as MNCs' mode of entry into the Region.

Based on the limited information available to managers (in post-conflict counties), the scope for uncertainty in managerial decisions is considerable (Ward, 2005). Much of this

uncertainty is associated with the available data and the ways managers select and interpret this information (e.g. based on estimators) which can have a significant effect on the quality of decisions (Gilovich et al, 2002; Ward, 2005). This can occur as a result of a firm's lack of experience and information on the international market, causing managers to perceive higher uncertainty, thereby leading them to overestimate risks and underestimate returns (Davidson, 1980)

Lack of information about a foreign market presents managers with fundamental difficulties and uncertainty regarding the full range of potential consequences (Zheng, 2012). In such an environment, managers are more likely to access the information implicit in the actions of others (Zheng, 2012) or prefer low resource commitment (Anderson and Gatignon, 1986; Tse et al, 1997) (Uppsala tradition). These managerial decisions are considered a rational calculative approach. Buckley, et al (2007, p.1072) suggests that "proof of the validity of the rational calculative viewpoint is typically revealed through economic panel data-based studies that show firms do indeed make decisions that are rational, based on components of the fit between their firm-specific advantage and the structures and needs of the market that they enter".

Some studies suggest that some multinational companies use systematic approaches to select a foreign market in which to operate (Papadopoulos and Martin, 2011; Westhead et al, 2001). According to Sarasvathy (2001), certain firms follow an intuitive approach to assess foreign markets, rather than a systematic approach (e.g. entrepreneurial firms) which is based on managers' own experiences of a specific market. This is very important as, due to all the associated risks involved in investing in Kurdistan Region 'theoretically' Kurdistan market is not an ideal market for FDI consideration; however, the fact that there are more than 2500 registered foreign investors in Kurdistan Region could be a result of these companies' managers' own personal experiences of the market or, as Zheng (2012) suggests, relying on other investors' decisions.

Papadopoulos and Martin (2011) argue that these perceived foreign market attractiveness assessments often differ greatly from objective assessment. Furthermore, Buckley et al, (2007) suggest that some decisions are made based on managers' own personal experiences. Thus, they suggest less experienced managers may act in a way that underestimates specific investment characteristics (such as the host country's consumers being close to the home

country, e.g. Turkey). However, as managers become more internationally mature, they will follow the systematic process (Buckley et al, 2007). This systematic process involves in-depth evaluation of host countries in order to assess all possible associated risks (such as political risks).

Firms' systematic processes of evaluating the Kurdistan market based on their knowledge (lack of available data), business opportunities, and considering all associated risks involved in investment, could be a reason for the lack of long term investment in the Region. However, later in this study, the author empirically investigates the sample population's perceptions and approaches in evaluating the Kurdistan market. Therefore, the application of Uppsala theory when foreign firms are entering Kurdistan market, and the sample population's approach and their role in promoting inward investment into Kurdistan Region, are the key themes raised in this section and will be tested empirically later in this study. The following section reviews the risks associated with foreign investment in Kurdistan Region in more detail.

2.5. Foreign Investment in Kurdistan Region and its Risks

Multinational companies prefer to invest in more stable economies (Janeba, 2002). For foreign investors, Middle Eastern countries offer opportunities but these are associated with risks, and the split between the investment-opportunity and investors' caution remains unchanged (Middle East Monitor, 2012). Middle Eastern countries are mostly governed by authoritarian regimes and theoretically the region is not a desirable location for FDI due to the political risks involved. Janicki and Wunnava (2004) and Hayakawa et al, (2013) claim that host countries' political risk contributes negatively toward the process of the FDI decision making process.

In contrast, Jenson (2003) suggests that multinational companies prefer to invest in authoritarian regimes because the leaders of those countries often provide better entry deals and lower costs. Butler and Joaquin (1998) suggest that foreign investors require a higher rate of return to invest in politically risky locations which involve lower costs and higher return, compared to investing in non-risky locations, and the cost difference is very significant to multinational companies (Janeba, 2002). However, one negative aspect of investing in authoritarian regimes and politically risky counties is the risk faced over property rights protection (Jenson and Young, 2008; Olson, 1991).

Kurdistan Region's unstable political process and disputes with Central Government over power and authority faced by the regional government have forced KRG to implement a very competitive investment regime, giving foreign investors high returns for their investments in Kurdistan Region, which has evidently convinced many oil and gas giants to invest. However, Iraq's past violent history and current unsettled political process could pose risks for foreign companies' long term investment in Kurdistan Region. Therefore, as mentioned before, Iraq's national political situation could also affect MNCs' decisions regarding whether or not to invest in the Region (Henisz, 2000; Jenson, 2003, Shneider and Fery, 1985).

Iraq's massive resource potential (e.g. oil and gas) and openness to foreign investment have given it a strong position in the business environment rating, but bureaucratic, political and security concerns are unlikely to change in the near future (Middle East Monitor, 2012). The high level of security in Kurdistan Region compared to the rest of Iraq, and KRG government's openness to FDI, could give Kurdistan market a strong platform; nevertheless, whilst Kurdistan market may offer a high rate of return to foreign investors it is also highly associated with long term risks. This is significantly affecting the level of FDI inflow into the Region and may continue to do so. When it comes to FDI, Kurdistan Region is treated as a region within Iraq (post conflict region). The country's high level of political risks and security issues has resulted in a significant level of corruption, ethnic conflicts, and ineffective government, creating an unfavourable environment for FDI consideration (Al-Khouri and Abdul Khalik, 2013; Brown, 2005; Ismael and Ismael, 2005; Klein, 2004; Rangwala and Herring, 2005).

Iraq is endowed with oil and gas which is greatly beneficial to the country, but it is poorly governed and prone to violent conflict (Kehl, 2010). While oil and gas are viewed as a positive contributory factor to the inflow of foreign investment, some studies suggest that natural resources are the source of future political risks. Empirical research suggests that natural resources increase the possibility of civil conflict, particularly in less developed countries (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humphreys, 2005; Kehl, 2010). In Kurdistan Region, the production of oil and gas has become a source of conflict between Central Government and KRG which is unlikely to be resolved in the near future.

Although the revenue from oil and gas makes Iraq as a whole, and Kurdistan Region in particular, prosperous locations for foreign investors, nevertheless the country remains a high-risk location for FDI consideration (Jensen and Young, 2008). A study by Middle East Monitor (2009) published by the World Bank indicates that Iraq is a very unfavourable location for FDI consideration. According to this study, Iraq is among those countries which have the highest levels of political risk.

According to Jenson and Young (2008) Iraq's past history of violence may be a good indicator of future violence, and as result could affect the county's attractiveness for FDI consideration. In addition to this, there is a positive relationship between ethnic diversity and civil war, especially when major groups are competing with one another (Collier and Hoeffler, 2000). The more recent conflict between Sunnis and Shi'as, and the emergence of terrorists groups such as IS (Islamic State) have deepened the difference and, as a result, made it an unfavourable location for FDI consideration, which is having a direct impact on Kurdistan Region.

The political risk associated with investing in Iraq in general and Kurdistan Region in particular, is the major determining factor in the success or failure of KRG to attract FDI into the region. Iraq's future political uncertainty is evidenced not only through its past violent history, but also in the country's current situation. Thus, the recent 'Arab Uprising' in some Middle East countries and the recent IS attacks on Iraq, are also a clear indication of future political uncertainty in the region. These changes in the country's political behaviour, as a result of either internal or external factors, are having a direct impact on foreign investors' strategic decision making and their entry mode.

Despite all the business prosperity in Iraq as whole and in the Kurdistan Region in particular, the ethnic conflicts (between Shi'as and Sunnis), fierce competition for power seeking among ethnic groups in the country, and disputes over the power and authority given to the regional level are increasing. This future political uncertainty of Iraq and Kurdistan Region have created an unfavourable environment for FDI (Klare, 2001; Kehl, 2010) and as result this is having a negative impact on multinational companies' decision making regarding investing in the region.

Despite all the risks associated in investing in Iraq and Kurdistan Region, the Region offers multinational companies prosperous business opportunities and a high rate of return for their

investments. Kurdistan Region is a sustainable part of Iraq with a booming economy and a high level of security (Galbraith, 2003) which has convinced many multinational companies to enter the region. Those who are entering Iraq are mostly focusing their energies on Kurdistan Region (Khalaf and Sieff, 2009). For foreign investors, Kurdistan Region is viewed as ‘the gateway’ to the rest of Iraq.

Therefore, managers need to balance the risks and returns for their possible investments in Kurdistan Region. The advantage to multinational companies will be a higher rate of return for their investment in the Region (Butler and Joaquin, 1998; Jenson, 2003), this is because Kurdistan Region is part of Iraq (high political risk) which presents higher long term risks to their investment.

All of the factors in this section arose from literature (theoretically). The driving factors as well as the barriers are the advantages and disadvantages of investing in Iraq in general and Kurdistan Region in particular and the risks involved in investing in the Region are the main themes of this section. These factors can affect MNC managers’ decision making processes when evaluating the Kurdistan market for possible investment. Later in this study all the mentioned factors are analysed from the target populations’ point of views in order to respond to the main research questions of this thesis.

The following section develops the conceptual framework (figure 5, p.47) and the main interview questions from the broad range of literature discussed in this chapter. This demonstrates all the factors which affect managers’ decision making process in evaluating the Kurdistan market.

2.6. Conceptual Framework

While Iraq as whole, and Kurdistan Region in particular, offer business opportunities to foreign investors (e.g. natural resources and competitive investment law), their investment is closely associated with risks (e.g. political). Kurdistan Region being part of a high risk location (Iraq, World Bank Report, 2009) adds to the complexity of an unclear future for FDI consideration. This is because, from the foreign investor’s point of view, Kurdistan Region’s market attractiveness is closely associated with the country’s overall market situation.

Iraq’s past violence, either as result of external factors (e.g. eight years of war between Iraq and Iran) or internal factors (the history of violence between the Kurds and Central

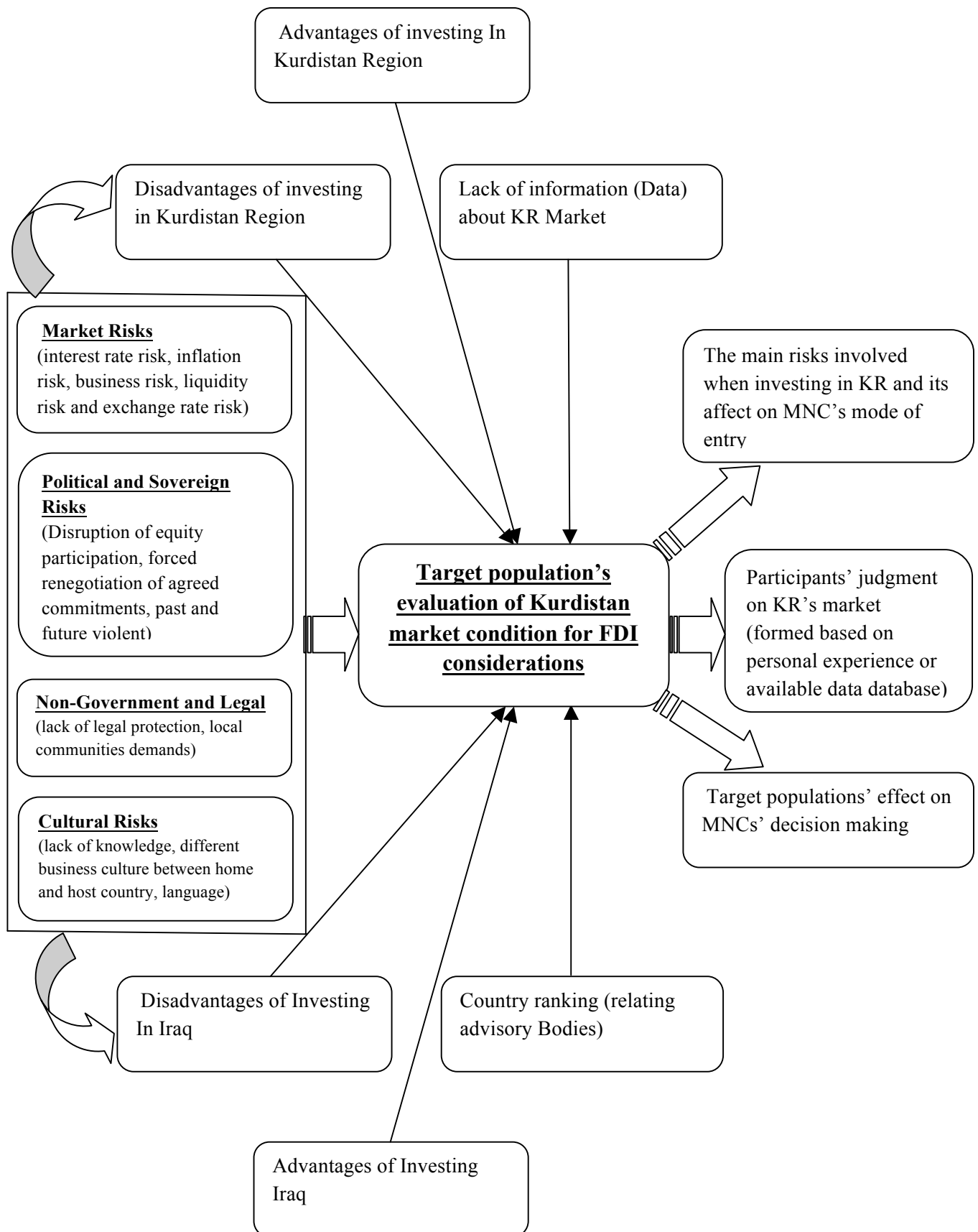
Government), and the current ethnic conflicts (between Shi'as and Sunnis, and terrorist activities in Iraq), are increases the possibility of future violence in the country (Collier and Hoeffler, 2000). Disputes between Central Government and KRG over the production of oil and gas and the power and authority given at regional level have increased tensions between KRG and Central Government (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humphreys, 2005; Kehl, 2010). Linking the country's past and current political situation provides an indication of the future possibility of high political risks for multinational long-term investment in Kurdistan Region (Jenson and Young, 2008).

This review of the literature, has established that the evaluation by non-government organisations (NGOs) and independent organization (e.g. UKTI) of market potential and risks associated with investing in Kurdistan Region are fundamentally based on their knowledge of Iraq's market condition as whole and the Kurdistan Region in particular. Their behaviour and knowledge is highly influenced either by reports from independent bodies (such as the World Bank or credit agencies) or through their managers' own experiences of Kurdistan Region (Anderson and Gatignon, 1986; Papadopoulos and Martin, 2011; Sarasvathy, 2001; Tse et al, 1997; Westhead et al, 2001; Zheng, 2012). Therefore, managers' evaluation based on market knowledge (provided by independent organisations or their own experience) is playing a crucial role in multinational companies' decision making processes regarding investing in a foreign market (e.g. Kurdistan Region) (Erramilli, 1991; Kuo et al, 2012; Sakarya et al, 2007; Whitelock and Jobber, 2004) as well as the mode of entry (e.g. Uppsala theory) (Dlabay and Scott, 2006; Meyer, 2004; Yalcin and Sala, 2014).

This paper, based on a broad literature review, has developed a conceptual framework (Figure 5, p.47) demonstrating all the factors affecting managers' decision making processes when evaluating Kurdistan Region. These factors include the advantages and disadvantages of investing in Iraq in general and Kurdistan Region in particular, as well as the risks involved in investing in Kurdistan Region. The advantages and disadvantages of investing in the region established in this chapter are in line with the findings of document two (appendix 1, p. 142). It also illustrates the effect of managers' own knowledge as well as that of other advisory bodies (e.g. the World Bank) when evaluating the Kurdistan market's attractiveness for FDI consideration. Finally, this paper will analyse the main risk factors involved in investing in Kurdistan Region, and the target population's role in facilitating inward investment in Kurdistan Region by linking all the factors which lead to managers' decision

making process (based on personal experience or in-depth market analysis) when evaluating the Kurdistan Region market's attractiveness for FDI consideration. The analysing (in section Four) will help to establish the main risks facing MNCs when wishing to invest in the region and its impact on their mode of entry. It will also help to establish the target population's perceptions when evaluating Kurdistan market for FDI considerations and their role on MNCs decision making (when consider entering to the region).

Figure 5: Conceptual framework



2.7. Main Interview Questions

The aim of qualitative interview questions is to collect information which captures the meaning and interpretation of the subject from the participants' viewpoints (Easterby-Smith, 2015). This research project investigates the determinants of FDI in Kurdistan Region, and in doing so it addresses the main research questions (**page 20**), by asking the participants the following main interview questions (raised from the main themes which arose from literature review captured in conceptual framework) together with further questions raised during the interviews (for the list of interview question, see appendix 4, p.151):

- 1- What are the main driving factors encouraging MNCs to invest in the Kurdistan Region and Iraq?
- 2- What factors are barriers to MNC's when considering investing in the region? (MNCs from UK and Turkey)
- 3- What are the main risks facing MNCs when wishing to invest in the region?
- 4- Is Kurdistan Region's market treated independently or considered as a part of Iraq (from the foreign investor's point of view)? (Al-Khouri and Abdul Khalik, 2013; Brown, 2005; Ismael and Ismael, 2005; Klein, 2004; Rangwala and Herring, 2005)
- 5- Does Iraq's overall situation (past and present) affect the Region's attractiveness for FDI consideration? (If so, in what way?) (Al-Khouri and Abdul Khalik, 2013; Brown, 2005; Collier and Hoeffler, 2000; Ismael and Ismael, 2005; Jenson and Young 2008; Kehl, 2010; Klein, 2004; Rangwala and Herring, 2005).
- 6- Do the disputes between KRG and Central Government (especially over the production of oil and gas) affect the level of FDI into the Region? (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humphrey's, 2005; Kehl, 2010)
- 7- Despite the risks involved in investing in the Region, why are MNCs entering the Region? (Freeman and Sandwell, 2008; Galbraith, 2003; Khalaf and Sieff, 2009; Zhang et al, 2007)
- 8- Are the risks facing MNCs when considering investing in the Kurdistan Region affecting MNCs' mode of entry? (If so, in what way?) (Anderson and Gatignon, 1986; Blomberg and Mody, 2007; Li, 2006; Tse et al, 1997)

8.1- Do MNCs consider the Kurdistan region as the gateway to the rest of Iraq and base themselves in the Region to familiar themselves with Iraq's market? (If so, is this because of the lack of knowledge about Iraq's market available to MNCs?) (Johanson and Vahlne, 1990; Khalaf and Sieff, 2009) (Uppsala theory,)

9- What factor/s do you consider when evaluating the Kurdistan market's attractiveness for FDI consideration? (The risks as well as benefits?)

10- How do you assess the risk situation in Kurdistan Region?

10.1- Do you use available databases (such as World Bank) when assessing the Kurdistan market's attractiveness for FDI considerations? (If yes, explain)

10.2- Do you have a checklist or a model when considering the Kurdistan market's attractiveness? (If so, explain)

10.3- Is your market evaluation (Kurdistan market) is based on your own personal experiences?

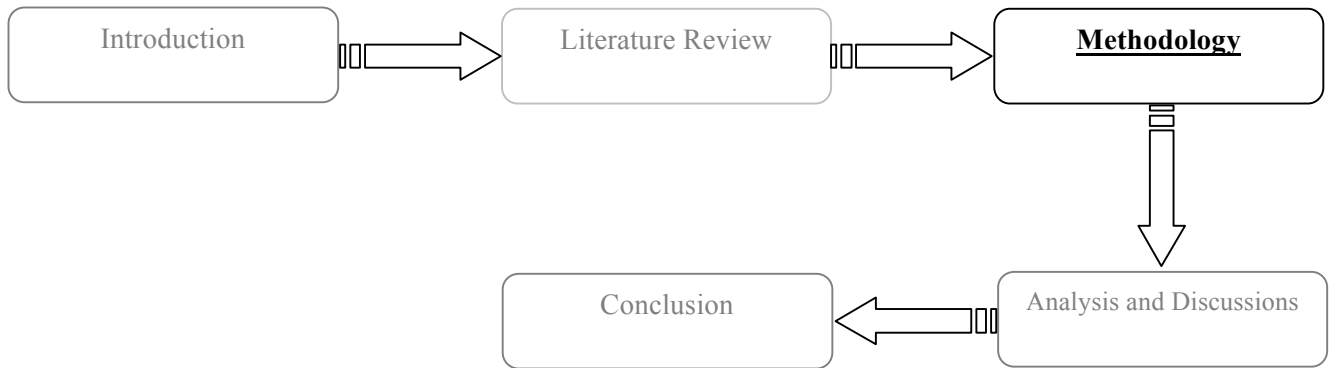
11- Do you advise your clients (MNCs) about the Region's market potentials as well as the risks involved in investing in the Region?

12- Is your advice on the Kurdistan market's attractiveness is considered by your clients? (If so in what way?)

This research project investigates the above main interview questions relating to the Kurdistan Region's market attractiveness for FDI considerations by looking at a number of independent organisations from the UK and Turkey (e.g. UKTI and Turkey's TI department) which are actively involved in advising their domestic MNCs when approaching the Region's market for possible investment.

As was outlined in the introduction, the reason for choosing Turkey's independent organizations is that Turkish companies represent the largest number of foreign investors in Kurdistan Region and, the UK multinational companies are among the highest number of investors from European countries in the Region (please see Table 1, p. 18), they are also leading companies in architectural design and service providers to the Kurdistan Region.

Chapter Three: Research Methodology



3.1. Introduction

Applied research is a scientific approach to identifying problems in a specific situation in order for the researcher to apply strategic solutions to solve a specific problem. This usually requires working closely with clients to identify and clarify any significant problems in order to apply the best solution to resolve those problems (Easterby-Smith et al, 2008). According to Burgoyne and James, (2006), this process can either involve the application of existing theories, or it can take the form of a survey, or it can use both approaches to tackle the problems. The outcome of investigation is aimed at modifying the process in order to improve performance.

