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MITIGATING EXTRA-FIRM RISK ENVIRONMENTS – THE CASE OF TURKISH FIRMS IN GERMANY

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ABSTRACT

Recent studies claim that the extra-firm environment as a causal driver for configuration processes in global production networks is understudied. The case of Turkish cross-border foreign direct investment into Germany is analysed to facilitate a better understanding of how transnationally embedded firms perceive and respond to extra-firm risk environments. The global production network lens frames the discussion, applying the analytical categories of embeddedness, risk and value. Qualitative interviews with 15 Turkish firm managers in Germany and 24 experts in the field of Turkish-German business relations were conducted. The analysis shows that transnationally embedded Turkish firms respond to extra-firm risks by deepening their territorial embeddedness in the host country. While mimicking domestic firms on the level of societal embeddedness, Turkish firms dissociate from risk narratives related to their home country and valorise their association with the German embeddedness context on the firm and network level.

Key words: global production networks; risk; embeddedness; Turkey; Germany; FDI

INTRODUCTION

Recent global production network (GPN) studies claim that the extra-firm environment as a causal driver of configuration processes in global production networks is understudied (e.g. Werner 2019; Bryson & Vanchan 2020; Françoso *et al.* 2020). Chan and Yang (2021), for instance, state that the dynamic institutional context of the firm's home and host regions is largely neglected within the debate on the configuration of production networks. The authors criticise the 'overemphasis on the capitalist dynamics [that] runs the danger of ignoring the role of institutions' in GPN analysis (Chan & Yang 2021, p. 2). Based on their review of the global value chain literature, Kano *et al.* (2020) call for research on the micro-level of organisation, to come to a conclusion about what motivations and behaviours drive individual firms to embed their value chains

in certain localities and markets. Most studies on embeddedness focus on the advantages and positive effects of being embedded in a specific geographical context. The negative effects and risks associated with the embeddedness process are rather neglected (Hess 2020; Wigren-Kristoferson *et al.* 2022). There are few exceptions in the field of economic geography (e.g. Grabher 1993; Ibert *et al.* 2019a; Völlers *et al.* 2021) that deal with negative effects and risks associated with the firms' embeddedness in a specific location (cf. Yeung 2021). Ibert *et al.* (2019b, p. 91), for example, state that 'the rising importance of 'reputation risks' is not yet considered systematically in this [GPN 2.0] framework'.

This article, therefore, aims to analyse how firms mitigate the risk associated with their home country's extra-firm environment embeddedness when re-embedding in a new extra-firm context. The GPN approach provides

three analytical categories (value, power and embeddedness) and four dimensions (firms, industries, networks and institutions) to analyse global production networks. The recent iteration, termed GPN 2.0, places the analytical focus on network dynamics, organisations and strategies within global production network structures. Within this approach, four explanatory variables are postulated as drivers of firm behaviour: cost–capability ratio, market imperative, financial discipline and risk (Coe & Yeung 2015). Considering the above, a GPN 2.0 lens frames the discussion of this article by applying the analytical categories of embeddedness, risk and value. Although these notions are borrowed from the recent iteration of the GPN approach, these concepts are blended with the help of socio-cultural viewpoints from economic geography and insights from international business literature. The developed conceptual framework builds the interpretive lens for the analysis. The purpose of this article is to (1) unravel the firm-internal perspective on how extra-firm risks are perceived, and (2) address the question of how firms mitigate extra-firm risk in transnational embeddedness contexts.

Following an explorative research design, the case of Turkish firms in Germany bridging two different extra-firm environments is analysed. This context represents emerging market firms from a relatively dynamic extra-firm environment (i.e. Turkey) that are transnationally embedded via outward FDI (OFDI) in a rather predictable extra-firm environment (i.e. Germany). This case study yields findings of how firm decision-makers perceive and strategically respond to extra-firm risks. The analysis is based on open semi-structured interviews with 15 managers of Turkish firms located in Germany and 24 experts within the field of German-Turkish business relations.

The remainder of the article presents the theoretical framework to analyse the case of Turkish firms