In Document Two of this thesis, the author developed a conceptual framework based on the literature (appendix 1, p.142). In Documents Three and Four, different elements of conceptual framework were examined from different stakeholders' points of view (Document Three, Central Government and KRG's most senior officials, and Document Four, foreign investors) to highlight the challenges and problems KRG faces in attracting foreign investors into the region. The final stage of this research project aims to investigate the region's attractiveness for FDI considerations from different stakeholders' points of view. These stakeholders are UK- and Turkey-based organisations which are actively involved in promoting foreign markets to their domestic MNCs. They are also involved in evaluating Kurdistan Region's market attractiveness for their own national companies (e.g. UK TI).

This document has developed a conceptual framework (Figure 5, p.47) based on the theoretical background, to highlight the Region's main advantages and disadvantages as well as the risks involved in investing in Kurdistan Region and in Iraq as whole and its effect on MNCs modes of entry. It also demonstrates the effects of the identified factors on the selected target population's decision to evaluate Kurdistan's market.

This study is a follow-up study investigating the determinants of foreign direct investment in Kurdistan Region from different stakeholders' points of view. Combining all the findings of the previous documents and this document, the author aims to present a more balanced view of the main obstacles and problems faced by KRG, with a view to increasing the level of FDI inflow to the region.

For the purpose of this study, the author collected primary data using interviews (participants from the UK and Turkey). The author analysed the interview materials and the language used, by means of content analysis. The aim is not only to identify the risks factors affecting the process of FDI, but also to identify the participants' main method/s used to evaluate the Kurdistan market. This is very important because this research project's overall aim is to identify determinants of Foreign Direct Investment in Kurdistan Region, in order to recommend some effective long- and short-term solutions to KRG to increase the level of FDI inflow into the region.

This chapter will discuss the research design and methodology. According to Malhorta and Birks (2003), the research design is the blueprint for undertaking a research. Bryman (2004) suggests that research methods represent a structure that guides the execution of a research and are the justification of the suitability of ideas and issues for the research (Flick, 2002). Therefore, the objective of this chapter is to explain why a specific research philosophy was chosen, and how the selected research approach, research strategy, research design, and qualitative methods, aim to answer the research questions. It demonstrates how the interview questions were designed (interview questions' guide) and how and why the sample population was chosen. Finally, the data is presented, the techniques used (content analysis) to analyse the collected data are explained in addition to which the reliability and the validity of research is also shown.

3.2. Research Philosophy

Applying a specific research philosophy depends on the way the researcher thinks about the development of his/her knowledge. According to Kilduff et al (2011), in any knowledge-production effort, implementing a specific research approach is aimed at justifying a solution to tackle a specific problem. One of the most common ways to classify research methods is to make a distinction between qualitative and quantitative research and to distinguish between philosophical assumptions to guide research (Myers, 2009). Furthermore Myers (2009) suggests that all research, whether quantitative or qualitative, is based on some underlying assumptions about what constitutes 'valid' research and which research methods are appropriate (p.35).

There are three scientific approaches to the research process which dominate the literature, positivism, interpretivism, and realism (Saunders et al, 2003). These three research processes differ in the way in which knowledge is developed and judged as acceptable. Each of the three has three elements: ontology, epistemology, and methodology.

Epistemology deals with knowledge. It provides ways of deciding what counts as knowledge and what does not and, related to this, what counts as evidence and proof, and what does not (Jankowics, 2002, p.108). According to Collis and Hussey (2003), with the ontological assumption, the researcher must decide whether s/he considers the world to be objective and external to the researcher, or socially constructed and only understood by examining the perceptions of the human actors (p.48). Healy and Perry (2000) suggest that, in short, ontology is the 'reality' that researchers investigate, epistemology is the relationship between that reality and the researcher, and methodology is the technique used by the researcher to investigate that reality (p.119).

In the next section the author reviews all three research process approaches, positivism, interpretivism, and realism, to justify the choice of research philosophy for the purpose of this study.

3.2.1 Positivism

According to Myers (2009), positivism is the style of research with which most business and management scholars are familiar, and the dominant form of research in the business and management field. Remenyi et al (1998) suggest that by adopting the philosophical stance of

the natural scientist (positivism), the researcher prefers “working with an observable social reality and that the end product of such research can be law-like generalisations similar to those produced by the physical and natural scientists” (p.32).

The French philosopher Auguste Comte (1853) was the first person to encapsulate this view, stating that: “all good intellects have repeated, since Bacon’s time, that there can be no real knowledge but that which is based on observed facts” (Easterby-Smith et al, 2008, p.58). The key idea of positivism is that the social world exists externally, and that its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith et al, 2008, p.57).

Essentially, positivism predominates in science and assumes that science quantitatively measures independent facts about a single phenomenon (Healy and Perry, 2000). In other words, making detached interpretations about data that has been collected and its analysis are value-free (Saunders et al, 2003) and data does not change because it is being observed (Healy and Perry, 2000) and the researcher views the world through a ‘one-way-mirror’ (Guba and Lincoln, 1994, p.110).

Positivist research usually attempts to test theory in order to increase the predictive understanding of phenomena (Myers, 2009). Henwood and Pidgeon (1992) describe positivism as emphasizing “universal laws of cause and effect based on an exploratory framework which assumes that reality consists of the world of objectively defined facts” (p.15).

Collins and Hussey (2003) suggest that the positivistic approach seeks the facts or causes of social phenomena, with little regard to the subjective state of the individual (p.52). However Healy and Perry (2000) suggest that positivism approach is usually relevant to much quantitative research.

A positivist approach could be appropriate for the purpose of this paper, as the author intends to test theories to increase the predictive understanding of the determinant of foreign investors in Kurdistan Region (Myers, 2009). This approach can help to seek the facts or causes of social phenomena (Collis and Hussey, 2003). However, positivist approach is mainly appropriate for quantitative research (Healy and Perry, 2000) and it may not be appropriate when approaching social world phenomena.

As this research project involves human experience and perceptions to highlight the problems relating to the process of FDI, it may not be suitable to treat them as independent facts as the positivist approach suggests (Bryman and Bell, 2007; Collins and Hussey, 2003; Easterby-Smith et al, 2008). This is because the researcher cannot “ignore their ability to reflect on problem situations, and act on these” (Robson, 1993, p.60) which contradicts the purpose of this research project.

3.2.2. Realism

There are many varieties of realism (Kilduff et al, 2011), but in general “they all agree that scientific theories aim to provide true descriptions of the world” (Okasha, 2002, p. 59) and exist “beyond observable appearances” (Chalmers, 1999, 226). The realism position is that ‘reality’ exists independently of the researcher’s mind and understanding, which suggests that there is an external reality (Bhaskar, 1978; Harre and Madden, 1975) and that science can only progress through observations that directly correspond to the phenomena being investigated (Easterby-Smith et al, 2008, p.61).

Saunders et al, (2009) state, “the essence of realism is that what the senses show us as reality is the truth: that objects have an existence independent of human mind” (p.114). According to Van De Ven (2007, p.57), “realism contends that there is a real world existing independently of our attempts to know it; that we humans have knowledge of that world; and that the validity of our knowledge is, at least in part, determined by the way the world is”.

Realist research is an approach that holds many of the aims of positivism. Fisher (2007, p.18) suggests that realism recognizes, and comes to terms with, the subjective nature of research and the inevitable role of values in it. Van De Ven (2007) states that in contrast with positivism, scientific realism (a strong form of realism) contends that science develops statements that are true at both theoretical and observational levels of phenomena (p.5).

Kilduff et al (2011) suggests that realist perspectives focus on enduring relations between things, typically in the form of mathematical equations (p.300). Furthermore, Fisher (2007) states that while realism still aims to be scientific it makes fewer claims to knowledge that perfectly mirrors the objects of study. Fisher (2007) also suggests that researchers who use the realist approach want to discover the mechanisms that bring about events and they are concerned that their theories should be verifiable and have some generalisability (p.19).

Realism and positivism share two characteristics which assume a scientific approach to the development of knowledge (Bryman and Bell, 2007; Saunders et al, 2009). Bryman and Bell (2007) explain these two features as, “a belief the natural; and social sciences can and should apply the same kinds of approach to the collection of data and to explanation, and a commitment to the view that there is an external reality to which scientist direct their attention” (p.18).

According to above, through realism approach, the ‘object’ of study should exist and be real (Bashker, 1989), and the theory should be tested to discover the mechanisms that bring about events (Fisher, 2007; Kilduff et al, 2011) to produce particular outcomes. Although the author in this research project is not testing a theory, the study may result in a theory being built. Furthermore ‘the reality’ is not external to this research, and the author’s experience in FDI and political and economic international relations will influence the research. Therefore, realism is not an appropriate approach for this research.

To investigate the objectives of this project effectively, it is important to understand and analyse stakeholders’ perceptions and the language they use (interpretivism) regarding the process of FDI in Kurdistan Region. This is also an attempt to identify the factors affecting the process of FDI in Kurdistan Region, in order to modify and adjust KRG’s strategy to increase the level of FDI inflow to the region; therefore, the research philosophy for this report is interpretive approach. In the next section of this chapter the author reviews interpretivism approach in detail, and the justification as to why this particular research philosophy has been chosen for the purpose of this study.

3.2.3 Interpretivism

Positivism has faced a lot of criticism with regards to its applicability in research which relates to social science (Bryman and Bell, 2007). Interpretivist research is not as common as positivist research in business and management, but has gained a great deal of attention in the last 20 years. According to Myers (2009), interpretive research articles are now accepted in the top journals of virtually every business discipline.

This new paradigm was developed by philosophers, especially during the second half of the last century, largely in response to the application of positivism to the social sciences. It fundamentally views that ‘reality’ is not objective and external, but socially constructed and

given meaning by people (Easterby-Smith et al, 2008). Unlike positivism, interpretivism approach is concerned with understanding human behaviour from the participant's own frame of reference (Bryman and Bell, 2007).

Saunders et al (2003) suggest that business situations are not only complex, but also unique, and they are a function of a particular set of circumstances and individuals. From the positivism viewpoint, research based on assumptions can establish 'facts and laws' whereas in social science, human behaviour differs from one individual to another, and researchers must recognize that the purpose of research is not to predict human behaviour but to understand it (Bennis and O'Toole, 2005). The interpretive researcher tends to focus on meaning in context, since the context is what defines the situation and makes it what it is (Myers, 2009, p.39).

Jupp and Norris (1993) suggest that the interpretivism holds the basic assumption that social phenomena are of an essentially different order from natural phenomena. They are often objective, external and preordained but socially constructed by individuals (p.42-43). Thus Myers (2009) states, "interpretive researchers assume that access to reality (given or socially constructed) is only through social construction such as language, consciousness, shared meanings, and instruments. Interpretive researchers do not predefine dependent and independent variables, but focus instead on the complexity of human sense-making as the situation emerges" (p.38). Furthermore, Bryman and Bell (2007) suggest that the interpretive approach allows researchers to not only find things which they are looking for, but also to discover some other unexpected interesting points relating to the subject. This is a very important detail, especially when reviewing the process of FDI in Kurdistan Region, as there is no one ideal international market selection process available to foreign investors. An interpretivist approach may also help to discover some important points as 'a surprise' which could be related to the process of FDI in Kurdistan Region.

Since the focus of this research project is on individuals (UK and Turkish independent organizations) regarding what they 'think and feel' about the process of FDI in Kurdistan Region, an interpretivist approach is more appropriate. This document is an attempt to establish the stakeholders' perceptions and opinions through the different language and tone they use to make sense of a situation (interpretivism) instead of relying on 'hard data' (positivism) (Bryman and Bell, 2007).

Based on the above discussion the interpretivist approach fits the purpose of this research. This is because this study is an attempt to find out more from interviews to enrich the exploratory aspect of this research and hence allow its expansion. Therefore interpretivist approach is used for the purpose of this research.

The following sections explain this study's research approach, research strategy, research design, and why a particular methodology was chosen. They also describe the qualitative interviews, interview questions' guide, sample population. It also followed by data presentation, analysis and interpretation using content analysis, and the reliability and validity.

3.3. The Research Approach

There are two main approaches to conducting a research study, namely deductive and inductive (Patton, 2001). According to Patton (2001), deductive approach is the process of establishing logical conclusions, and usually starts from general to specific (Sarantakos, 2005, p.425). Furthermore, Patton (2001) suggests that it usually starts with propositions derived from the literature which are tested and analysed. Thus, an inductive approach is the process of drawing conclusions, starting with specific observations and leading to a better understanding (Patton, 2001; Bryman, 2004) and results in theory generating from the interpretation and analysis of the collected data.

As stated before, due to the lack of literature regarding Iraq's market in general and Kurdistan Region's market in particular, this research project will try not only to understand the main risks involved in investing in post conflict regions as well as its effect on MNCs mode of entry (literature review) but to empirically establish all the factors (raised in the literature review) which are considered by participants when evaluating the Kurdistan market's attractiveness. This will include a 'theory testing' exercise; the main theory that seems to apply in this case is the 'Uppsala Theory'. However because this research starts by observation which will be realised by conducting interviews and after analysing collected data (from the interviews), it results in developing some general conclusions about the Kurdistan market's attractiveness for FDI consideration. Therefore, a deductive approach is best suited for the purpose of this study. This is because, after creating a solid base of the area of investigation (from the literature review), it uses interviews to obtain more in-depth knowledge, and after analysing the collected data the author goes back to the literature to see

if the findings are supported or not supported by theories and in the end it draws some conclusions.

3.4. Research Strategy

According to Yin (2003), there are three research strategies, namely descriptive, explanatory, and exploratory. For the purpose of this study, it has been decided to use an exploratory strategy, which is more appropriate when the researcher does not know how or why a certain phenomenon occurs. Exploratory researches tend to examine a new dimension or a new subject of study, and usually the data obtained are subject to qualitative analysis (Thomas, 2004; Yin, 2003).

For the purpose of this study, due to it being a pioneer of its kind (the subject of study is new) the focus of this investigation has been on answering so-called “what” questions. There is a need to understand the main risks involved in investing in Kurdistan and its effect on MNCs mode of entry into the region, and to analyse the factors considered by participants when evaluating the Kurdistan market for FDI consideration. It also analyses the role played by participants in inward investment to Kurdistan Region. Answering the main research questions should provide a solid base for further research that is of an explanatory nature with the focus on “why” and “how” questions. Therefore, for the purpose of this study, the exploratory strategy was chosen.

3.5. Research Design

This document investigates the determinates of FDI in Kurdistan Region, with a focus on organizations based in the UK and Turkey involved in promoting FDI, to establish the main risks involved to invest in the region and investigates how these organisations assess the region’s attractiveness for FDI consideration. This is carried out by analysing stakeholders’ perceptions and judgements, to examine whether these stakeholders follow a rational model or heuristic judgment to evaluate the state of Kurdistan Region’s market.

According to Collis and Hussey (2003), the type of methodology chosen should reflect the assumption of the research paradigm. Based on the objectives of this study, the author could choose between case study and survey. The case study differs from survey strategy, where although the research is undertaken in context, the ability to explore and understand this

context is limited by the number of variables for which data can be collected (Saunders et al, 2009, p.146).

The emphasis of case study tends to be upon an intensive examination of a setting (Bryman and Bell, 2009, p.62) which focuses on understanding the dynamics present within a single setting (Collies and Hussey, 2003, p.69). According to Bryman and Bell (2009), “a survey research comprises a cross-sectional design in relation to which data are collected predominantly by questionnaire or by structured interviews” (p.56) from a range of respondents to obtain facts, opinions, behaviours or attitudes (Maylor and Blackmon, 2005). A survey refers to a method of data collection from different parties (Easterby-Smith, et al, 2008) that utilizes questionnaires or interview techniques to record the verbal behaviour of respondents (Gronhanug, and Ghauri, 2005, p.124).

The case study method is an attempt to systematically investigate an event with the specific objective of describing and explaining a phenomenon (Berg, 2007). Furthermore Hagan (2002) suggests that a case study is the in-depth, qualitative study of one case. Bogdan and Biklen (2003, p.54) share Hagan’s view and suggest that a case study is “a detailed examination of one setting, or a single subject, a single depository of documents, or one event (p. 54)”.

As this research project tests the existing theories (e.g. Uppsala theory) analysing the risks involved in investing in Kurdistan and its effect on MNCs mode of entry, and the participants’ evaluation of the Kurdistan Region’s market attractiveness for FDI consideration, as well as their role in facilitating inward investment, interviews are used to collect data (Berg, 2007). As the investigation focuses only on examining Kurdistan Region’s characteristics for FDI consideration without comparing it to any other locations in depth, a case study is an appropriate method for this study.

The next section explains qualitative methods, the interviews and how the sample population was selected, and the reason for only selecting the UK and Turkey for the purpose of this study.

3.6. Qualitative Method: Interviews

Qualitative research has its roots in social science and it is more concerned with understanding people's behaviour, feelings and perceptions of a particular subject (Flick, 2002). According to Patton, (2001), qualitative research seeks to understand the phenomena being studied without the researcher attempting to manipulate the phenomena (p.39). Thus, qualitative research usually emphasises words rather than quantification in the collection and analysis of data (Bryman, 2004), and it produces findings that unfold naturally (Patton, 2001, p.39).

In contrast quantitative research usually emphasises quantification in the collection and analysis of data (Bryman, 2004) and it ignores the differences between the natural and social world by failing to understand the 'meanings' that are brought to social life (Silverman, 2003, p.4-5). Therefore, unlike quantitative research which seeks, determination, prediction, and generalisation of findings to formulate general law, qualitative research seeks understanding and extrapolation of similar situations (Hoepfl, 1997; Flick, 2002). Thus, a qualitative research could give more insightful understanding of the subject (Johnson and Christensen, 2004). This study is an attempt to explore the determinant factors affecting the process of FDI (from various stakeholders' points of view) in Kurdistan Region, in order to uncover the main risks involved with investing there and gain more understanding of the subject (from participants' viewpoints), therefore the qualitative research method has been chosen to answer the research questions.

According to Silverman (2003), qualitative research focuses on processes and structured characteristics of a setting, and tries to capture reality in interaction through intensive contact in the field (p.45). Furthermore, Silverman (2003) suggests that, depending on the researcher's awareness, this type of research is flexible and studies behaviour, beliefs, and attitudes which can provide a deeper understanding of the subject being studied which cannot be provided by quantitative data.

One of the advantages of qualitative research is that it provides a better understanding of the phenomenon being studied, and also increases the confidence in results and conclusions (Johnson and Christensen, 2004; Silverman, 2003). Since the study of the Kurdistan market's attractiveness is new, in order to uncover the main risks involved in investing in the region and its effect on MNCs' mode of entry (into the region), and the role of participants and their

effect on inward investment, and understand the factors involved in evaluating Kurdistan market for FDI consideration, the choice of a qualitative method is highly relevant. Primary data will be collected by conducting interviews to analyse the participants' perceptions about the subject of study. Furthermore, According to Easterby-Smith et al (2015), if researchers wish to obtain answers to a number of fairly simple questions a questionnaire might be more appropriate. However, because the objective of this study is to analyse participants' viewpoints about risks involved in investing in Kurdistan Region, interviews were deemed more appropriate. This is because they allow the subject to be explored in greater detail in order to explain the reason/s for lack of long term investment in Kurdistan Region.

The aim of qualitative interview questions is to collect information which captures the meaning and interpretation of the subject from the participants' viewpoints (Easterby-Smith et al, 2015). They attempt not only to understand what the participants' viewpoints are, but also why they have a particular viewpoint about a particular subject being studied (King, 2004), enabling the author to answer the research project's questions more appropriately. Thus, according to Bryman (2004), qualitative interviewing pays much greater attention to the interviewee's point of view, and the interviewer can depart from any guidelines being used to encourage the interviewee to provide a deeper insight into the subject of study and, as a result, qualitative interviewing tends to be flexible.

Semi-structured interviews with open-ended questions suit the purpose of this study. The author had a list of questions involving a degree of structure with a great deal of leeway in terms of how and when to apply the questions (interview questions appendix 4, p.148). This is supported by Bryman (2004) who suggests that the interviewer may choose not to follow the exact order outlined in the interview guide. Certain questions may be asked if the author picks up on something from the interviewees' responses, to explore the topic in more detail (Flick, 2002) which could facilitate the processing of data collection (Bryman and Bell, 2007). Thus, because the Kurdistan market's attractiveness for FDI consideration is being investigated to uncover some sensitive issues (such as corruption), one to one interviews are more likely to allow the researcher to be able to encourage the interviewee to be truthful in responding with their answers (Collis and Hussey, 2003).

Although semi-structured interviews are usually considered an appropriate method of gathering information, their complexity can be underestimated. They can be time consuming (certainly in the case of this research project) and there may be problems when recording the questions and answers in controlling the range of topic (if the questions are not consistent) and, in the later stage, in analysing collected data (Easterby-Smith et al, 2015). This is because the subject is being discussed and the questions raised during the interview can change from one interview to the next and a different aspect of the topic may be revealed (Fisher, 2007). This may be one of the problems of the semi-structured interview, because as result a new area of the research may be revealed, but the researcher could balance the emerging issues (Collis and Hussey, 2003). Furthermore, the interviewer should avoid showing their feelings about the subject being studied, or challenging the interviewee, because this could influence the interviewee, causing them to adjust their response accordingly (Bryman and Bell, 2007; Fisher, 2007).

3.7. Interview Questions' Guide

In the earlier stage of this research project, based on the broad literature review, a mapping framework was developed (figure 5, Conceptual framework, p.44) which provided the base for the design of the interview questions for the study. The interview questions were designed in a way to collect data which would be as valid and reliable as possible. This is important because, the validity and reliability of the response rate and the data collected, to a large extent depends on the structure and the design of the questions. Although a good interview question design can be surprisingly difficult (Maylor and Blackmon, 2005) as a good interview questions will help to collect accurate data that is more valid and reliable in order to meet the research projects' objectives (reliability and validity are explored in greater detail later in this chapter).

The mapping framework outlined the factors affecting the sample population's decision making process in evaluating Kurdistan Region's market attractiveness for FDI consideration. It set out the risk factors, advantages and disadvantages affecting the sample populations' decision making in ranking Kurdistan Region's market and its attractiveness for FDI consideration and ultimately its effect on MNCs' mode of entry (to Kurdistan market).

The author constructed a research instrument to make sure the questions were related to the objectives of this study. Four steps were taken to design the interview questions using Kumar's (2011) mapping method (Figure 6, p.62). The first step was to write the research objectives, then the main associated search questions were linked to each objective of this study, and all the necessary information to be obtained from the interviews was highlighted, before finally the appropriate questions were set to obtain the required information. The answers to this study's research questions will help the author to recommend a more appropriate strategy for KRG to increase the level of FDI in the region.

Figure 6: Illustration of the mapping for interview question design

Objectives/ Hypotheses Step 1 →	Main and associated research question Step 2 →	Information required Step 3 →	Questions Step 4
To establish the main risks facing MNCs in Kurdistan region and its effect on MNCs mode of entry	-What are the main risks involved to invest in the Kurdistan Region and its effect on MNCs mode of entry -What is/are the advantages of investing in Kurdistan region?	1-Participants' perceptions of the Kurdistan Region's market attractiveness for FDI consideration and its effect on MNCs' mode of entry	Q1.1- What is/are the region's main advantage/s? Q1.2- What is/are the barrier/s? Q1.3-What is/are MNC's main concerns (risks)? Q1.4- Do the risks effect MNCs' mode of entry?
To identify the target population's risk assessment involved in investing in the Kurdistan Region	-What factors are considered by target populations to evaluate the Kurdistan Region's market? -Do they follow a systematic or rational approach?) -What models or checklist do they use to evaluate Kurdistan Region's market?	2- How do they evaluate Kurdistan's market for FDI consideration?	Q2.1-How do you risk assess for the Kurdistan Region Q2.2- Do you follow a model of a checklist? Q2.3- Do you use internationally available data? E.g. World Bank Q2.4- Is your knowledge about KR based on your own personal experience?
To establish the role played by participants in facilitating inward investment into Kurdistan Region and its affect on MNCs' decision making	What is the participants role on facilitating inward investment in Kurdistan Region	3- Does your advice encourage (or discourage) your clients to invest in the Region?	Q3.1. Do you advise your clients about the risks as well as the potentials associated with investing in the region? Q3.2. Does your advice have effects on your clients' decisions ?

(Source; Kumar, 2011, p. 157)

The interview questions were designed in a way not only to explore how all the identified factors (in the conceptual framework) effect the sample population's judgment regarding Kurdistan Region's market, but also to explore what factor have the most influencing elements in their decision making process, e.g. long term business potential or short term high levels of return. This was particularly important because, despite the fact that Iraq as whole and Kurdistan Region in particular involve risks to multinational companies' long term investment, some MNCs are still willing to take those risks and invest their assets in the region (e.g. investment in the oil and gas sector).

The questions not only helped to identify the sample population's judgment process, but they were also designed in a way to identify how these independent organizations' decisions are made, in order to investigate whether organizations (in the UK and Turkey) make their decisions based on rational approach (risk assessment evaluation techniques) or personal judgment forming. The questions also helped to identify the region's main points of attraction, as well as deterring factors affecting MNC's decision to invest in Kurdistan Region or not. They also helped to identify these organisations' roles and their effect in facilitating inward investment to Kurdistan Region.

During the interviews, the author tailored the questions according to each participant's responses, to explore some new and interesting areas related to FDI in Kurdistan Region. This helped to maximise the chance of obtaining good results and providing answers to the research questions, adding validity to the interview questions.

3.7.1. Sample Population

According to Hair et al (2007, p.173), "the research objectives and scope of the study are critical in defining the target population". A sample population refers to a body of people or any other collection of items under consideration and the sampling frame is a list of the population from which all the sampling units are drawn (Collis and Hussey, 2003, p.155). The population for this research project is defined in a way that reflects the whole population and is unbiased in order to address the study's objectives and draw conclusions that are representative to the wider population (probability approach) (Babbie, 1995; Bryman and Bill, 2007; Fisher, 2007; George and Bennett, 2005).

It is important that the sample is not biased and is representative of the population from which it is drawn (Collis and Hussey, 2003; Fisher, 2007). This is because the opinions and information put forward about the process of FDI in Kurdistan Region could shape the outcome of this research project. Therefore, in selecting the sample population, the author set guaranteed each unit of the population (all the organisations from UK and Turkey) would be represented by the sample if they had the sample populations' criteria specification. This is supported by (Davies, 2001; Dexter, 1970; George and Bennett, 2005; Kidder, et al, 1991) who suggest this technique (criteria specification) involves the author drawing a sample from a large population by setting a criteria that selects participants in order to ensure that the analysis of data collected will lead to finding that are more reliable and representative of a wider population. The sample population (criteria specification) was drawn in the following stages:

1. Countries involved in FDI via their MNCs;
2. Only those that have invested in Iraq;
3. Only those that have invested in Kurdistan Region;
4. Those who have made significant investment in Kurdistan Region
5. Those who granted access to conduct interviews.

The author originally had the intention of collecting data from different NGO's in different locations (the UK, USA, United Nation Trade and Investment Department, and Turkey). These NGO's were involved in evaluating foreign market conditions, and acted as advisory bodies providing information to multinational companies about specific foreign market conditions, such as the UK Trade and Investment Department and US Trade and Investment Department. This is supported by (Tayeb, 2000) and suggests that NGO's are crucial to businesses and act as an advisory body in advising MNCs and helping them to address their concerns when they intend to invest in a specific foreign market.

As mentioned before, the reason for choosing these organisations from the UK, US and Turkey is that Turkish firms make up the highest number of investors in the Kurdistan Region, UK multinational companies make up the highest number of investors from Europe

in the Kurdistan region (Table 1, p.18) and they are leading companies in architecture design, and US multinational companies are the leading security, army and police training providers in the Region.

Accessing and organising interviews with the target population proved to be very challenging due to the limited time, and despite the attempts made by the author it was not possible to organize interviews in the US or with UN Trade and Investment departments.

The sample sizes in qualitative studies are usually much smaller than in quantitative research Easterby-Smith et al (2015). Thus, according to Ritchie et al (2003), qualitative research is more concerned with the meaning of the content and more data does not necessary lead to more information. Furthermore, Berry (2002) suggests that, because of limited time and resources it is not possible to conduct interviews with the whole population but because of the nature of study and the sample population selection (discussed earlier), it is still possible to generalise the finding to a wider population (Babbie, 1995; Collis and Hussey, 2003). Taking into account the limited time, and because the organisations from the US and the UN failed to respond and cooperate by supplying the required data, they were not included for the purpose of this study. As a result, after consulting with the supervisors, the author decided to focus this study on organisations from the UK and Turkey.

On 24th October 2011, the author participated in Al Anbar (a province in Iraq) 2nd International Investment Conference in Istanbul, Turkey, in which many government officials and foreign investors from different countries also participated. The author hoped to be able to organize some interviews with a number of US, Turkish and UK based organizations (which were involved in promoting foreign market for their national MNCs). The author also participated in a number of UK-KRG events in London, relating to FDI in Kurdistan Region. These events helped the author to understand the role of NGO's (those acting as advisory bodies to MNCs) and enabled the author to make the selection of participants more appropriately.

During these conferences, many officials from different organisations in different countries offered their assistance, but only a few replied when contacted and only 24 interviews were conducted. There were eleven interviews which were not included for the purpose of this study, either because their responses were insufficient or they were not included in the

sample population to avoid non-response errors (Bryman and Bill, 2007). Thus, because the focus of this study is only on the UK and Turkey, only interviews with officials from organisations in those two countries are used for the purpose of this research project.

The primary interviews for this part of the research were conducted between October 2011 and January 2014, a twenty six month period of intensive change in Iraq's political process. Furthermore, in addition to data collected for the purpose of this research, the qualitative interviews conducted for Document Three of this DBA research project remain a rich source of data. These interviews contained a great deal of qualitative materials which contributed significantly to this research project. Interviews were conducted with both KRG and Central Government's most senior officials. The analysis of Document Four is also used for the purpose of this research project.

The author indicated in the consent form that the names of the participants in this research and the organisations for which they work would not be identified, therefore this information will not be revealed in this research project (for consent form, see appendix 2, p.142). It will only be available to the supervisors, and to the examiners of this research project if requested because of ethical considerations (Maylor and Blackmon, 2005). Therefore, for the purpose of analysis and discussion, each individual is given a code. According to Kumar, (2011), the researcher can assign any number value to individuals as long as s/he does not repeat the number for another individual. Therefore, each code represents an individual, a senior employee from an organisation in their operation country (UK and Turkey) that was interviewed for the purpose of this study. Later in this chapter (data presentation) the author explains their positions within the organisations they work for. UK participants are coded as UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, and UK9, Turkish participants are coded as T1, T2, T3, and T4, KRG senior officials K1, K2, K3, and K4 and the Central Government senior official is coded as CG1 (Table 2, p.70). The number of participants from the UK, Turkey, Kurdistan Region, and Central Government officials are shown in Table 2, p.70.

UK	Turkey	KRG	CG	<u>Total</u>
9	4	4	1	18
UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, UK9	T1, T2, T3, T4	K1, K2, K3, K4	CG1	

Table 2: The number of participants from different locations and their codes

3.8. Data Presentation

This section presents a summary of the data collected from the interviews. The participants comprised a number of individuals from different organisations from the UK and Turkey who are actively involved in advising their domestic MNCs' about Kurdistan Region's market attractiveness for FDI consideration. They also included individuals from KRG and central government officials who were interviewed during the completion of Document Three of this research project (see Table 4, page 72). Due to ethical considerations, the participants' organisations are not named in the table and each code represents an individual interviewee (a senior employee). The tables (Table 3, p. 71 and Table 4, p.72) present the interviewee's code, the date of interview, each interviewee's position in their organisation, the country of operation as well as the duration of interviews. (for a summary of data (participants statements) related to the main themes of this study, please see Appendix 5, p.155)

Foreign Direct Investment in Kurdistan Region

Number	Interviewee Code	Date of interview	Interviewee's position in their organisation	Country	Duration
1	UK1	13/09/ 2012	Director of Africa and Middle East	UK	1 Hour
2	UK2	14/09/2012	Senior Manager	UK	48 Minutes
3	UK3	17/09/2012	Director of UK and Kurdistan relations	UK	42 Minutes
4	UK4	18/10/2012	Head of Asia Trade Team	UK	1 Hour
5	UK5	26/11/2012	Senior Consultant,	UK	55 Minutes
6	UK6	31/01/2013	Deputy CEO	UK	48 Minutes
7	UK7	25/02/2013	Managing Director	UK	37 Minutes
8	UK8	01/03/2013	Executive Manager	UK	52 Minutes
9	UK9	27/04/2013	Deputy Council General	UK	43 Minutes
10	T1	11/12/2012	CEO	Turkey	55 Minutes
11	T2	12/12/2012	General Director	Turkey	1 Hour
12	T3	06/03/2013	General Consulate	Turkey	55 Minutes
13	T4	08/01/2014	Head of Commercial	Turkey	35 Minutes

Table 3: Data presentation, the participant from UK and Turkey

14	CG1	20/02/2010	Head of Iraq's Council of Representative	Iraq	1 Hour and 5 minutes
15	K1	14/07/2010	General Director	Kurdistan Region, Iraq	41 Minutes
16	K2	17/07/2010	President of Council of Ministers	Kurdistan Region, Iraq	50 Minutes
17	K3	22/09/2010	Minister	Kurdistan Region, Iraq	45 Minutes
18	K4	01/10/2010	KRG-UK Representative	Kurdistan Region, Iraq	1 Hour and 10 minutes

Table 4: Data presentation, the participants from Kurdistan region and Iraq's central government

3.9. Data Analysis and Interpretation

This study adopted in-depth semi-structured interviews as its data collection method in order to answer the research questions. The author prepared a list of questions about some specific topics, however depending on participants and their responses, he did not follow the set questions and sometimes new questions would arise, providing the opportunity to explore participants' viewpoints regarding a specific topic. This is supported by Bryman (2004) who suggests that the interviewer may not exactly follow the way outlined in the interview guide, if they wish to explore the topic more in detail (Flick, 2002). This can facilitate the processing of data (Bryman and Bell, 2007). Furthermore, Burgess (1982) suggests that the interview offers an opportunity for the researcher to probe deeply to uncover new clues, open up new dimensions of a problem and to secure vivid, accurate inclusive accounts that are based on personal experience (p.107).

A large volume of data is reduced to make sure it draws out various themes and patterns to make them more readily accessible. According to Berg (2007, p.47) this "directs attention to the need for focusing, simplifying, and transforming raw data into more manageable form"

under each theme which was outlined in the conceptual framework to answer the research questions.

In the early stage of this chapter it was established that interpretivism would be the main research philosophy for this document, because the interpretive approach would allow stakeholders' language and tone to be analysed, as well as the material collected from the interviews, using content analysis. This approach helps the researcher not only to find things they are looking for but also offers the potential to discover some other interesting points related to the subject which may not be anticipated (Bryman and Bell, 2007).

The interviews were analysed to establish the risks faced by MNCs when investing in Kurdistan region and the participants' perceptions about the attractiveness of Kurdistan Region for FDI consideration, as well as their role in the MNCs' decision making process when considering investing in the Region. The analysis of primary data (interview materials) would also help to whether the firms were entering the region to gain a better understanding of the market for possible high-resource investment (Uppsala theory) and distribute to the rest of the country. A large amount of interview materials and notes was collected, showing the different words and language respondents used to express their opinions. The data analysis involved linking or comparing the existing literature using content analysis of the materials in order to help to answer the research questions.

In the next section the author reviews the content analysis in more detail and explains why it was used to analyse the interview materials.

3.10. Content Analysis

Textual analysing is involved in the interpretation of data rather than calculations. Unlike quantitative data, for which there is a standard set of procedures, there is less agreement on how qualitative data should be analysed (Thomas, 2004). However that is not to say it is easier, especially when a large volume of material needs to be analysed. The author aims to analyse the collected data using content analysis approach, which has long been used to analyse qualitative data and is the most commonly recognised research method in social science (Krippendorff, 2004, Lancaster, 2005).

The application of content analysis depends on the nature of the research and its objectives. In this approach, the researcher has the knowledge of what is being looked for in advance. The author essentially knows the themes which he is investigating and, as a result, content analysis is the most appropriate approach to investigate the factors affecting the process of FDI in Kurdistan Region.

Many different definitions of content analysis have emerged over the years. One of the earliest definitions comes from Berelson (1952, p.18) who states “content analysis is a research technique for the objective, systematic and quantitative description of the manifest content of communication”. Furthermore, Wolfe (1991) defines content analysis as a systematic process for investigating the content of written documents or transcribed interviews or spoken presentations, whereas Krippendorff (2004) suggests that content analysis is a procedure that codes the text into various categories based on selected criteria.

Bryman and Bell (2007) state that content analysis is an approach for the analysis of documents that seeks to quantify content in terms of predetermined categories in a systematic and replicable manner (p.304). Furthermore they suggest that content analysis is appropriate to various different forms of unstructured information, such as transcripts of semi and unstructured interviews, even for qualitative case studies of organizations.

One procedure for quantifying data informally is based on the frequency of an action during data collection. Another process is to determine which part of the data is ‘important’ and should be included and which part is ‘not important’ and therefore should be excluded from the analysing process. This is very important because analysis can affect the data, and the scaling and construction of data can also affect the outcome of the research (Collis and Hussey, 2003; Myers, 2009). Content analysis is most appropriate when the meaning of the text is obvious and when it looks at the frequencies of words over time (Myers, 2009).

Although the use of computer software is useful in analysing collected data, it also has its own drawbacks. According to Myers (2009), using software can provide the temptation to become too detailed – to focus on a simple picture and not see the big picture of the problem (p.178). This is simply because it is a computer outcome generator and may not respond to research questions very specifically.

Using computer software is the most common way of analysing qualitative data but it is not the only method (Collis and Hussey, 2003; Myers, 2009). However, because the author already knew the themes and subjects that he was looking for, he chose not to use software because the outcome would be too detailed and would not highlight the bigger picture of the problem; the focus needed to be on the simple, but sophisticated picture. Software looks for the frequencies of events, action and words which may not be the core subject of this research investigation (Krippendorff, 2004). Furthermore, because the interviews were conducted in different organisations and they did not use a standard language, the author developed a framework of classifications for assessing the interview materials. The data was broken down into different parts and it was decided which part of the data should be measured and noted, and finally which part of the data was related to each theme. The main themes included political risks, market risk, advantages and disadvantages of investing in Iraq as a whole and Kurdistan Region in particular, and the sample populations' evaluation of Kurdistan's market.

According to above statement, content analysis is a very transparent research method, which is highly flexible and can allow information to be generated about a social group to which it may be difficult to gain access. The advantages of content analysis is that it can identify the main themes through descriptive responses, classify responses under the main themes, and finally help to integrate themes and responses into the text of the report (Kumar, 2011, p. 278).

In answering the research questions, in order to avoid any unnecessary detailed analysing of some irrelevant themes, the author highlighted the main themes related to the research questions. Despite this, it was open to inclusion of any new issue that might emerge during the interview. Content analysis allows the author to go through interview transcripts and notes to classify their content under related themes. The final step is to integrate classified notes under each theme into the text of the document to help to answer the research project's questions.

In the next section the author reviews the reliability and validity in more detail.

3.11. Reliability and Validity

In any research reliability, validity, and generalization are very important. Reliability is concerned with the issues of consistency and repeatability of a research and validity is concerned with the integrity of the conclusions (Bryman, 2004; Silverman, 2003). Validity can be subdivided into internal and external validity (Silverman, 2003). Internal validity includes the legitimacy of the results due to the way the group is selected, the questions are asked, and data is recorded and analysed, while external validity is concerned with whether the results of the study are transferable to other groups of interests, i.e. generalised beyond the specific research context (Bryman, 2004; Flick, 2002) .

In any qualitative research, the researcher should be concerned with both reliability and validity when designing the study, analysing the results, and judging the quality of the study (Patton, 2001). According to Healy and Perry (2000), the quality of a research in each paradigm should be judged by the terms of its own paradigm. In qualitative paradigm credibility, conformability, consistency or dependability and applicability and transferability are crucial criteria for quality (Lincoln and Guba, 1985).

A total of 24 interviews were conducted. Due to the focus of this study (UK- and Turkey-based organisations) and the quality of the contents of the responses, only 13 interviews were used for the purpose of this study to avoid non-response errors (Bryman and Bell, 2007). Another five interviews from the previous document (Central Government and KRG senior officials) were also included. The interview questions were designed in a way to collect data which would be as valid and reliable as possible in relation to the main research objectives (Figure 6, p.62). This is important because, the validity and reliability of the response rate and the data collected, to a large extent depends on the structure and the design of the questions (Maylor and Blackmon, 2005). The questions were piloted to make sure that the questions were clear and would not be misunderstood during the interviews

Lincoln and Guba (1985) use the term ‘dependability’ to mean reliability (p.300). They further emphasise ‘inquiry audit’ (p.317) as one measure that can enhance dependability which can be verified by the examination of the process of collecting, reducing data and the product of the research (Campbell, 1996; Hoepfl, 1997). Therefore, the author must prove

that the methods that employed are consistent and the conclusions are valid, and to achieve this, it is important that the author should be fully aware of the research subject, the issues and the objectives.

The author carefully prepared sets of questions, which were piloted and redefined with the help of the supervisors and some colleagues, until he was convinced of the validity of the questions (Rubin and Rubin, 1985). The participants were then asked the same sets of question in the same tone of voice. Semi-structured interviews with open ended questions gave the interviews a high degree of standardisation and allowed for more answers when the interviewees talked freely, without interruption and intervention, in order to achieve a clear picture of the subject from participants' viewpoints. Furthermore, the information is obtained from first-hand witnesses by interviewing senior-level officials (elite) from the sample population, and as a result the process helped to make the collected data more reliable (Davies, 2001; Dexter, 1970; George and Bennett, 2005; Rubin and Rubin, 1985). As the author knew the main themes being studied it was possible to reduce the data to that which was relevant to the main themes of study. The responses from participants were later interpreted and analysed using content analysis according to the author's best knowledge and in this study it was verified by supervisors.

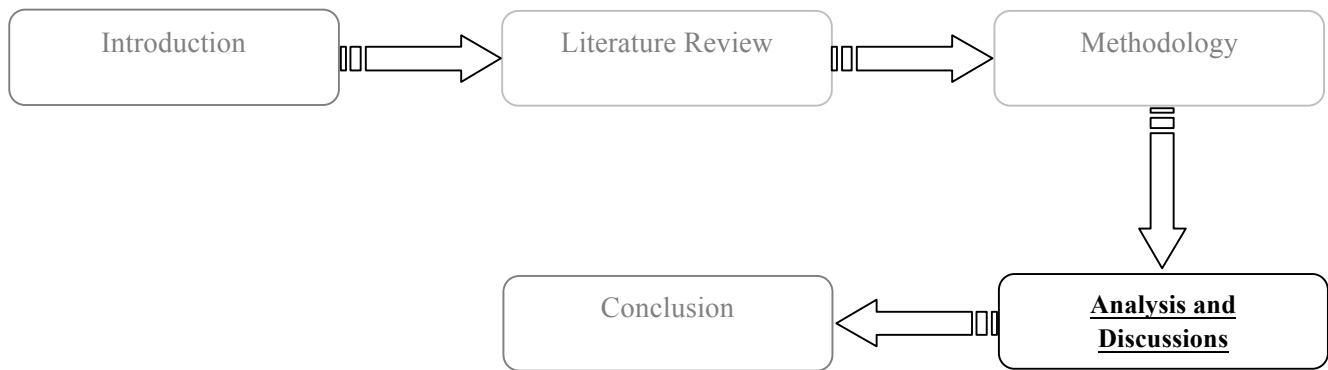
Generalisation can be defined as the degree to which a study can be generalised to a wider population (Silverman, 2003). Thus, the value of qualitative data is not represented in any statistical way (based on the number of interviews) but is based on generating new knowledge and theoretical insights (Green and Browne, 2005; Silverman, 2003). This study is a deductive research, which aimed to explore the existing knowledge and theories (such as Uppsala theory) applied to the Kurdistan market to reveal a new understanding of the existing knowledge of the determinants of foreign direct investment in Kurdistan Region. Thus, the author in the sampling selection process guaranteed that each unit of the population (all the organisations from the UK and Turkey) was selected for this study (interviewing). This is in line with Davies (2001), Dexter (1970), George and Bennett (2005) , and Kidder, et al (1991) who suggest that this could help the analysis of data collected to lead to findings that are more reliable and representative of a wider population. The process of population selecting, and the fact that the survey was conducted in different countries (UK and Turkey)

helped to prevent the sample from being biased, thereby represented a wider population (Generalisation) (Silverman, 2003).

During the interviews, 100 pages (A5) of notes were taken, and the interviews were audio tape recorded. After typing up the recorded interviews, a total of 150 pages (A4) of data transcript were prepared. During the analysis of the findings and writing up, the transcripts were repeatedly reviewed by the author to make sure they were reliable. The advantage of reviewing the transcripts was that the author was able to see different parts of the interviews to cross-examine and to correlate the different parts of interviews. As this research project took an interpretivist approach, the author also quickly checked the voice recordings to analyse the participants' tone and the language they used to respond to a particular question. Another advantage of reviewing the transcripts was that it also enabled the author to look for patterns that may have emerged during the interviews.

The interviews with Central Government and two KRG officials were conducted in English and the other two were in Kurdish. The interviews were translated into English by the author, and to ensure the reliability of the translation, the researcher asked a professional interpreter to review the translation without disclosing the participants' identities.

Chapter Four: Analysis and Discussions



4.1. Introduction

This chapter analyses and discusses the participants' points of view (primary data) about the region's attractiveness for FDI consideration using content analysis. The interpretivist approach is used to analyse stakeholders' language and tone used during interviews in order to understand their views.

However given the interpretivist intention of the overall research, to establish the main factors affecting the process of FDI in Kurdistan Region, the author also cross-references the findings of previous documents (Documents Three and Four). This will result in a more balanced picture of the Region's market attractiveness from different stakeholders' points of view, which will ultimately assist the author in recommending some short and long term strategic solutions to increase the level of FDI inflow into the Region.

This chapter starts with a description of both countries' investment (the UK and Turkey) in Kurdistan Region followed by an analysis of the political and market risks involved in investing in the Region, after which the advantages and disadvantages related to the consideration of Iraq and Kurdistan Region for FDI are reviewed. It describes stakeholders' approaches to decision making, and the way in which the Kurdistan market is viewed and evaluated is discussed in detail. Finally, all other relevant unexpected factors which arose which affect stakeholders' points of view regarding Kurdistan Region are examined.

The participants were assured that their names and the organizations which they work for would not be mentioned (because of ethical considerations), therefore when analysing their views about Kurdistan's market each participant was given a code please (Table 2, p.67); as follows: UK participants - UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, and UK9, Turkey participants - T1, T2, T3, T4, KRG officials, K1, K2, K3, K4 and Central Government participant - CG1.

4.2. Turkey and UK MNCs' Investment in Kurdistan Region

The region's high level of security compared to the rest of Iraq (Galbraith, 2003) and its vast business opportunities (Documents Three and Four) have convinced many MNCs to enter the market. According to the findings of previous documents, Turkish companies are among the highest number of foreign investors in Kurdistan Region.

According to most participants (UK1, UK2, UK3, UK4, UK5, UK7, T1, T2, T3, and T4) *'the region's high level of security, rich natural resources, good investment law, and high demand in all sectors presents good business opportunities for foreign investors'*. This is in line with the findings of Documents Three and Four. The participants from Turkey (T1, T2, T3, and T4) and KRG officials (K1, K2, K3, and K4) confirmed that *'Turkish companies are among the highest number of foreign investors in Kurdistan Region'*. According to Turkish participants Iraq has become Turkey's second largest foreign market (5-7% of total exports, \$11 billion, 70% to Kurdistan Region and 30% to the rest of Iraq) after Germany (Table 1, p.18).

T1, T3, and T4 suggested that because to some extent Kurdish and Turkish people share the same language (25 million Kurds live in Turkey), they have the same way of doing business (same business culture) and *Turkey and Kurdistan are close neighbours*, this has contributed significantly to the level of Turkish companies' inflow to the Kurdistan market. Thus, T3 stated more importantly *'because what we have Kurdistan Region needs and what Kurdistan Region has we need (oil and gas)'*, this has encouraged many Turkish MNCs to enter the Kurdistan market. Furthermore, T3 suggested that compared to the rest of Iraq, Kurdistan Region is a *'less complex market and the government is more open to business* which is an encouraging factor in attracting Turkish MNCs which is supported by the findings of Documents three and Four. Taking into account T3 which stated that *'good political relations between the Turkish government and KRG'* has also contributed positively to the level of Turkish MNC inflow into the region.

The analysis of this research project suggests that the economic activities between Turkey and Kurdistan Region are mostly trade and contracting projects in Kurdistan Region, but not long term investment. This view was expressed by a number of participants. According to T3, the volume of investment is not as high as that of trade and construction contracting but he believed *'we are in the beginning of harmonization process and it will change'*. Furthermore

UK3 stated that in the past KRG and the Turkish government's relations were very confrontational, but he believed that *'in the last few years, the Turkish government has gone from being a suspicious neighbour to an engaging neighbour'* which has had a positive effect on the level of FDI inflow in the longer term. According to one Turkish participant this harmonization of political relations was a *'strategic decision'* by the Turkish government, and economic activities between Kurdistan Region and Turkey followed (T3). However in contrast, T1, T2, and T3 believed it was economic activities between the two sides which resulted in improved political relations.

Despite the harmonisation of political relations between Turkey and Kurdistan Region, there is a lack of long term investment by Turkish companies in Kurdistan Region. According to T4 *"Turkish companies are mainly exporting goods and they are involved in construction contracting but not committed long term investment"*. T1, T3, and T4 suggested that Turkish companies do not need to commit to long term investment in Kurdistan Region because they are neighbours and it is only a three hours drive from Turkey to Kurdistan *'unless Turkish MNC's have an eye to distribute to the rest of Iraq'*. This is supported by Langhoff, (1997) who suggests that under the Uppsala model, a firm's internationalisation usually starts by entering the host market with a low resource-commitment, and only commits higher resource when they gain more knowledge of the host market.

In the case of Iraq, MNCs also take into consideration the risks involved in investing in the country (mode of entry), especially the political complexity of Iraq (Burgman, 1996; Elango and Pattnaik, 2006; Jenson, 2003; Lee and Kwok, 1988) before deciding their mode of entry (Zheng, 2012) and distributing to the rest of the country. Some Turkish participants did not believe the political complexity of the region was the reason for not committing to long term investment in Kurdistan Region (T2, T3, and T4). In contrast, however, T1 suggested that the region's complexity and long term political risks have prevented Turkish MNCs from committing to long term projects in the Region.

KRG and Turkish participants believed that KRG and the Turkish government have the same common vision for the future which will result in more economic integration from both sides. T3 also suggested that in the longer term *'we have a common vision for the future together and our goal is full social and economic integration'*. He believed that, in the longer term we expect long term strategic investment in the Region by Turkish MNCs.

However, when it comes to UK MNCs' investment in Kurdistan, according to participants in this research project, and according to analysis of Document Four, the main reason for most UK MNCs not entering the Kurdistan market is because they are concerned about the future of the country's overall political process and the long term effect of Central Government's regulations on Kurdistan Region. UK1 suggested that *"technically the regulation in Kurdistan Region is equal to legislation in Iraq, but companies know in practice that is not true"* and this has contributed negatively toward UK MNCs' inflow into Kurdistan Region. This is in line with the findings of Henisz, (2000), Jensen, (2003), Jensen, Young (2008), and Shneider and Fery (1985), who suggest that the unclear political process at national level (Iraq) can have implications on the regional level for Kurdistan Region's market attractiveness and could affect (long term) foreign investment in the Region

However, in contrast some participants (UK3, UK6) suggested that in the beginning (after the liberation of Iraq in 2003) UK MNCs were not aware of Kurdistan Region's market potential (lack of knowledge). UK6 also suggested that *'in the beginning we didn't know anything about Kurdistan Region'* due to (what UK 3 described as) *'the UK government strategic policy'* (UK3). Furthermore he suggested that UK government policy was that *'most British involvement should be in Basra (a province in the south of Iraq) and to some extent in Baghdad'*. Furthermore UK3 suggested that *'the British government didn't encourage UK MNCs to do business with Kurdistan Region'*. He suggested this was *'because they didn't want to upset Central Government'*.

This changed only after an official British business mission to Kurdistan Region in 2010 (UK5). According to UK5, in 2010, 80 British and 20 Northern Irish companies participated in Erbil Trade Fair in Kurdistan Region and since then UK MNCs have started to monitor the Kurdistan market's investment opportunities. According to one participant (UK5), in 2010 *'the largest number of British companies ever participated in a foreign Trade fair'*. Furthermore UK5 suggested that after the 2010 trade mission to Erbil, *'it proved that Kurdistan Region is a special place and most definitely a safe and secure place where UK companies can and should do businesses'*. According to UK4, *'Northern Irish companies are already participating in the bidding process and the next step is to win the bids'* but they are unable to secure projects. However, this research does not provide evidence that UK MNCs have committed to long term investment in Kurdistan Region. It was found in Document Four of this study that, because of associated risks (e.g. political risks) involved in

investing in Kurdistan Region, most MNCs (especially from the EU and USA) are not willing to commit to long term investment in the region (Bartov et, al, 1996; Jones, 2007) .

According to one participant (UK3), *'because Kurdistan Region is part of Iraq, the overall image is about Iraq and Baghdad, and Iraq's past history and current unstable situation have created an unfavourable environment for FDI consideration (Hamilton and Webster, 2009).* In contrast, UK4 suggested that *'now, most British companies know Kurdistan Region is different to the rest of Iraq'* which is why *'they encourage UK MNCs to set up their companies in Kurdistan Region to familiarise themselves with the market'*. However, according to UK7 the Region's future political complexity poses a real risk to long term investment, therefore Kurdistan Region only offers short term investment opportunities (UK1).

Taking into account other UK participants' viewpoints, UK1, UK3, UK6, UK7, and UK8 believed that the complexity of the region and its long term political risks prevented UK companies from making long term investment in Kurdistan Region. UK1 believed that *'the risk is not only from regional level but also from Central Government regulations too'*. This is supported by Bartov, et al (1996), Hamilton and Webster (2009) , and Jones (2007) who suggest that the unstable situation at national level (Iraq) may affect Kurdistan Region's attractiveness, preventing MNCs' long term investment (high-resource investment) in the Region.

However, in contrast, other participants believed that the reasons for British companies not entering the Kurdistan market were *'entirely to do with the price'* (UK4) and *'the quality of project and health and safety issues'* (UK5). Some UK participants believed that the quality of projects is the main negative contributory factor which prevents UK MNCs from operating in Kurdistan Region (UK4, UK5). UK4's view is that because British companies offer high quality products and services at higher prices, *'the reason for British companies' not entering Kurdistan Region is not the risk factors but it is entirely to do with the price'*. The analysis of this research project, suggests that lack of a banking system, corruption and transparency in the bidding process are other reasons for UK MNCs not being able to secure contracting projects (UK1, UK4, UK5, UK7, and UK8) (Habib and Zurawicki, 2002),

UK MNCs cannot compete with neighbouring countries' MNCs, especially those from Turkey. UK participants believe this is because Turkish companies offer lower priced

products and services of lower quality whereas *'UK MNC's offer high quality standards product and services at higher prices'* (UK3). In contrast, T1, T3, and T4 suggested that, the reason for EU MNCs' failure to compete with Turkish companies is that we (Turkish companies) are neighbours, and *'we have easy access to the region, cultural similarities (T3), and our companies are faced with lower operation and logistics costs'* compared to Europeans companies (T4). T3 claimed that associating Turkish MNCs with low quality products and services is *'an insult not only to Turkish MNCs but to all those countries to which Turkish MNCs are offering their service and products'*. Furthermore, another Turkish participant believed that the quality of products and services depends on the prices of projects which are set by KRG, not Turkish companies. He stated that *'KRG needs to higher their quality standards and of course it will come in higher prices'* (T2) therefore it is nothing to do with Turkish companies but *'it is more down to KRG standards and quality controls'* (T3). The low quality projects are confirmed by the KRG official (K1) who suggested *'we are going to raise our standards'* to create a more competitive market for European companies.

UK1 believes that the best option for British companies is to have strategic partners with Turkish MNCs where UK MNCs can provide project management and execution can be carried out by Turkish partners. This is because, he believes, British companies may not be interested in becoming involved in some projects because they are *'risk averse'* (Jones, 2007) but there are certain projects in which British companies are interested (e.g. construction design and engineering). Furthermore UK3 suggested *'there are some sectors for which British companies can provide where Turkish companies can't deliver such as advanced architecture design, healthcare and security, and education'*. According to UK3, Erbil International Airport is a successful example of British Engineering Design and Turkish execution.

4.2.1. Summary of the Key Findings

Both UK and Turkish participants agreed there are vast business opportunities in Iraq as a whole and Kurdistan Region in particular, mainly because of the rich natural resources, in particular oil and gas. According to one participant (UK4), from a business point of view Kurdistan Region is defined as having *'potential'*. The Region's high level of security, good investment law, friendly policies toward FDI and the Region being the gateway to the rest of

Iraq are considered as the its advantages (UK1, UK2, UK3, UK4, UK5, UK8, T1, T2, T3, and T4) which is in line with the findings of Documents Three and Four.

Turkish MNCs are among the highest number of companies to have entered Kurdistan's market (Table 1, p.18). Based on analysis, the reason is closely associated with their cultural similarities and the fact that Kurdistan Region and Turkey are neighbours, resulting in lower operation costs. However, Turkish MNCs' operation in the region is mostly trade and lacks long term investments.

Nevertheless, the analyses of this paper suggest that despite the many business opportunities, investing in Kurdistan is also associated with a high level of risk. Although there were mixed views about the reasons for lack of foreign long term investment in Kurdistan Region, the analysis of this study, in line with the findings of Document Four, suggest that political instability has had a significant impact on MNCs' decisions not to invest in the region. In the next section of this chapter the author analyses the political risks in more detail.

Based on the analysis of this research project, both the UK and Turkish governments have played a central role in encouraging companies to enter Kurdistan Region's market. The Turkish government made a 'strategic decision' to strengthen its relations with Kurdistan Region and although in the beginning UK government did not want to upset Central Government by involving UK companies in Kurdistan Region's market, the analysis suggests that the British government is now playing an encouraging role.

The analysis also suggests that UK MNCs have taken steps to enter the market and are willing to operate in the Kurdistan market if KRG is willing to raise the quality of their projects. This will enable UK MNCs to compete with Turkish companies, especially in construction and architecture design projects.

4.3. Political Risks

One reason for low inflow of FDI into some low-cost countries (e.g. emerging or Middle Eastern countries) is that these countries exhibit a high level of political risk (Aguiar et al, 2012; Lucas, 1990) and political risk is a critical factor that, to a great extent, reduces the attractiveness of host countries for FDI consideration (Alfaro et al, 2005; Aguiar et al, 2012). According to a number of participants (UK1, UK3, UK6, UK7, UK8, T1, T2, and T3), in most developing countries you need a deep market analysis to see what the real risks are, and

in regard to investment in Iraq and Kurdistan Region they believe that, in general, investing in Iraq is closely associated with political risk which means that KRG is unwilling or unable to guarantee a favourable long term business and investment environment to foreign investors at present which could deter high-resource foreign investment in the region (Douglas and Craig, 2011; Heinsz, 2002; ; Kaya, 2014; Papadopoulos and Jansen, 1994; Whitelock and Jobber 2004).

UK1 suggested that, because of the complexity of the political process, both in the Region and in Iraq as whole, Kurdistan Region may offer only short term investment opportunities, but these complexities are affecting MNCs' mode of entry, preventing high-resource investment in the Region (UK7) (Al-Khoury and Abdul Khalik, 2013; Brown, 2005). Furthermore, some participants (UK3, UK5, UK6, and UK7) suggested that these complexities at the regional level are as result of Iraq's violent history between Kurds and Central Government and the unstable political relations between Central Government and KRG, as well as the unclear political process in Iraq as whole and Kurdistan Region in particular. The current unstable political relations between KRG and Central Government are a result of disputes over power and authority given to regional government and the production of oil and gas in the region (UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, T1, T2, T3, and T4) and there *'doesn't seem to be a solution for it and definitely no foreign investor (from UK) is heading toward Iraq'* (UK7). These participants claimed that although KRG and Central Government's dispute is only over the production of oil and gas, there is always a risk as one participant suggests, asking *'what is the guarantee that in the future Central Government regulation does not affect other sectors as well?'* (T1). These factors present KRG with great challenges in attracting foreign investors into the region (Collier and Hoeffler, 2000; Hamilton and Webster, 2009; Ismael and Ismael, 2005; Jenson and Young 2008; Kehl, 2010; Klein, 2004; Rangwala and Herring, 2005; Zheng, 2012)

As Kurdistan Region is part of Iraq, in addition to regional regulations, foreign investors should also take into consideration the effect of Central Government's regulations which can affect the level of FDI inflow into the region (UK1, UK3, and UK8). This is because the political features and regulations, especially at a national level, play a central role in multinational the decision making processes of companies wishing to invest in the region (Henisz, 2002; Jenson, 2003; Shneider and Frey, 1985). This was confirmed by UK1 who stated that, *'although technically, the legislations in Kurdistan Region are equal to*

legislations in other parts of Iraq (Central Government) foreign investors know it is not true'. Furthermore he suggested that to invest in Kurdistan Region, *'foreign companies should take into account the structure of federal Iraq and to what extent federalism properly exists'* because, *'in practice federalism and autonomy of Kurdistan Region do not exist'* (CG1). Therefore, foreign investors should consider Central Government's regulations, in addition to regional level regulations, before investing in the region and deciding the mode of entry (Henisz, 2002; Jenson, 2003; Shneider and Frey, 1985).

UK6 suggested that *'Kurdistan market is not a common market'* as it is part of Iraq and the country's history of violence and the overall current situation in other parts of Iraq create uncertainty among foreign MNCs (UK1, UK3, UK4, UK5, UK7, UK8, T2, T3, and T4). These uncertainties pose future political risks to foreign investors. The analysis of Documents Three and Four also suggests that Iraq and Kurdistan Region's unclear long term political process was identified as the veto factor which has prevented many foreign MNCs from investing in the region. According to UK2, *'nowhere is totally safe for business'*, but *the region's long term political vision and issues create uncertainty among foreign investors*'. Furthermore, one participant went further to suggest *'there is no future stability ahead, politically'* (UK7) which prevents long term foreign investment in the region which is supported by Collier and Hoeffler (2000), Jenson (2006), and Jenson and Young (2008).

From the participants' points of view, the current uncertain political process in other parts of Iraq could be a result of a number of factors. According to one participant, *'the on-going sectarian fighting, major sectarian split between Shi'as and Sunnis in the south and ethnic conflicts in the rest of Iraq'* are creating an unfavourable environment for foreign investors (UK7 and T3). UK5 stated that *'the reality is that you have a lot of sectarian split and ethnic conflict between Sunnis and Shi'as ... and there is no sign of if stopping'*. Therefore, Iraq's violent history and the current unstable situation in the rest of Iraq could be an indication that, as UK7 suggested *'there may be a war so everything is possible in the region'*. This is because there is a positive relationship between ethnic diversity and civil war, especially when major groups are competing with one another (Collier and Hoeffler, 2000). These risks can be in the form of political risks (Aguiar et al, 2012), change in government policies, government intervention and contract renegotiations (Smith-Hillman and Omar, 2005).

Analysis of the findings of this research project suggests that most participants believe there is a long way to go for Iraq to become a stable market for FDI consideration (UK7) and Kurdistan Region, being part of Iraq, is not ideal for long term investment (UK1, UK3, UK4, UK5, UK6, UK7, UK8, T1, T2, and T4). They believe this is because of the region's political complexity and its effect on long term foreign investment which is supported by Aguiar et al (2012), Al-Khourri and Abdul Khalik (2013), and Lucas, 1990, Therefore, investing money in Kurdistan Region in the current situation means *'throwing money away because there is no guarantee of the return of investment in the region* (UK6)'.

Furthermore, other participants in Turkey, Iran, and Syria are also involved in the long term political complexity of Kurdistan Region (UK3, UK4, UK5, UK7, and T3) as what one participant described the *'independent Kurdistan'* (UK5). According to UK1 *'four years ago KRG officials never talked about independence'*, but now four years on, the situation of the Kurdish population in Turkey and Syria has changed and they are talking about *'their aspiration for independence'*. However in contrast, according to UK6, due to the region's unstable political process the *'business environment there is not sufficiently solid, and the Kurds' issues, in Iraq, Turkey, Syria and Iran, it is pretty obvious that there must be a chance that Kurdistan state entity does not have a future'*. The contradictions between KRG's aspirations and the reality of improbability are also affecting the level of inflow into the region. Furthermore, according to participants' views the neighbouring countries' political situations, in particular Iran and Syria, also concerns MNCs. They believe Iran's situation regarding nuclear production, and the future of the Kurds in Syria and Turkey also pose further political risks to foreign investors (UK4, UK7, UK8, and T3).

The country's oil and gas should to be greatly beneficial to its economy, but it is poorly governed and has become the focus of violent conflict (Khel, 2010). This view is shared by most participants who believe that the production of oil is the source of KRG and Central Government's disputes and although this may not have resulted in direct conflict it has created tensions between KRG and Central Government's administration (UK1, UK3, UK4, UK5, UK7, T2, T3, and T4). These tensions led Central Government to take practical action by blacklisting all oil companies which invested in Kurdistan Region's oil and gas sector. This is supported by previous empirical studies (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humphrey, 2005; Kehl, 2010) which suggest that natural resources in authoritarian countries increase the possibility of civil conflict, particularly in less developed countries.

One participant (UK9) suggested that *'unless KRG and Central Government are to reach an agreement over the production of oil and gas the tension will grow'*, which could create political risks for foreign investors. The tensions between Central Government and KRG over the production of oil and gas proved to be an important factor affecting the level of FDI inflow into the region. UK4 stated that *'we are keen to watch oil companies' issues with Central Government'*. This is an important factor because it could be a good indication of future political uncertainty affecting the level of FDI in the Region (Kehl, 2010) and this future political uncertainty, as what one participant (UK7) stated, *'has affected long term foreign investments in the region'*.

Some studies suggest that, despite the political risk involved in investing in Middle Eastern countries, the net benefit of foreign direct investment in emerging countries outweighs these risks (Delios and Henisz, 2003a). In the case of the Kurdistan market, one participant (UK6) suggested that *'the Kurdistan market is not a common market and the common element of common market is not coming with it'*, agreeing with UK4 who suggested that *'despite all the risks, we want to be the first to enter the market (Kurdistan Region), this is due, according to another participant, to that fact that by investing in Kurdistan 'the rewards are huge and it is very profitable to be here (T3)'*. This is in line with Butler and Joaquin, (1998) who suggest that foreign investors require a higher rate of return to invest in politically risky locations. Despite all the associated risks, the high rate of return could be the reason for some multinational companies still being willing to invest in less developed countries (Delios and Henisz, 2003a). In the case of Iraq and Kurdistan Region this is evidenced especially in investments in the oil and gas industry (T3, UK7).

4.3.1. Summary of the Key Findings

While Iraq and KRG offer business prosperity to foreign investors, the complexity of the political process in Iraq as a whole has a direct impact on the level of FDI inflow into the region. Kurdistan Region's unclear long term political vision and the Kurds' issues in Iran, Syria, and Turkey, are also considered by foreign investors to be political risks to their investment in Kurdistan Region that is affecting MNCs mode of entry.

Kurdistan Region has implemented a very friendly competitive investment law in addition to their openness and positive attitude toward FDI, however the Region's regulations alone are not considered by foreign investors; they also consider Central Government policies toward

FDI. Central Government's action against the production of oil and gas in Kurdistan Region is an example of the impact of Central Government's regulations over the regional government on the process of FDI in Kurdistan Region.

The ongoing dispute between KRG and Central Government over the production of oil and gas is also highlighted by participants as a concern to foreign investors. The analysis of this research project suggests that, until the dispute is resolved it is considered a political risk to long term foreign investment.

The country's history of violence with neighbouring countries, externally and between the Kurds and Central Government, and ethnic conflicts between Sunnis and Shi'as and the current unstable political situation, and the ongoing sectarian violence are all considered to be indications of possible future conflicts in the country. They are considered as political risks to long term investment in Iraq as a whole and Kurdistan Region in particular.

All the above mentioned factors are considered by foreign investors before they invest in the region. The analysis of Document Four also suggests that political risk is a veto factor deterring foreign investors from committing to long term investment in Kurdistan Region. Therefore the analysis of this study suggests that the Region's high degree of political risks has a direct impact on the level of FDI inflow into the region as well as MNCs mode of entry preventing MNCs high-resource commitments in the region.

The next stage of this chapter analyses the effect of the country's risks on the Kurdistan market's attractiveness for FDI consideration.

4.4. Country Risks

There is no accurate data regarding the overall economic activities and the real GDP of Iraq as whole and Kurdistan Region in particular, which examines the country's current economic situation (Documents Two, Three, Four and Five). This is important because, from the perspective of foreign investors, the host country's level of economic development (GDP), the government's current account balance, and the level of the country's debt are all significant determinants of a country's risk (Cosset and Roy, 1990; Feder and Uy, 1985; and Lee, 1993).

Our analysis reveals that MNCs pay special attention to Kurdistan Region's market risks. While the Region presents good investment opportunities to foreign investors, there are some risks associated with investing in it. These risks are, as T1 and UK7 suggested, that Iraq and Kurdistan Region like all other developing and Middle Eastern countries carry a high level of *'political and market risks'* (UK7). These risks are considered as negative contributory factors to the level of FDI inflow into the Region (Bartov et al, 1996; Reeb et al, 1998; Jones, 2007).

The market risks can occur in the form of what Jones (2007) refers to as the Region's interest rate risk, market risk, inflation risk, business risk, liquidity risk, and exchange rate risks. T1's view is supported by Cosset and Roy (1990), Feder and Uy (1985), Hoskisson et al (2000), Lee (1993), Malhorta et al (2009), Papadopoulos and Martin (2011), and Whitelock and Jobber (2004). They suggest that MNCs require the *'host country's (Kurdistan Region) market condition's detailed analysis'* because, as UK6 suggested, MNCs want to know *'if their investment is an economically viable one which is sustainable and stable'*. Furthermore from an economic point of view, UK6 suggested investigating *'if the market has a transparent tax regime, exchange control, absolute power of repatriate capital and repatriate dividend, and minimum tax in and out of host market'*.

Kurdistan Region's market risks, lack of banking system and lack of payment efficiency is highlighted by most of the participants (T2, T3, UK1, UK4, UK5, UK6, UK7, UK8, and UK9). The analysis of this study suggests that there is a serious lack of efficient banking system for national and international transactions presenting MNCs with difficulties. According to T2 *'we have received complaints from our clients about the region's lack of banking efficiency and delayed payments toward their projects in Kurdistan Region'*. The analysis of this study is supported by Habib and Zurawicki, (2002) and suggests that the lack of banking system and delayed payments are negative contributory factor toward the process of FDI in Kurdistan Region.

The analysis of this research suggests that although some of the participants highlighted the importance of economic activities, they do not study a deep market analysis process to evaluate Iraq and Kurdistan market condition. This is supported by Sarasvathy (2001) and Zheng (2012) who suggest that when evaluating a foreign market for possible investment, managers rely on their own experience rather than a deep market analysis. According to

participants, their evaluation of Kurdistan Region's market is not based on a deep economic analysis of the Region but on its development. In this regard, UK8 suggested it is because the Kurdistan market is a new and developing market and *'it is developing a lot faster than any other Middle Eastern country in the region'*. Furthermore, the Region's competitive investment law which gives foreign investors great control of their investment capital with very low tax (Documents Three and Four), government openness toward FDI, a high level of security compared to the rest of the country, and vast business opportunities in the region are the bases for their judgment.

The Region's high revenue from oil and gas, resulting in higher domestic income has also resulted in higher demands (Schneider and Frey, 1985; Tsai, 1994). According to UK5, *'Kurdistan Region is a very promising market because of the 17% of Iraq's oil revenue sharing part of federal budget'*. The Region's financial resource (the revenue from oil and gas) has played an encouraging role in attracting MNCs into the Region (T3 and T4). UK1 suggested that Kurdistan Region is a very complex market but *'is very impressive with financial resources and it seems they have the money to invest in projects'* (UK6), and *'that's why we encourage British MNCs to consider Kurdistan Region as a potential market'* (UK1, UK5). Furthermore, UK5 believed the revenue generated from oil production is *'wisely spent on construction, transport and other sectors'* presenting good investment opportunities for British companies. The revenue from the Region's rich natural resources (oil and gas) and its openness to foreign investment have given it a strong position (Middle East Monitor, 2012) nevertheless, there is a source of disagreement between the KRG and Central Government over the production of oil and gas in Kurdistan Region which is supported by the findings of Kehl (2010) and Jensen and Young (2008).

According to UK4, despite all the associated market risks involved in investing in Kurdistan Region, some companies have already *'started to participate in bidding mainly for construction and architectural design projects in Kurdistan Region'* (UK4). However, the existence of market risks and other associated risks prevented MNCs' long term investment in the Region, and in this regard UK6 claimed that *'long term investment in Kurdistan Region means giving money away'*. This resulted in a lack of British companies' long term investment in Kurdistan Region (UK6, UK7) because of all the associated risks involved in investing in the Region (Jones, 2007; Moran, 1998).

According to the literature, and the analysis of this research project, Kurdistan Region poses market risks to long term foreign investment because *'it is impossible to predict the future of Kurdistan Region's market'* (UK7). However, when it comes to investment, UK1 believes *'the world economy as a whole is a great risk'*, and investing in most Middle Eastern countries carries some degree of risk (UK1, UK5, UK7, UK8, UK9, T2, T3, and T4). Also, because Kurdistan Region is a *'very promising market ... which has potential'* (UK5) ... *it is very profitable to be in Kurdistan market, (T3), and 'that's why we want to be the first in the market'* (UK5). Nevertheless, to date there is no evidence of any long term investment in the Region except in oil and gas, and foreign MNCs are mostly exporting and contracting businesses in Kurdistan Region (UK5, T2, T3, and T4).

4.4.1. Summary of the Key Findings

Lack of accurate data about Iraq as whole and Kurdistan Region's market activities in particular, made it impossible to analyse Kurdistan Region's economic activities. However, despite this the analysis of this research project suggests that multinational companies are interested in the Kurdistan market and are willing to become involved in short term and low risk projects (low-resource commitments).

The analysis also suggests that the sample population do not follow a deep market analysis in their evaluation of the Kurdistan market. It also indicates that investing in the Kurdistan market, like other Middle Eastern countries, contains some degree of risk. Most participants avoided focusing on market risks involved in investing in Kurdistan Region in more detail. The participants' focus was on the Region's huge financial resources generated from the production of oil and gas, and they believe the Region's is *'a new and developing market with business potentials presenting good business opportunities to foreign MNCs'*. The analysis also suggests the participants of this study are playing a positive role in encouraging inward investment into Kurdistan Region.

The analysis of this research project, in line with the findings of Documents Three and Four, suggests that country risk is one of the factors preventing MNCs from investing in the region.

The next section explores the advantages and disadvantages of investing in Iraq and Kurdistan Region. As Kurdistan Region is part of Iraq, and the situation in the rest of Iraq has a direct impact on the Region's attractiveness for FDI consideration, it was not appropriate to

treat Kurdistan Region and the rest of Iraq as two independent locations when reviewing the advantages and disadvantages.

4.5. Advantages of Investing in Iraq and Kurdistan Region

Kurdistan Region is a sustainable part of Iraq with a high level of security and a booming economy compared to the rest of Iraq (Galbraith, 2003). The region's rich natural resources, especially oil and gas, are also considered to be an encouraging factor in the process of FDI in Kurdistan Region and this is supported by O'Leary et al (2005). KRG's positive attitude and the implementation of many friendly policies toward FDI, together with the Region's competitive investment law are also considered as its advantages (this is in line with the analysis of Documents Three and Four). These advantages are confirmed by participants of this research project (UK1, UK2, UK3, UK4, UK5, UK8, UK9, T2, T3, and T4). Furthermore, according to one participant (UK1), KRG implemented '*more practical investment and custom law compared to the rest of Iraq*' and another participant (UK4) claimed, '*the effort by KRG toward FDI is much more effective compared to Baghdad administration*'. These are also considered as contributory factors toward the process of FDI in Kurdistan Region.

The country's financial power, generated from its oil reserves, makes it a more prosperous location for foreign investors (Radler, 2002). However, due to the lack of security in central and southern parts of Iraq one participant believed that '*engagement is always limited*' (UK1) and another participant went further and stated '*operation in central and southern parts of Iraq is almost impossible*' (UK4). Thus, Khalaf and Sieff, (2009). suggests that those MNCs which enter Iraq mostly focus their energies on Kurdistan Region This is because, due to the lack of security in the rest of the country or the lack of data about Iraq's market condition, foreign investors entering the market tend to base their companies in the Kurdistan Region. Johanson and Vahlne (1997) suggest that this is so that they can gain knowledge about Iraq's market and distribute to the rest of the country once the country is more stabilized (Uppsala Theory). However, this is also considered as an advantage for the Region, although this may change once the situation in the rest of Iraq is more stabilised.

Since 2003, while Central Government has been heavily engaged in fighting insurgency and dealing with ethnic conflicts (between Shi'as and Sunnis), Kurdistan Region's stability compared with the rest of Iraq has offered foreign MNCs a gateway into Iraq (K1). K1

suggested that *'we are open to business'* and another KRG participant suggested that we are allowing foreign companies, *'to open offices in the Region just to familiarise themselves with the market'*; in other words to gain knowledge about the market (Johanson and Vahlne, 1997) and distribute to the rest of Iraq once the country is more stable to commit high-resource investment (Uppsala theory). This view is shared by some participants of this study, and according to a number of interviewees (UK1, UK2, UK3, UK4, UK7, T1, and T4), Kurdistan Region has the advantage of security compared to the rest of Iraq and this has led to the Region becoming the gateway to the rest of Iraq. Therefore most foreign investors who are interested in Iraq's market intend to *'base their company in the region and distribute to the rest of Iraq once the country is more stabilized'* (UK4).

Kurdistan Region is located in the north of Iraq, and from an investor's point of view, its geographic advantage is a unique attribute (distribution channel) compared to the rest of the country, especially its borders with Turkey. This is important as one participant from Turkey stated *'Turkey is the last stop for Iraq to access Europe'* (T3) and because Iraq's economy relies largely on its oil exports, *'Iraq's oil pipelines stretch from Kurdistan through Turkey to Europe'* and that is *'the only way for big oil companies to take their production from Kurdistan to the world market'* (T3). UK3 claimed that KRG's improved political relations with the Turkish government has led to a *'pipeline being built to link Kurdistan Region's oil to Europe through Turkish soil'* which is considered an advantage for Kurdistan Region.

KRG's good political relations with Turkey have also contributed positively toward attracting a large number of Turkish multinational companies to the Region. T3 suggested that the Turkish government and Kurdistan Region's good political relations are the *'government's strategic decision'* ... *because we have a common vision for the future ... full social and economic integration'*. Another participant suggested that good political relations with KRG, especially after 2007, resulted in *'regular visits from officials from both sides which has encouraged businesses'* (K3). According to one participant, KRG and the Turkish government's relations are so advanced that *'for the first time we have been instructed (by the Turkish government) officially to call northern Iraq Kurdistan Region'* (K4) this has never happened before.

The Region's good political relationship with Turkey was also highlighted by UK3 who stated *'The Turkish government and the Kurds have historical issues ... but what I have seen*

over the last few years is that Turkey has gone from being a suspicious neighbour to being an engaging neighbour ... and by putting economy first, politics has followed'. However he believed because Kurdistan Region's relationship with Turkey is based on economics '*it is a win / win situation for both*'. According to this participant, this has also contributed positively to the level of FDI inflow into Kurdistan Region, both from the UK and Turkey.

According to the KRG officials, KRG is committed to a more democratic governance unlike the Middle Eastern 'authoritarian' governments. This was mentioned by one participant (UK3) who stated that '*the Kurds embraced democracy voluntarily*' which could encourage FDI inflow to the Region. This is supported by Moore, (2003) and Li and Resnick, (2003) who suggest there is a positive relationship between the level of FDI and democratic countries.

Kurdistan Region is a new market with huge financial resources generated from oil and gas and is a relatively stable part of Iraq which gives it an advantage. Despite being part of a post conflict region, it offers business opportunities in many sectors to foreign investors. This was highlighted by one participant (UK4) who stated that because of the vast business potential in Kurdistan Region '*we want to be the first to Kurdistan to get a better deal*'. This is also considered an encouraging factor in the process of FDI in Kurdistan Region. This is not to say it is not also the source of conflict which is discussed in previous section (political risks).

4.5.1. Summary of Key Finding

Iraq's large oil reserves, vast business opportunities and good investment law are considered to be positive contributory factors in the process of FDI, if the country's overall political process and security is stabilised.

The Region's rich natural resources, in particular oil and gas, competitive investment law, and KRG's openness and good attitude toward FDI, its good geographic location, and its high level of security compared to the rest of Iraq, are considered as the Region's main advantages to encourage foreign investors.

Kurdistan Region is a more stable part of Iraq, offering foreign investors a safe business environment in which to base their companies (low-resource commitment), to have a better understanding of Iraq's market with a view to distributing to the rest of Iraq (high-resource commitment) once the country is more stabilised (Uppsala theory). This has led the Region to

become the gateway to the rest of Iraq which in the short term is to Kurdistan Region's advantage regarding FDI considerations.

Its good political relations with Turkey have contributed positively to the level of FDI inflow into the Region. In addition, its efforts to establish a more democratic political process have also given it an advantage.

Being part of a post conflict country (Iraq), Kurdistan's enormous oil and gas resources also mean there is a need for immediate construction in all sectors, which could create investment opportunities for foreign investors in different sectors.

4.6. Disadvantages of Investing in Iraq and Kurdistan Region

Multinational companies prefer to invest in more stable economies (Janeba, 2002). For foreign investors, Middle Eastern countries offer both opportunities and risks (Middle East Monitor, 2012), mostly with authoritarian regimes which can pose political and market risk to long term foreign investment (Janicki and Wunnava, 2004). The recent Arab uprising, current conflicts in Syria and threats from so-called Islamic State (IS) are clear examples of how fragile a situation can become.

Taking Iraq into consideration, while the country offers business opportunities to foreign investors, it also carries a level of risks. This was confirmed by one participant (UK1) who claimed '*there are fantastic opportunities across the whole of Iraq, but engagement is always limited by heavy bureaucracy (certainly in the south), lack of a stable political process, various political parties and balance of power.*' According to the participants of this study, like all other Middle Eastern countries, when investing in Iraq the risks are part of the deal, including property rights (Jenson and Young, 2008; Olson, 1991)

The analysis of this study reaffirms that, because of its past violent history, Iraq does not have a good image for FDI consideration, and as Kurdistan Region is part of Iraq, from the foreign investor's point of view the overall picture is that Iraq and Baghdad's situation affect Kurdistan Region's attractiveness for FDI consideration.

The analysis of this study suggests that Iraq's history of violence and the current ethnic conflicts (especially between Shi'as and Sunnis) which one participant believed '*there is no sign of it stopping*' (UK4), have created an uncertain environment for foreign investors.

Another participant (UK7) went further and stated '*there is no future stability ahead of Kurdistan Region, because the conflict with Baghdad is open and there does not seem to be any long term solution*' which is '*preventing long term foreign investments*'. Furthermore, one UK participant (UK8) stated that, '*although British companies have come to realise that Kurdistan Region is not like other parts of Iraq, the overall image is about the whole of Iraq, and there is a long way to go to see a stable Iraq*'. This is in line with Collier and Hoeffler, (2000) who suggests that the country's history of violence and internal conflicts, and the current ethnic conflicts (between Shi'as and Sunnis) are clear indications of potential future violence in the country. This could affect the level of FDI inflow into the Region as well as MNC's modes of entry (Brown, 2005; Dlabay and Scott, 2006; Yalcin and Sala; 2014; Ismael and Ismael, 2005).

Moran (1998) suggests that political risk is nothing more than uncertainties affecting the level of FDI into the Region. According to one participant (UK8) '*the unclear political process in Iraq as a whole and Kurdistan Region in particular*' has created an uncertain market for foreign investors. Therefore, the analysis of this study suggests that the unstable political situation in the rest of Iraq is considered to be a negative contributory factor affecting the process of FDI in Kurdistan Region. This is supported by Henisz, (2000), Jenson, (2003), and Shneider and Frey, (1985) who suggest that the host country's political process, especially at a national level, plays a central role in multinational companies' decision making processes when deciding whether to enter a market and their level of commitments (Yalcin and Sala, 2014).

The dispute between KRG and Central Government over the production of oil and gas is also highlighted as a negative contributory factor affecting the level of FDI inflow into the Region. This was highlighted by some participants, and one interviewee (UK7) suggested that '*we read the current situation and we are very keen to watch oil companies' issues with Central Government*' because, as another participant (UK1) suggested, '*there is no guarantee that Central Government will not block investment in other sectors in Kurdistan Region as it did with the oil industry*'. This is in line with the findings of Kehl, (2010) who suggests that while the natural resources (oil and gas) are greatly beneficial to a country, in less developed countries they can also lead to disagreements and possible civil conflict (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humpherys 2005).

The high levels of corruption and bureaucracy were also highlighted as disadvantages affecting the process of FDI in Kurdistan Region (Brown, 2005; Klein, 2004; Ismael and Ismael, 2005; Rangwala and Herring, 2005). Unlike one KRG official who stated that corruption is hardly mentioned by foreign investors (Document Three), several participants highlighted the existence of corruption in Kurdistan Region and its impact on the process of FDI. Comparing Kurdistan Region to Iraq regarding the level of corruption, one participant (UK7) claimed that *'I don't get the impression that there is less corruption in Kurdistan Region than in the rest of Iraq and it is a big problem'* affecting foreign investors in the Region.

According to the analysis of this research project, the lack of transparency in the bidding process for KRG projects is also considered to be a negative contributory factor regarding UK MNCs' involvement in Kurdistan Region's market. One participant (UK5) stated, *'like the rest of the Middle Eastern countries, in Kurdistan who you know will affect the outcome of bidding for contracts'*. Furthermore the analysis suggested that some powerful political figures can affect the outcome of the bidding process and in Kurdistan Region to seal a deal you need certain powerful politicians' approval' (Habib and Zurawicki, 2002). The significant effect of corruption and lack of transparency of the bidding process in Kurdistan Region is evidenced in the response of one participant (UK4) who was asked if UK MNCs want guarantees from KRG for their investments. He replied *'no guarantee is required, all we ask is a fair and transparent business and bidding process'*.

According to the participants of this study, the lack of a banking system and the limited financial sector in the Region, the delay and complexity of payment processes, and the Region's unclear financial system are also considered to be disadvantages for the consideration of the Region for FDI. Most participants highlighted that there is no major international bank in Kurdistan Region and to explain its impact on the process of FDI in Kurdistan Region one participant claimed that this is a testimony to how risky the Kurdistan market is (UK7). Furthermore, one participant (T3) believed that the lack of a banking system is *'one of the sources of corruption'* (T3) because *'if the payment transactions would have been through banks it would have been a more transparent'* process (T4). This is in line with Kwok and Reeb (2000) who state that emerging markets have potentially greater payment risks (lack of effective banking system). Therefore, the lack of an international bank in

Kurdistan Region, resulting in lack of efficient and transparent payment transaction, is considered as a disadvantage in the process of FDI in the Region.

4.6.1. Summary of the Key Findings

The findings of Document Four, and analysis of this research project, suggest that KRG is still suffering from inefficiency, corruption, the interference of certain political parties in the political process, and lack of a fair, healthy and competitive business environment at the regional level, which is affecting the level of FDI in to the region as well as MNCs modes of entry.

According to the analysis of this research project, in line with the finding of Documents Three and Four, the political, economic and security instability in the rest of Iraq also has a direct impact on the attractiveness of Iraq's Kurdistan Region regarding FDI consideration. The instability of the political process has resulted in a high level of corruption, creating an unfavourable environment for FDI consideration. Therefore, the unstable situation in the rest of Iraq also contributes negatively to the level of FDI inflow into Kurdistan Region.

The unclear future political vision of Iraq as whole and Kurdistan Region in particular, the past violent history of Iraq, current ethnic conflicts, sectarian violence, KRG and Central Government's disputes over the production of oil and gas, resulting in long term political risks are also considered to be disadvantages in the process of FDI in Iraq as a whole and Kurdistan Region in particular.

This study continues with a review of stakeholders' market evaluation and decision making regarding Kurdistan Region's market.

4.7. Stakeholders' Market Evaluation and Decision Making regarding Kurdistan Region's Market

Evaluating a foreign market is a very crucial and often very complex process (Kuo et al; 2012; Meyer, 2004). It is crucial because the success and failure of expanding into a new market is governed significantly by the time and mode of entry. Furthermore, the evaluation of the target market depends, to a great extent, on the information available on that specific market. Given the unavailability of accurate data for Iraq's market as whole and Kurdistan Region's market in particular, the process of evaluation is made very complex. However, in

the new globalised and very competitive business environment, despite the difficulties, companies are forced to find a new foreign market to continue their operations internationally (Wood and Robertson, 2000).

According to the literature, evaluating a new foreign market normally requires adopting a sequential approach, starting by focusing on the host country's macro-level data for detailed assessments (Craig and Douglas, 2005; Kumar et al; 1994). This will provide the basis for ranking countries for foreign investment attractiveness (Douglas and Craig, 2011). However, the analysis of this research project contradicts these theories and suggests that almost all participants' decision-making processes to evaluate the Kurdistan market were based on their *'own personal experiences rather than a systematic approach'* (UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, UK9, T2, T3, and T4).

There is a vast amount of literature on managers' decision-making processes based on a systematic approach, or what Buckley et al (2007) term 'rational calculative approach'. According to rational approach, firms' decision making is based on data available from various valid databases about the host country's market conditions. However, the information provided by interviewees suggests that the decision making process for evaluating Kurdistan's market is based on their own experiences (UK1, UK2, UK3, UK4, UK5, UK6, UK7, UK8, UK9, T2, T3, and T4) or what Sarasvathy (2001) terms 'intuitive approach'. According to this approach firms' decision making is based on their managers' own experiences of a specific market.

The reason for UK participants' evaluation of Kurdistan market being based on *'their own personal experiences'* (UK1) is that, they believe in *'physically and actually going out there (Kurdistan Region) with companies to see the situation myself'* (UK4). Furthermore, according to Turkish participants, the Turkish government's strategic decision was an encouraging factor in engaging Turkish MNCs in the Kurdistan's market, not a detailed market analysis. Thus, the Turkish government realised that *'Kurdistan Region has the resources that we need (oil and gas)'*. UK4 stated, *'we decided to be the first in the market'* because it is *'very profitable'* to be in the Kurdistan market (T3) without a detailed analysis of market (systematic approach).

The analysis of this research project suggests that although most participants contemplated a 'rational approach', their main source of decision making in evaluating Kurdistan Region's

market was their own personal experience. The analysis of this study is in line with and Buckley et al, (2007) and Sarasvathy (2001) who believe some of MNCs' decisions are made based on managers' own experiences. One interviewee (UK4) explained the process of identifying, investigating and entering Kurdistan's market as follows: *'my decision process was formed after participating in one of KRG's trade and investment conferences in London ... and it was followed by my interest in Kurdistan Region's business potential ... I asked NI survey to look at the area ... the next step was to visit Kurdistan in 2010 ... and seeing the region and realising KRG's vision in 5-10 years'*. UK3 suggested that *'we did not look at any data about Kurdistan Region'* NI's survey was to *'investigate Kurdistan Region's resources (oil and gas), tourism and agricultural wealth ... then we looked at the government's long term vision ... and all these were strong indications of the business opportunities'*.

The participants were asked if they had a business model which they followed when evaluating Kurdistan's market, T1 suggested that *'although you don't have a business model which is applicable to all markets, Turkish MNCs use both approaches before investing in the international market'*. Furthermore, UK6 went further to suggest that *'MNCs are using a matrix considering, political, economic, infrastructure, communication, labour law, labour market, legal regime and investment friendly environment'*. However UK6 suggested his evaluation of Kurdistan Region's market condition was formed based on his own experiences, and he suggested that the reason for this approach was that *'I trust my judgments'*. This approach is supported by Buckley et al, (2007) who suggest that some decisions are made based on managers' personal experience.

This research project's analysis suggests that a number of participants (T2, T3, T4, UK1, UK2, UK3, UK4, and UK8) present Kurdistan Region's market potential to their clients but at the same time encourage their clients to review recent articles about the Kurdistan market. However the analysis of this study shows that little was said about the risks involved in investing in the Region, and most participants do not advise their clients to visit credit agencies or associated organisations which rank countries' attractiveness for FDI consideration. Thus, some other participants (UK6, UK7, and T1) stated that they present Kurdistan Region's business potentials but at the same time also encourage MNCs to review databases and current articles about the Region's current market conditions and future potential. According to UK6 *'... our advice is about the business opportunities in Kurdistan Region ... not telling them to invest or not ... but we refer our clients to look at recent*

articles, for example The Economist and other journals'. This 'advice giving' is what one participant described as '*giving them the choice whether to invest or not invest in Kurdistan Region*' which is supported by Tayeb, (2000) who states that NGO's are critical to businesses and their role is not to 'command' businesses but to act as advisory boards to help companies to address their concerns.

However, in contrast UK2, UK4, and T3 suggested that they encourage MNCs to invest in Kurdistan Region because they believe it has business potential for their domestic MNCs. A number of participants suggested that their judgment and evaluation of the Region's market has a 'significant impact' on their clients and their advice is considered as the basis for their initial judgment (UK1, UK4, UK5, UK7, UK8, T1, T3, and T4).

Most participants in this research project (UK1, UK2, UK3, UK4, UK5, UK7, UK8, T1, T2, T3, and T4) suggested that although they follow valid available international databases and reports about Iraq, they believe they have a better understanding of the reality on the ground regarding Kurdistan Region's market due to having visited the Region and seen the reality on the ground, which has given them a better and more balanced view of Kurdistan Region's market potential. One participant (T2) went further and stated that '*because we are closer to the Region ... and have the experience of working in Iraq ... we know these reports do not represent the reality*'. Thus, he believed that because of lack of security in the country, these organisations (credit rating organisations) are unable to reach all segments of the country and economy therefore '*these reports are produced with very limited access and information*' (T2).

This is supported by Zheng (2012) who suggests that, due to lack of knowledge about a foreign market (Iraq in general and the Kurdistan market in particular) available to multinational companies, they are likely to access information implicit in the action of others (e.g. participants of this study) Forsgren (2002). Furthermore, in such situations, multinational companies' investment is a low-resources commitment (Anderson and Gatignon, 1986; Tse et al, 1997) (Uppsala theory). In the case of Kurdistan Region, this is evidenced because more than 2500 companies have registered in the Region and there is no evidence of any long term investment there (except oil and gas).

In theory, in post conflict countries (e.g. Iraq), foreign investors link past violence to future investment (Blomberg and Mody, 2007; Li, 2006) which can impact on managers' decision

making processes (Jenson, 2006). The analysis of this research project suggests that Iraq's past violent history and its current political process is noted by participants; nevertheless this has not prevented these advisory bodies from advising their national MNCs to enter the Kurdistan market. This is because, as one interviewee suggested (UK6) '*history is history, it is gone and reality is more important*' but what is more important is '*to get the timing right*'. Timing is quite significant, because the situation in Iraq may not stabilise in the near future. One participant (UK7) suggested that Iraq is an uncertain location for foreign investors, saying, '*I don't see political stability ahead*'. The fact that no foreign MNC has committed long term investment in Kurdistan Region (except in the oil industry) is clear evidence of the associated risks involved in investing in the region (UK6, UK7, T1, and T3). Instead these companies prefer low resource commitment in Kurdistan Region (Anderson and Gatignon, 1986; Johanson and Vahlne, 1997; Tse et al, 1997). Therefore it could be said that Iraq's violent history and current unstable conditions have contributed negatively to MNCs' decision making process on whether to invest in Iraq and Kurdistan Region.

4.7.1. Summary of the Key Findings

The analysis of this research project suggests that its participants do not follow the rational approach to evaluate Kurdistan Region's market. Their decisions are, to a great extent, based on their own experiences rather than investigating the market condition.

The analysis also suggests that lack of accurate data about Kurdistan Region's market is acknowledged by participants of this research project, but it has not had a significant effect on their evaluation of the Region's market. The participants believe that international credit agencies' reports are not a good representation of the reality on the ground regarding Kurdistan Region's market and they instead rely on their own understanding of market conditions.

The country's violent history is not a point of concern for most participants and they are more interested in promoting the Region's current business potential. Based on analysis of this study, the participants are more concerned with presenting Kurdistan's market potential to their clients rather than informing them about past and current risks associated with investing in it.

The analysis also suggests that KRG's advertising around Europe, especially in the UK, has been effective in raising participants' awareness of Kurdistan Region's market potential and as a result creating a good image among participants. This is important because the analysis of this research project also suggests that their advice on Kurdistan Region's market has had a positive impact on MNCs' perceptions of the region's vast business opportunities, but has not encouraged them to commit to long term investments.

4.8. Unveiled Surprise Factors

The author investigated stakeholders' points of view (in the UK and Turkey) on the key risk factors affecting the process of FDI in Kurdistan Region. Through the literature, a number of main factors affecting the level of FDI into Kurdistan Region were raised. However, the analysis of this research project, has uncovered some other factors that could affect the level of FDI inflow into the region. These factors are particularly important to the outcome of this research project, which ultimately intends to recommend some short and long term strategies to increase the level of FDI into the Region.

The prospect of Kurdistan as an independent state could pose risks to long term foreign investment due to the complexity of the Region, especially with neighbouring countries' governments (Iran, Syria, and Turkey) and the Kurdish population's future demands in their countries. Although KRG officials (K2) claim that KRG is taking a more realistic approach and intends to remain a federal part of Iraq 'for now', the analysis of this research project contradicts their statement. The fact that KRG officials use the term 'for now' could be significant, as another participant suggested (UK5) '*a few years ago you wouldn't talk about independence*', as the perception was that Kurdistan Region would remain part of Iraq; but now things have changed.

Kurdistan's independence could be hard to achieve because, as UK3 suggested, '*neighbouring countries will block the air and land access, and Kurdistan Region will be isolated ... and this will create all sorts of political obstacles*' (UK5) for foreign trade and investment. This would create further tensions and conflict between KRG and Central Government as well as neighbouring countries, because they would prefer Kurdistan to remain part of Iraq.

According to most participants (UK1, UK3, UK5, UK7, T2, T3, and T4) Kurdistan Region will be more prosperous to foreign investors if it remains an autonomous part of Iraq. One participant (T2) stated that KRG should remain as part of Iraq and *'try to reach an agreement and overcome their disputes, especially over the production of oil and gas'*. Furthermore UK7 also suggested *'Kurdistan is better off remaining part of Iraq than becoming an independent weak state ... and trying to compromise ... for a certain level of independence within Iraq.'* This would reduce further political risk for foreign investors *'if not encouraging foreign investors'* (UK7) inflow to the region.

Future political and security stability in the rest of Iraq and its significant effect on the level of FDI (Henisz, 2000; Jenson, 2003; Shneider and Fery, 1985) was also revealed as a surprise factor. According to some participants (T1, T2, UK1, UK3, UK6, and UK7) MNCs consider Kurdistan Region to be *'the gateway to the rest of Iraq'* and their long term intention is *'to distribute to the rest of Iraq once the country is more stable'*. Taking into account UK7's view that, because of Iraq's current unstable situation *'operation in the rest of Iraq is almost impossible'* (UK1) and that *'while the situation in the rest of Iraq remains unstable, Kurdistan Region will be Turkish MNCs' main target'* (T2). This is supported by Anderson and Gatignon, 1986; Tse et al, 1997 who suggest that in such situations firms prefer low resource commitments and once the situation is more stabilised and the managers gain more information about the market they will distribute to the rest of Iraq (higher-resource commitment). This approach is supported by Uppsala model (Johanson and Vahlne, 1997).

In contrast, some other participants (UK1, UK2, UK4, T3, and T4) believe that Kurdistan Region offers sufficient opportunities for businesses to make it an attractive destination for foreign investors. UK1 believed that, *'although in the beginning Kurdistan Region was considered as the gateway to the rest of Iraq, now it is wrong to say MNCs are only basing themselves in Kurdistan Region to distribute to the rest of Iraq once the country is more stabilised'*. Furthermore, UK2 suggested that *'Kurdistan Region has vast business opportunities in many sectors'* and these resources are *'sufficient business opportunities in Kurdistan Region to carry toward the future'* (UK4).

KRG officials (K1, K2, and K3) suggested that Kurdistan Region is different from the rest of Iraq because they believe it offers foreign investors a more stable environment politically, in terms of security, and due to the government's openness to foreign investors. However, in

contrast, UK7 suggested that the future of the political process in Kurdistan Region and the rest of Iraq remain unpredictable.

The analysis of this research project suggests that no foreign investor has committed to long term investment in Kurdistan Region, other than in the oil and gas sector, and this is mainly because of all the associated risks involved in investing in the Region (UK1, UK3, UK5, UK6, UK7, T1, and T2). KRG officials refer to oil companies' investments (such as Total, BP, Chevron, and ExxonMobil) as a success and claim it is an encouraging factor which attracts foreign investors in other sectors (Kehl, 2010). This was supported by one participant (T3) who believes these oil companies' investment in Kurdistan Region is 'encouraging' foreign investors and he suggested that *'these oil companies have already bought the future of Kurdistan'*, which is a promising future for foreign investment.

Another factor which was highlighted by participants was the effectiveness of KRG officials in promoting the Region for foreign investors compared to Central Government officials. According to most participants (UK1, UK2, UK3, UK4, UK5, UK8, T1, T3, and T4), KRG's attempts to promote Kurdistan's market, and senior KRG officials' visits to the UK and Turkey for business purposes, have been effective in raising foreign investors' awareness of Kurdistan market's potential. This is in line with Erramilli, (1991), Kuo et al, (2012), and Sakarya et al (2007) which suggests information and knowledge plays an important role in firms' decision making process when firms enter new market. According to UK1, all these factors are very effective in promoting Kurdistan's market and convincing MNCs from the UK and Turkey *'to visit Kurdistan Region and see the business potential themselves'*.

Corruption was also highlighted as an important negative contributory factor affecting the process of FDI in Kurdistan Region. Although, according to one KRG senior official (K4), corruption is not considered to be a negative contributory factor, several participants highlighted the negative impact of corruption on the process of FDI in Kurdistan Region (UK1, UK4, UK5, UK7, T3, and T4). Although the participants did not directly point it out, they agreed with what one participant suggested, that *'depending on your contacts and who you know (in government)... it can affect the outcome of your bidding and contract'* (UK4). Furthermore another participant (UK1) suggested that *'to seal a deal you need the approval of some powerful individuals belonging to one particular party'* which can give foreigners a better deal. However this has undermined the transparency of the bidding project (corruption)

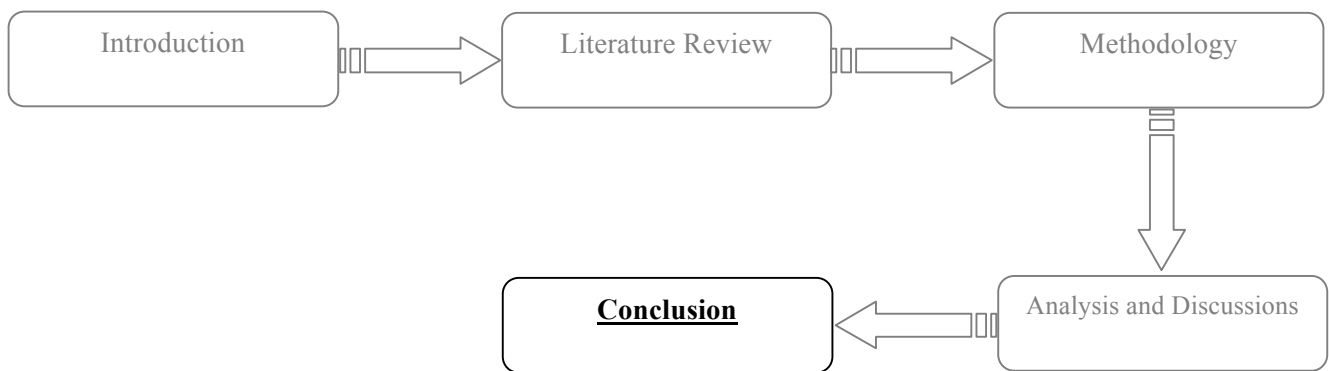
in Kurdistan Region, which was highlighted by some participants, who believe that unless this is solved it will affect the inflow of FDI into the region (Ismael and Ismael, 2005)

The analysis of this research project also suggests that cultural differences between the UK and Turkey and Kurdistan Region can impact the process of FDI in Kurdistan Region. UK5 believed the UK and Kurdistan Region's '*cultural differences are not an issue*', especially for UK MNCs, because many KRG senior government officials have lived and been educated in the UK (UK1, UK5, UK6) which helped to create a positive image about UK MNCs. Furthermore, according to UK6, '*Kurdish people have a very positive image about British businesses*'. Thus, UK4 suggested Northern Ireland and Kurdistan Region's past cultural history and current similarities in their situations are considered as an advantage for Northern Ireland's MNCs. According to UK4, '*KR and Northern Ireland share a similar history and culture ... our political system is the same ... we, like KR, are part of a bigger county ... we also come from a post-conflict situation ... and have the same problem ...and are competing with the rest of the UK*', like Kurdistan competing with the rest of Iraq. UK4 believed the cultural similarities have helped Northern Irish MNCs to understand Kurdistan's market more effectively.

T2, T3 and T4 also claimed that Kurdistan Region and Turkey to some extent share a common language and business culture, mainly because, as T2 suggested, '*we are close neighbours*'. Furthermore, T3 and T4 believed that despite past conflicts, Turkey and Kurdistan Region's cultural similarities have helped Turkish MNCs to adapt and establish themselves more quickly and effectively than other foreign MNCs.

The analysis of this research project in line with the findings of previous documents Three and Four also suggests that most of its participants (UK1, UK2, UK3, UK4, UK5, UK7, UK8, T1, T2, T3, and T4) agree that KRG's friendly policies and openness and pro-business attitude toward foreign investors and their tax and customs duty exemptions were positive contributory factors toward their decision making process.

Chapter Five; Conclusion



5.1. Introduction

This thesis has built upon earlier investigations undertaken in Documents Three and Four of this research project to examine the determinants of FDI in Kurdistan Region by identifying the factors affecting MNCs investing in the Region. There is a lack of literature regarding Kurdistan Region's market attractiveness for FDI consideration, however the author has reviewed the existing literature around this thesis topic, building a conceptual framework in order to design questions; the questions raised during the course of this research project helped to answer the main research questions. Research was conducted among KRG and Central Government's most senior officials (Document Three) and multinational companies (Document Four). The significance and importance of each factor identified from the literature review was examined from the perceptions of KRG and Central Government officials and multinational companies.

The final stage of this research project investigated a different set of stakeholders' viewpoints in the UK and Turkey. These stakeholders were organisations in both countries (UK and Turkey) that are actively involved in promoting the foreign market for their domestic multinational companies. It explored their perceptions of the main risks, advantages and disadvantages of investing in the Region and examined their role and the way in which their decisions regarding the Kurdistan market were formulated.

This chapter presents the conclusion. In addition to the analysis of this study, it also cross references with the analysis of the previous documents to provide a more balanced view of different stakeholders about the process of FDI in Kurdistan Region. This will not only help to answer this study's main research questions. but the findings will ultimately contribute toward the existing literature on FDI in autonomous regions, in particular Kurdistan Region.

The analysis of this study suggests that Turkish MNCs are among the highest number of foreign investors in Kurdistan Region (Table 1, p.18) (\$11 billion, 70% to Kurdistan Region and 30% to the rest of Iraq). This is mainly because Turkey is a neighbouring country, so their MNC operation costs in the Region are lower than those of UK multinational companies. However, the findings of this research project suggest that another reason for the high number of Turkish investors in the Region is the 'pricing and the quality' of KRG projects. Thus, Turkey's MNCs' involvement in Kurdistan Region is mainly in contracting projects, not long term investments, unless they want to distribute to the rest of Iraq in the

longer term (high-resource commitment) which is supported by (Johanson and Vahlne, 1997) under Uppsala model.

According to the participants of this study, UK MNCs' quality standards are very high therefore they come with a higher price, whereas Turkish companies' quality standards are lower with lower prices than UK MNCs, therefore (according to the participants of this study) UK MNCs cannot compete with Turkish companies in the Kurdistan market. However the analysis, in line with the findings of previous documents, suggests that the KRG intends to raise their project standards, and if this happens it will result in a more competitive market, encouraging UK MNCs to participate in contracting business in the Region.

The Turkish government's strategic decision to engage Turkish MNCs in the Kurdistan market played an encouraging factor in Turkish MNCs' involvement in the Region. Encouragement from the Turkish government contributed toward Turkish MNCs taking a risk and not being as hesitant as UK MNCs in becoming involved in Kurdistan Region.

This chapter provides the conclusion, followed by this study's significance and its contribution to the existing knowledge, then the recommendations, and finally the limitations of the study.

5.2. Conclusion

The aim of this thesis has been to respond to the four main research questions. It attempted to identify the main risks involved (to UK and Turkey's MNCs) in investing in Kurdistan Region. An effort was made to identify the factors affecting the participants' perceptions in evaluating the Kurdistan market's attractiveness for FDI consideration, and the target samples roles in convincing MNCs of the Kurdistan market's potential in terms of foreign investment. This thesis will also recommend some strategic solutions to increase the level of FDI in Kurdistan Region.

The analysis of this research project suggested that the Region's rich natural resources, in particular oil and gas, government openness and positive attitude toward foreign investment, as well as the Region's competitive investment law, are considered its main advantages for FDI consideration. Kurdistan Region's stable security, compared with the rest of Iraq, has created a safe environment for foreign investors, which was considered a positive

contributory factor toward the FDI process in Kurdistan Region, which is in line with the findings of Documents Three and Four.

Despite there having been a third democratic elected coalition government in Baghdad, the country is still suffering from lack of security and political and economic instability. An ineffective government (in Baghdad), high levels of corruption, lack of effective cooperation between the KRG and Central Government, on-going ethnic conflicts between Shi'as and Sunnis, sectarian violence and terrorist activities, and more recently the emergence of IS (Islamic State), are deepening, and are showing no sign of stopping. These factors are considered to be disadvantages which affect the level of FDI inflow and MNCs' modes of entry into the Region (low-resource commitment) (Brown, 2005; Ismael and Ismael, 2005; Johanson and Vahlne, 1997).

Kurdistan Region's relatively stable security, compared to the rest of the country, has made it the gateway to the rest of Iraq for foreign investors. However, the fact that the unstable situation in the rest of Iraq could also contribute to the level of FDI inflow (negatively) into the Region cannot be ignored. Thus, from the findings of this research project, it can be argued that as long as the situation in the rest of Iraq remains unstable, Kurdistan Region will benefit from MNCs' attention, but this may change once the overall security of the country becomes more stable. That is not to say that the situation will improve in the near future.

The analysis of this research project suggests that another reason for MNCs' entry to the Kurdistan market is to gain knowledge and experience about the country's overall market potential (because of lack of knowledge and accurate data about Iraq's market) for future high-resource investments, if, in the future, the country becomes more stable. This is in line with the Uppsala model (Johanson and Vahlne, 1997) which suggests that a firm's high-resource commitment will only take place when they accumulate experience in a given market. Therefore it can be said that the Uppsala theory holds true when MNCs enter Kurdistan Region (mode of entry) to gain a better understanding of the market and distribute to the rest of the country (high-resource commitments) if the situation becomes more stable.

It was found that KRG's representations in European countries, particularly in the UK, have been sufficiently effective in promoting Kurdistan Region's business potential to foreign investors. This has contributed positively towards the awareness of foreign investors' perceptions of Kurdistan Region's market potential.

The analysis of this research project, in line with previous documents, suggests that the situation in the rest of Iraq has a direct impact on the process of FDI in Kurdistan Region, because Kurdistan Region is not an independent state but it is a stable part of Iraq. This is because, from MNCs' points of view, the total image is about all of Iraq not just Kurdistan Region.

The disputes over power and authority given to regional government and the disputes over the production of oil and gas in Kurdistan Region have contributed to further tensions between the two sides, which resulted firstly in Central Government's decision to blacklist all oil companies involved in the Region, and recently to a disagreement regarding the production of oil and gas in Kurdistan Region. This has also had a negative effect on the level of FDI in the Region.

The findings of this research project suggest that the existence of corruption and lack of transparency in the KRG's bidding process for projects, was a point of concern, but the analysis leads to the conclusion that corruption does not affect MNCs' decision making processes in absolute terms to prevent MNCs' investment in the Region. Certain powerful individuals belonging to the main political parties in Kurdistan Region can affect the outcome of a bidding process and, based on this study's analysis, corruption remains a negative contributory factor in the process of FDI in Kurdistan Region but not a major concern (Habib and Zurawicki, 2002).

There is no international bank operating in Kurdistan Region and the lack of a banking system in the Region also presents foreign investors with difficulties, not only in terms of their financial transactions but also by delaying payments to MNC projects in Kurdistan Region. It was found that the lack of a banking system in Kurdistan Region has also resulted in strengthening corruption (Habib and Zurawicki, 2002).

This thesis has shown that there is no evidence of high-resources investment by MNCs from Turkey and UK in Kurdistan Region, except in the oil and gas industry. Whilst major oil companies may be better resourced and can afford security they can take the risks because of high rate of return, however most foreign companies in other industries are unable to avoid the potential associated risks in Kurdistan Region. These risks exist because of the country's violent history and its continued lack of long term political stability; therefore, it exhibits a high level of political and market risks to foreign investments.

Due to all of the above-mentioned negative factors, the analysis of this study suggests that Kurdistan Region remains a complex market, and this complexity exhibits high levels of political risk (Aguilar et al, 2012) as well as market risks (Papadopoulos and Martin, 2011). The analysis of the previous documents suggests that MNCs consider political and market risks to be ‘very important’ contributory (veto) factors in their decision making processes regarding investing in Kurdistan Region. This was reinforced by the research analysis which suggested that political risks continue to be participants’ main concern when evaluating Kurdistan market’s attractiveness for FDI consideration.

Although Kurdistan Region has potential business opportunities and it is a very profitable market, the analysis of this research and the previous documents do not suggest that MNCs are ignoring the country’s violent history or its current internal conflicts, and the dispute between Central Government and the KRG. This is affecting MNCs’ future investment prospective, preventing long term investment in the Region. From the participants’ points of view, the main concerns (risks) involved in investing in Kurdistan Region are a result of the following factors:

- Lack of accurate data about the country overall and of Kurdistan Region’s market, the country’s unstable economy, and the lack of at least one international bank in the Region.
- Iraq’s history of violence could be a clear indicator of future violence and as a result could affect Kurdistan Region’s attractiveness for FDI consideration. This is because any change in the political process or in the government and regime in Iraq could affect Kurdistan Region which, as a result, could pose future political risks to foreign investors (Brown, 2005; Henisz, 2000; Ismael and Ismael, 2005; Jenson, 2003; Kehl, 2010; Shneider and Fery, 1985).
- The possibility of the KRG aiming to make Kurdistan Region a free and independent state could affect the level of FDI in the Region. It would result in further tensions with the Iraqi government as well as with neighbouring countries (Turkey, Syria and Iran) which would add to the complexity of the Region and present foreign investors with further political risks and market risks (Collier and Hoeffler, 2000; Jenson and Young, 2008). However, according to the analysis of this research and previous

documents, the KRG is taking a more realistic approach and aiming to remain an active part of Iraq.

- The dispute between Central Government and the KRG over the power and authority given to the regional government and the production of oil and gas is clearly having a direct impact on MNCs' decision making processes regarding investing in the Region. This is also considered a factor which could pose a future political risk to their investments in Kurdistan Region (Berdal and Malone, 2000; Fearon and Laitin, 2003; Jenson and Young, 2008; Kehl, 2010; Klare, 2001).

Investing overseas requires MNCs' managers to undertake careful analysis of host countries, and the political, economic and business risks associated with investing in their markets (Behrman, 1968; Douglas and Craig, 2011; Goodnow and Hansz, 1972; Kaya, 2014; Khan and Akbar, 2013; Lee et al, 2014; Lu et al, 2014; Papadopoulos and Jansen, 1994; Tse et al 1997; Welch and Wiedersheim-Pual 1978). Market analysis of the host country plays a fundamental role in managers' decision making processes (Papadopoulos and Martin, 2011). However, the analysis of this research project suggests that the research participants' evaluation of Kurdistan Region is based on their own experiences rather than a deep market analysis. Furthermore, UK and Turkish participants' evaluations of the Kurdistan market are not determined by internationally recognized reports on Iraq's and Kurdistan's markets (e.g. World Bank and IMF) but on their own experiences. This approach is supported by Buckley et al (2007) and Zheng (2012) who suggest that a firm's entry mode choice not only depends on the external environmental factor but also on risk preferences based on managers' personal experiences.

The analysis suggests that the participants' advice plays an important role in MNCs' perceptions of the Kurdistan market, especially in raising MNCs' awareness of Kurdistan Region's market potential. However, to what extent the advice of independent UK and Turkish organizations to UK and Turkish MNCs are effective in convincing MNCs to commit long term investment in the Region, remains uncertain.

This research project concludes that the existence of a high number of foreign investors in Kurdistan Region is evidence of the vast business opportunities in Iraq as a whole and Kurdistan Region in particular. Lack of security in central and southern Iraq has prevented many multinational companies from entering the market; however, the stability of Kurdistan

Region's security offers foreign investors a more stable business environment compared to the rest of Iraq. However, although Kurdistan Region offers some advantages to foreign investors, investing in the Region is also associated with a high level of risk, in particular political risks. The fact that no foreign investor has committed a high-resource investment in the region is an indication of the significant effects of the associated risks involved in investing in Kurdistan Region (particularly the political and market risks).

This research project also suggests that, because Kurdistan Region is part of Iraq the situation in the rest of the country has a direct impact on the Region's attractiveness for FDI consideration (Jenson, 2003; Shneider and Fery, 1985). KRG and Central Government disputes over the power and authority given to regional government and their disputes over the production of oil and gas in the Region also contribute negatively to the process of FDI in Kurdistan Region.

The analysis concludes that the participants in this paper can affect MNCs' awareness of Kurdistan Region's market potential, but convincing them to invest in the Region remains uncertain. Finally, the analysis of the research project suggests that UK participants' evaluation of Kurdistan's market is based on their own personal experiences, as is that of the Turkish participants.

5.3. Strategic Recommendations to KRG

Based on the analysis of this research project and previous documents, and concluding the factors affecting the process of FDI in the Kurdistan Region, the following strategic short and long term plans are suggested. They are intended to help the KRG to formulate a more tactical strategy to strengthen Kurdistan Region's position, in order to increase the level of FDI in the Region;

Short Term Strategies

- A more transparent bidding process should be introduced, preventing powerful individuals from interfering in the allocation of projects
- Project quality should be improved to match European standards,
- KRG should focus on financial institutions to attract at least one international bank to operate in Kurdistan Region;

- There should be continued promotion of Kurdistan Region's market potential to foreign investors, especially by organising events in Kurdistan and across the world,
- The KRG should attempt to resolve its issues with Central Government, especially over the production of oil and gas

Long Term Strategies

- The KRG should remain an active part of Iraq as opposed to seeking independence creating political uncertainty
- The KRG should work with Central Government to find a long term solution to operate as an effective federal part of Iraq, based on mutual understanding regarding the level of power and authority given to the KRG,
- The KRG should continue to attempt to normalise its relationship with Central Government and with neighbouring countries.

5.4. Contribution to the Knowledge and Practice

There is a substantial amount of literature on the determinants of foreign direct investment in general. However, there is a real gap in the academic literature on autonomous regions in the Middle East, and in particular on Kurdistan Region's market. One reason for this could be that the federal autonomous region in the Middle East is a new concept and the autonomous region of Kurdistan was effectively recognised after the invasion of Iraq in Saddam Hussein's era after 2003.

Some studies have focused on the attraction of FDI in post conflict-regions such as sub-Saharan Africa, Kenya, Sri-Lanka, and Nigeria (Dupasquier and Osakwe, 2006; Simpson, 2008; Ugochukwu, et al, 2013) but, there has been no academic research to date on the factors affecting the process of FDI in Kurdistan Region, which makes the findings of this research unique in the field. Iraq's violent history and current unstable situation, the ethnic conflicts (between, Shia's, Sunni's, and the Kurds), continuous insurgency on a large scale in the rest of Iraq, Kurdistan Region's relatively stable security, and the KRG's aspirations to seek independent economic activity, make Kurdistan Region's market different from other post conflict regions. Therefore, the findings of this document provide a contribution through

the reflective analysis of this study and previous documents which form part of the DBA programme on the factors affecting the process of FDI in Kurdistan Region.

This study is of an exploratory nature. With the lack of literature on this topic this research has attempted to analyse the relationship between the Kurdistan Region market's complexity and the level of FDI inflow into the Region. This was done by testing the existing literature (deductive approach) regarding the process of FDI in general (e.g. Uppsala theory) to explore the determinant factors affecting MNCs when investing in the Kurdistan Region. Therefore, applying existing knowledge, the process of data collection (interviews) and analysing (interpretivist approach) led to an exploration of a new understanding of the subject being studied, leading to an illustration of conclusions regarding knowledge about the determinants of foreign direct investment in Kurdistan Region (Clarke and Lunt, 2014; Lovitts, 2007).

The findings of this research project have created first-hand knowledge of the main risks facing multinational companies when investing in Kurdistan Region (mode of entry), and the Region's market attractiveness for FDI consideration from the participants' points of view. The participants' roles in promoting inward investment to the Kurdistan Region are also explored. These findings do not conflict with previous theories, but rather add to them by offering a new understanding and perspective of the process of FDI in autonomous regions, especially in post conflict regions in the Middle East. The findings of this research project could also be used and applied to different locations with similar circumstances.

While the aim of this study is to add to the existing knowledge and to increase the understanding of determinants of FDI in autonomous post conflict regions, given the rapid change in the political process in Middle Eastern countries (especially in the last few years) the findings of this research are not definitive. They could alter with any changes in the political process in Iraq as a whole and Kurdistan Region in particular. However, the findings of this research have revealed an alternative perspective of the factors affecting the process of FDI in federal and autonomous regions in a high risk country in the Middle East, regardless of any future change in the political process in Iraq.

The results of this investigation are significant because the primary data was collected from senior officials (elite) in well-established organisations in the UK and Turkey, which are actively involved in advising MNCs about foreign market potentials (in particular Iraq's and Kurdistan Region's markets). The analyses of the results not only provide an academic

contribution but also, because DBA is a practical research, the results could be beneficial to all related stakeholders in practice, in particular the KRG. The contributions of this research to the knowledge arise from its significance to the literature and the significance of its conclusion to policy makers and other relevant stakeholders such as the academic community, government officials, business planners, banks, individuals, and foreign investors.

5.5. Limitations of the Study

The overall purpose of this research project has been to contribute toward foreign direct investment practice in post conflict regions (in particular Kurdistan Region) as a part of a DBA (Doctorate of Business Administration) programme, therefore an important requirement was that this research project should contribute to the existing knowledge on the factors affecting foreign direct investment in a post conflict region. Given the nature of this research project, the existence of the previous literature on Iraq and Kurdistan Region, and the research methodology deployed, a number of limitations are acknowledged.

The author anticipated a great deal of difficulty because of the limited literature and theories on FDI in Kurdistan Region. However, for the purpose of this study the author reviewed the existing literature on FDI in general (e.g. Uppsala theory) and drew his own conclusions on the determinant of FDI in Kurdistan Region (deductive approach).

In terms of contribution to practice, limitations are also acknowledged in respect of the research methodology approach deployed (an interpretivist approach as the main approach). In applying the findings of this research project to practice, Iraq's situation (political, economic, and security) in the period during which this research project was undertaken should be considered. Therefore, while it is argued that the findings add to the theoretical knowledge with reference to a particular circumstance and particular research approach, the extent to which they could apply in practice in the longer term remains debatable.

While elite interviews provided reliable first-hand participants' points of view, obtained from direct individuals involved in the process (Davies, 2001) it is also subject to its limitations. According to George and Bennett (2005), the researcher should critically assess

and weigh the value of collected data that may limit its value and its usefulness and the reliability of their statements. Reader (2004) suggests that this is because they are either unable to give the required information or they are unwilling to talk about some issues (raised issues and questions) either because the interviewee misrepresents their own position to minimise their role in an event (Kramer, 1990) or because of the sensitivity of the topic or question posed (Lee, 1993).

The author, to minimise the weaknesses, firstly, the questions were piloted (with the help of supervisors and friends) and before the start of each interview, the questions were explained to the participants to make sure they understood the questions (Kumar, 2011). Furthermore, the information was obtained from first-hand witnesses, by interviewing senior-level officials in selected organisations and making sure the participants were told that their responses would be used only for academic purposes and their names and the organisation for which they work would not be disclosed to any external parties (apart from the supervisors and the examiners). Furthermore, the author consulted multiple sources before selecting the target population (especially during his participation in different events focusing on FDI in Kurdistan Region in the UK, Turkey, and the Kurdistan Region to have a better insight into the subject of study) to make sure the interviews were conducted with senior employees and officials who were likely give reliable information. These techniques are supported by Davies (2001) Dexter (1970), and George and Bennett (2005) who suggest it is crucial to have such criteria to make sure the data collected is as reliable as possible.

The sampling considerations should also be taken into account before their generalisation to the wider population (Berry, 2002). The samples (elite) were chosen from a large number of organisations, because of the limited time and resources which precluded the possibility of conducting interviews with all the subjects of interest (all those organisations involved in promoting foreign markets to their domestic MNCs in the UK and Turkey). However, the author set criteria to specify the selected sample population (Kidder, et al, 1991) which could guarantee that each unit of the population would have been selected for the sample if they had complied with the sample populations' criteria specification (sample population, p.62) set by the author for the purpose of this study. Therefore, while this did not affect their validity, it could still limit a wider generalisation of the research findings if another research was undertaken which obtained an analysis of the full population (Kidder, et al, 1991).

This research was limited only to UK and Turkish organizations which are actively involved in promoting foreign markets for their MNCs. Although this put some limitations on the study, an ample number of interviews were organized in sufficient locations, and adequate material was collected from interviews, to meet the objectives of this research project.

Finally, this research project did not analyse the types of industry and business (due to the lack of accurate data) that attracted FDI to Iraq in general and to Kurdistan Region in particular, nor did it compare the case of Kurdistan Region to other locations with similar characteristics. Therefore, the findings of this research project are not generalized to a particular type of industry and business and there is no comparison between two different locations.

5.6. Further Studies

The findings of this research project revealed different dimensions to the process of FDI in Kurdistan Region. In regards to future study, different organisations in the US and different EU countries, UN trade and investment department, and neighbouring countries which are actively involved in evaluating and promoting foreign markets, in particular Iraq and Kurdistan Region's markets, should be included. This would allow access to a greater number of senior officials in different countries and would enable a more appropriate generalisation of the findings. It would also help the author to have a broader and better picture of the Region's attractiveness for FDI consideration. Each of the following would also be a suitable topic for further research;

- The direct effect of FDI on economic and social development and growth of Kurdistan Region,
- The effectiveness of the KRG's strategic plans to promote Kurdistan's market to attract FDI into the Region,
- The effect of establishing a sufficient banking system in Kurdistan Region on the level of FDI into the Region,

- The effectiveness of establishing balanced and stable international relations with neighbouring countries on the process of FDI in Kurdistan Region.

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Appendix

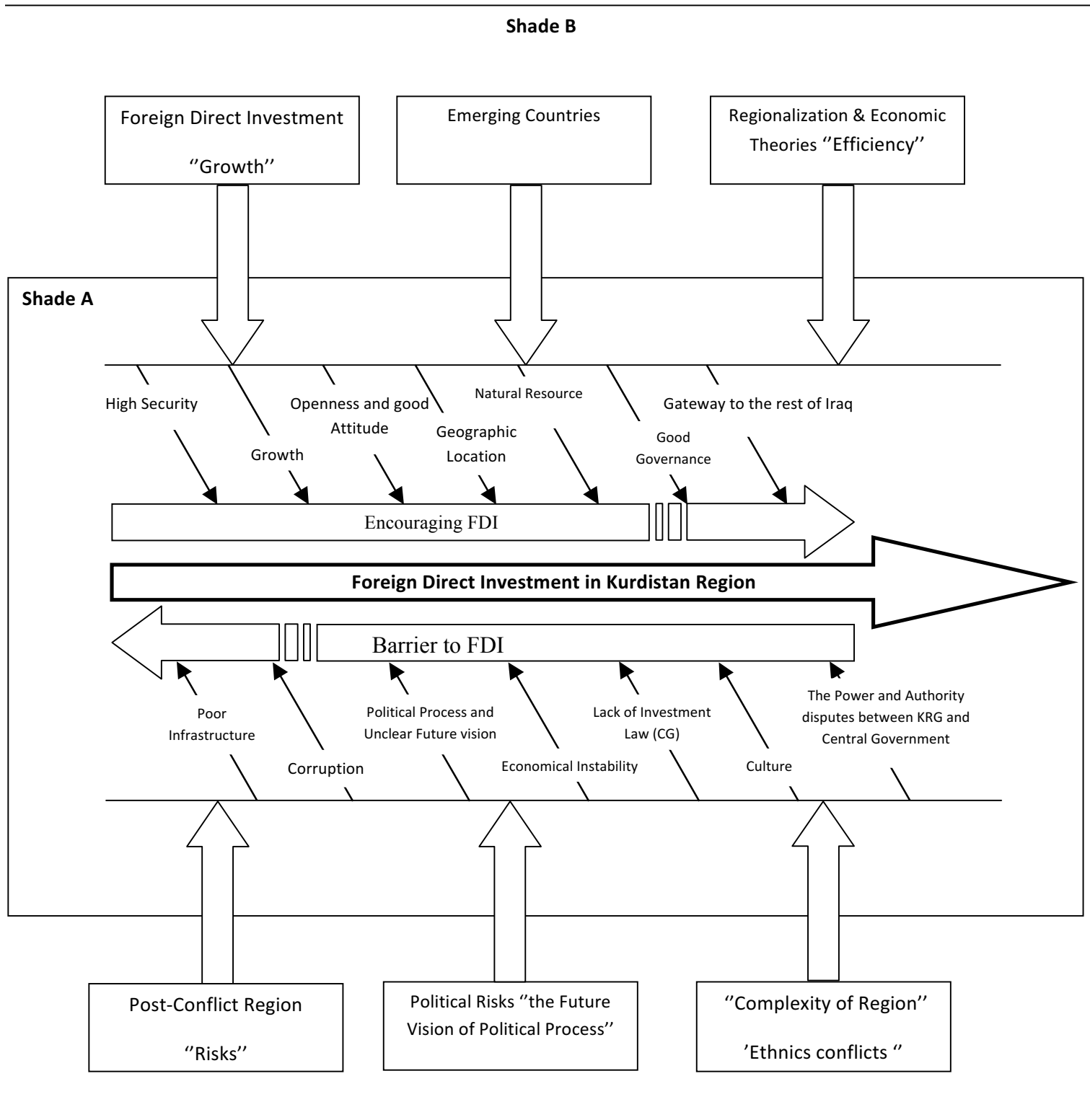
Appendix 1; Conceptual Framework

Shade A;

Shade A is the influential factors effecting FDI in Kurdistan Region at national level (within Iraq). This includes the advantages and disadvantages of the region for FDI consideration within the national border.

Shade B;

Shade B is the influential factors effecting FDI in Kurdistan Region beyond national borders, internationally.



Appendix 2: Information Sheet

‘Determinants of Foreign Direct Investment in Kurdistan Region’

A Study Exploring Influences Affecting Foreign Direct Investment in Kurdistan Region

You are being invited to take part in a research study. Participation in the project is entirely voluntary. Before you decide it is important for you to understand why the research is being done and what it will involve. Please take time to read the following information carefully and discuss it with others if you wish. Ask us if there is anything that is not clear or if you would like more information. Take time to decide whether or not you wish to take part.

What is the Purpose of the Study and Why I Have Been Chosen?

In recent years in particular after the liberation of Iraq in 2003, Kurdistan Region has become a very safe and sustainable part of Iraq where many international enterprises have entered. Kurdistan Regional Government has launched a huge advertising campaign all around the world (especially in the USA and Europe) to attract multinational enterprises to go and invest in Kurdistan Region. KRG describes Kurdistan Region as the safest place in Iraq, with many rich natural resources such as oil, water and many more, presenting opportunity for international investors in different sectors to come and invest.

Kurdistan Region, a federal state, part one of highly risky location in the world (Iraq), a nation with the willingness to move away from old traditional culture, the government's effort and direction toward building a more open society and rich with oil resource. However, the conflict of interests among stakeholders (KRG and Iraqi Central Government), Central Government roles, security, culture, legal infrastructure and political risks are some of disadvantages which KRG is facing to attract Foreign Direct Investment (FDI) into region.

The lack of existence of literature and investigating KRG's challenges in attracting foreign investors into the region has convinced the author to undertake this research project. This research will examine the current situation of Kurdistan Region (north of Iraq) which is being part of Iraq, and its impacts on KRG's strategy formulation for attracting foreign investment (FDI). It attempts to identify FDI's deter factors in investing in the region. In the end this project aims to formulate a more effective strategy for KRG to increase the level of FDI into the region.

Do I Have to Take Part?

It is totally up to you to decide to take part or not to take part. There are two ways of participating. If you decide to:

1- Be interviewed you will be given a copy of this information sheet to keep. You will also be asked to sign two copies of a consent form, one of these will be for you to keep and the other will be kept by the research team. If you decide to take part you are still free to withdraw at any time and without giving a reason.

2- Complete a questionnaire you will be given a copy of this information sheet to keep. You will give your consent to participation in the research project by completing the questionnaire and returning it to the research team.

What will be My Involvement If I Take Part?

Your involvement will differ according to whether you;

- are interviewed
- complete a questionnaire

The research interview will normally last about an hour. There are set of question relating to the Kurdistan Region's current situation in particular and Iraq as whole in regard to FDI. This is to identify the advantage and disadvantage of Kurdistan Region for FDI considerations.

You will be asked if you agree to the interview being audio-recorded. If you do not agree to this, the researcher will take written notes during the interview. If you do agree you may still ask for the tape recorder to be turned off at any point during the interview.

If the questionnaire was send to you by e-mail or personal contact it will involves you filling in a questionnaire about the advantage and disadvantage of investing in Kurdistan Region. The questions are also about Kurdistan Region's current economic situation, security and corruption, role of privatization and organizational efficiency, political risks, Central Government Influences and KRG's friendly policies toward FDI.

Will My Taking Part in This Study be Kept Confidential?

Yes (on your own request).

If you decided that your identity not to be identified;

You will not be identified to anyone other than academic supervisors and examiners of the project. Your name will not be recorded on any of the research notes that are made and kept as part of the research. All notes, tape-recording and other materials will be kept in secure storage. There will be nothing in any materials they may have access to that could identify the participants in the study or the organization they work for.

Who is Organization and Funding the Research?

The research is being undertaken as part of a program of academic study at Nottingham Business School, Nottingham Trent University, leading to the award of Doctorate of Business Administration.

Who Has Reviewed This Study?

This study has been reviewed by the Research Ethics Committee of Nottingham Business School, Nottingham Trent University.

Consent Form

1- I confirm that I have read and understand the information sheet dated for the above study and have had the opportunity to ask questions

2-I understand that my participation is voluntary and that I am free to withdraw at any time, without giving any reason.

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3- I agree to take part in the above study.

Name of participant:

Date

Signature

Name of Researcher: Shahin Hossin

Date: 12/12/2013

Signature



Appendix 3: Ethical Considerations and NTU Ethics Requirements

In recent years, organisational ethics has moved from a 'nice if we've time' to 'must do' issue (Maylor and Blackmon, 2005). Although ethics will not improve the study, the researcher should conduct each aspect of the research to the highest ethical standards. Bryman and Bell (2007) introduced 10 principles of ethical practice which should be considered by researchers before undertaking their research. These principles are: ensuring no harm to participants, respecting the dignity of research participants, ensuring the fully informed consent of research participants, protecting their privacy, ensuring confidentiality, protecting the anonymity of individuals or organisations, declaration of affiliation, honesty and transparency, and avoidance of misleading.

Prior to starting this research project, a form was signed by one of the author's supervisors, to signify that the proposed research conforms to good ethical principles and standards, before commencing any research in preparation for all documents. The author gave his assurance that all research fieldwork would conform to good ethical standards as provided in the guidance in the Nottingham Trent University (NTU) Graduate School Ethical Clearance Guidelines.

Potential interviewees were first approached through their respective departments, either by email or by phone calls, to arrange formal interviews. Once the interview appointments were granted (UK participants with the help of UK-KRG representative), a copy of the consent form was forwarded to the interviewees prior to the appointment or given to them before the interview started, to briefly explain the objectives of the research project, together with the topic of research questions.

Before conducting the interviews, the author explained the objectives and the purpose of the study. The consent form explained that participation in this project is entirely voluntary. Before the participants decided to participate the author made sure they understood why this research was being carried out and what it would involve. The author asked the participants to take time to read the information carefully and they were given permission to discuss it with others if they wished to. Finally, the author explained that if anything was not clear, or if

the participants would like more information, they could ask. The author also asked the participants to take time to decide whether or not they wish to take part.

The author explained that this research project is purely for academic purposes. The participants were assured that their names would not be recorded on any of the research notes which would be kept as part of the research. The participants were also informed that all materials would be kept in secure storage including the voice recording and data transcript. There would be nothing in any materials they may have access to that could identify the participants in the study. Finally the author explained that the participants' decision would be respected and they could withdraw at any time without giving any reason (please see appendix 2 for consent form).

Appendix 4: Interview Questions

1. What is/are the main risk/s facing MNCs when considering investment in Kurdistan region as a post-conflict, autonomous region and its affect MNCs' mode of entry?

By asking the following interview questions, the author intends to explore the main risks involved in investing in a post conflict region (Kurdistan region) (political, market, legal and cultural risks in particular established in the literature review and how these risks can affect the MNCs' mode of entry in the region) (Al-Khoury and Khalik, 2013; Berdal and Malone, 2000; Brown, 2005; Butler and Joaquin, 1998; Collier and Hoeffler, 2000; Fearon and Laitin, 2003; Kehl, 2010; Klein, 2004; Hayakawa et al, 2013; Henisz, 2000; Humphrey's, 2005; Ismael and Ismael, 2005; Janeba, 2002; Janicki and Wunnava; 2004; Jenson, 2003; Jenson and Young, 2008; Middle East Monitor, 2008; Olson, 1991; Rangwala and Herring, 2005; Shneider and Fery, 1985)

1.1. What are the driving factors and the barriers facing MNCs when investing in Kurdistan Region?

1.1.1 What are the main driving factors encouraging MNC's to invest in Kurdistan Region and Iraq (from the FDI point of view)

1.1.1. What factors are barriers affecting MNC's when considering investing in the region? (MNCs from UK and Turkey)

1.1.2. What are the main risks facing MNCs wishing to invest in the region?

1.1.3. Does Iraq's overall situation can affect the region's attractiveness for FDI consideration? (If so, in what way?) (Al-Khoury and Khalik, 2013; Brown, 2005; Ismael and Ismael, 2005; Klein, 2004; Rangwala and Herring, 2005;)

1.1.4. Does Iraq's violent history can affect MNCs decision making when considering investing in the region? (Collier and Hoeffler, 2000; Jenson and Young 2008)

- 1.1.5. What is the affect of unclear political process of Iraq in general and Kurdistan Region in particular on the level of FDI inflow into the region? (Collier and Hoeffler, 2000; Kehl, 2010; Klare, 2001)
- 1.1.6. Do the disputes between KRG and central government (especially over the production of oil and gas) can affect the level of FDI into the region? (Berdal and Malone, 2000; Fearon and Laitin, 2003; Humphrey's, 2005, Kehl, 2010)

Mode of Entry (Uppsala theory) (Johanson and Vahlne, 1990)

1.2. What is the reason/s lack of long term foreign investment in Kurdistan region?

1.2.1. Despite the risks involved in investing in the region, why are MNCs entering the region? (Galbraith, 2003; Khalaf and Sieff, 2009)

1.2.2. Do the risks facing MNCs when considering investing in Kurdistan region can affect MNCs' modes of entry? (If so, in what way?)

1.2.3. Does the Kurdistan market's condition on its own have the resources to attract foreign investors? (If so, please explain)

1.2.4. Is Kurdistan region's market treated independently or considered as a part of Iraq (from the foreign investor's point of view)? (Al-Khouri and Khalik, 2013; Brown, 2005; Ismael and Ismael, 2005; Klein, 2004; Rangwala and Herring, 2005)

1.2.5. Do MNCs consider Kurdistan as the gateway to the rest of Iraq and base themselves in the Region to familiar themselves with Iraq's market (to gain knowledge, Uppsala theory,)? (Khalaf and Sieff, 2009; Johanson and Vahlne, 1990)

2. What factors are considered by the target population to determine the attractiveness of Kurdistan Region's market for FDI consideration?

The author intended to explore the factor/s considered that shaped their judgments on the Region's attractiveness for FDI consideration (Behrman, 1968; Douglas and Craig, 2010; Goodnow and Hansz, 1972; Kaya, 2014; Khan and Akbar, 2013; Lee et al, 2014; Lu et al, 2014; Ojala and Tyrvaenen, 2007; Papadopoulos and Jansen, 1994; Tse et al 1997; Welch and Wiedersheim-Pual 1978; Whitelock and Jobber, 2004)

2.1. What factor/s do you consider when evaluating the Kurdistan market's attractiveness for FDI considerations? (Risks as well as potentials?)

2.2. Do target populations follow a systematic (Aguiar et al, 2012; Craig and Douglas, 2005; Kumar et al, 1994) or rational approach? (Buckley et al, 2007; Sarasvathy 2001; Zhenge, 2012)

2.2.1. How do you assess the risk situation in the Region for FDI considerations?

2.2.2. Do you have a checklist or a model when considering the Kurdistan and Iraq's market attractiveness? (If so, explain)

2.2.3. Do you use available databases (such as World Bank) when assessing the region market's attractiveness for FDI considerations? (If yes, explain)

2.3. Is your market evaluation based on your own personal experiences? (If so, why?)

2.3.1 How was your knowledge about Kurdistan Region's market condition formed and how has it affected your perception about the region's market attractiveness for FDI consideration? (Erramilli, 1991; Jobber, 2004; Kuo et al, 2012; Papadipoulos and Martin, 2011; Sakarya et al, 2007; Whitelock and Jobber, 2004)

3. What is the effect of promotional boards and departments (target population) in those countries (Turkey and the UK) hosting MNCs with the potential to invest in Kurdistan, on facilitating inward investment and representing Kurdistan market's appeal?

The author asked the following interview questions to explore participants' roles and their effect on MNCs considering investment in Kurdistan region.

3.1. What is/are your clients' enquiries related to the Kurdistan market in general?

3.2. What is your advice to your clients (MNCs) enquiring about the Kurdistan market?

3.3. Do you advise your clients (MNCs) about the Region's market potentials as well as the risks involved in investing in the Region?

3.4. What is your role in presenting the Kurdistan market's potential to your clients (domestic MNCs)?

3.5. Is your advice on the region's market attractiveness considered by your clients? (If so in what way?)

At the end of interview, the author asked the participants if there was anything they would like to add that is not mentioned during the interview as a point of concern or interest related to the subject. Furthermore, the author asked the participants about their opinion on what KRG could do to improve the level of FDI into the region.

Appendix 5: Data Presentation

<p>Turkey and UK MNCs investment in Kurdistan Region;</p>	<p><i>-Turkish companies are among the highest number of foreign investors in Kurdistan Region.</i></p> <p><i>-Turkish companies are mainly exporting goods and they are involved in construction contracting but not committed long term investment.</i></p> <p><i>-Turkish companies do not need to commit to long term investment in Kurdistan Region 'unless Turkish MNC's have an eye to distribute to the rest of Iraq.</i></p> <p><i>-In the beginning the British government didn't encourage UK MNCs to do business with Kurdistan Region ... because they didn't want to upset Central Government.</i></p> <p><i>-The reason for British companies' not entering Kurdistan Region is not the risk factors but it is entirely to do with the price.</i></p> <p><i>-UK MNC's offer high quality standards product and services at higher prices ... Turkish companies is that we (Turkish companies) are neighbours, and 'we have easy access to the region, cultural similarities and our companies are faced with lower operation and logistics costs' compared to Europeans companies.</i></p> <p><i>-There are some sectors which British companies can provide where Turkish companies can't deliver such as advanced architecture design, healthcare and security, and education.</i></p>
<p>The risks involved to invest in Kurdistan region</p>	<p><i>-Iraq is an uncertain location for foreign investors ... 'I don't see political stability ahead.</i></p> <p><i>-Iraq and Kurdistan Region carry a high level of political and market risks.</i></p> <p><i>-Kurdistan Region is part of Iraq, the overall image is about Iraq and</i></p>

	<p><i>Baghdad, and Iraq is not a safe place for business.</i></p> <p><i>-The risk is not only from regional level but also from Central Government regulations too.</i></p> <p><i>-Kurdistan market is not a common market and the common element of common market is not coming with it.</i></p> <p><i>-KRG's aspiration for independence is posing risks.</i></p> <p><i>-Unless KRG and Central government are to reach an agreement over the production of oil and gas the tension will grow.</i></p> <p><i>-We are keen to watch oil companies' issues with Central Government.</i></p> <p><i>-Despite all the risks, we want to be the first to enter the market (Kurdistan Region)'.because; 'the rewards are huge and it is very profitable to be here.</i></p> <p><i>-Long term investment in Kurdistan Region means giving money away.</i></p> <p><i>-It is impossible to predict the future of Kurdistan Region's market.</i></p> <p><i>-We want to see the market has a transparent tax regime, exchange control, absolute power of repatriate capital and repatriate dividend, and minimum tax in and out of host market.</i></p> <p><i>-The region's lack of banking efficiency and delayed payments toward MNC's projects in Kurdistan region can be considered as a risk.</i></p> <p><i>-In Kurdistan Region to seal a deal you need the approval of some powerful individuals belonging to one particular party.</i></p> <p><i>UK and Kurdistan Region's 'cultural differences are not an issue,</i></p> <p><i>-There is no guarantee that Central Government will not block investment in other sectors in Kurdistan Region as it did with the oil industry.</i></p>
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<p>Advantages of investing in Kurdistan region and Iraq</p>	<p><i>-The region's high level of security (compared to the rest of Iraq), rich natural resources (Kurdistan region and Iraq), good investment law, good political relations with Turkey, and high demand in all sectors (Kurdistan region and Iraq) are the advantages.</i></p> <p><i>-KRG is very impressive with financial resource that's why we encourage British MNCs to consider Kurdistan Region as a potential market.</i></p> <p><i>-It (Kurdistan market) is developing a lot faster than any other Middle Eastern country in the region.</i></p> <p><i>-There are fantastic opportunities across the whole of Iraq but engagement is central parts of Iraq are always limited ... KRG implemented more practical investment and custom law compared to the rest of Iraq.</i></p> <p><i>-The effort by KRG toward FDI is much more effective compared to Baghdad administration.</i></p> <p><i>-Kurdistan Region is a less complex market and government is more open to businesses.</i></p>
<p>Disadvantages of investing in Kurdistan region and Iraq</p>	<p><i>-The country's current unstable situation, internal ethnic conflict, unclear future political process of Iraq as well as Kurdistan region, lack of security in the rest of Iraq, the impact of central government regulations, corruption, and lack of banking system as the region's weaknesses.</i></p> <p><i>-There is no future stability ahead of Kurdistan Region, because the conflict with Baghdad is open and there does not seem to be any long term solutions' which is 'Preventing long term foreign investments' ... and 'there is no sign of it (ethnic conflicts within Iraq) stopping.</i></p> <p><i>-The total image is about the whole Iraq, and there is a long way to go to see a stable Iraq.</i></p>

	<i>The unclear political process in Iraq as whole and Kurdistan Region in particular is affecting the level of FDI into the region.</i>
Stakeholders' Market Evaluation and Decision Making regarding Kurdistan Region's Market	<p><i>-My market evaluation is based on my own personal experience.</i></p> <p><i>-I believe MNCs should physically and actually going out there (Kurdistan Region) with companies to see the situation myself.</i></p> <p><i>- we decided to be the first in the market' because it is very profitable to be in the Kurdistan market (based on personal experience.</i></p> <p><i>-My decision process was formed after participating in one of KRG's trade and investment conferences in London.</i></p> <p><i>-Kurdistan Region is a special place and most definitely is a safe and secure place that UK companies can and should do businesses We did not look at any data about Kurdistan Region.</i></p> <p><i>-Although you don't have a business model which is applicable to all markets, Turkish MNCs use both approaches before investing in the international market.</i></p> <p><i>-The Turkish government realised that Kurdistan Region has the resources that we need (oil and gas) And our engagement is without a detailed analysis of market'.</i></p> <p><i>-Our advice is about the business opportunities in Kurdistan Region ... not telling them to invest or not ... but we refer our clients to look at recent articles, for example The Economist and other journal But I trust my judgments (personal experience).</i></p> <p><i>-We advise MNCs to go and see the business potential themselves.</i></p> <p><i>Now it is different because we know there is business potential ... that's why we encourage British MNCs to consider Kurdistan Region as a</i></p>

	<p><i>potential market.</i></p> <p><i>-we encourage MNC to visit Kurdistan Region.</i></p> <p><i>-Despite the risks we want to be the first to Kurdistan to get a better deal.</i></p> <p><i>-We encourage British MNCs to consider Kurdistan Region as a potential market.</i></p> <p><i>-We are giving them the choice whether to invest or not invest but we encourage them to consider Kurdistan market.</i></p> <p><i>-Turkish MNCs' involvement in Kurdistan market is Turkish government's 'strategic decision' that's why we encourage MNC to enter Kurdistan market.</i></p> <p><i>-Kurdistan Region is the gateway to the rest of Iraq' and their long term intention is 'to distribute to the rest of Iraq once the country is more stable.</i></p>
Other Factors	<p><i>-While the situation in the rest of Iraq remains unstable, Kurdistan region remains the gateway to the rest of Iraq.</i></p> <p><i>-Kurdistan's independence could be hard to achieve.</i></p> <p><i>-KRG should remain as part of Iraq and try to reach an agreement and overcome their disputes, especially over the production of oil and gas.</i></p> <p><i>-Kurdistan is better off remaining part of Iraq than becoming an independent weak state ... and trying to compromise ... for a certain level of independence within Iraq ... this would reduce further political risk for foreign investors ... if not encouraging foreign investors.</i></p>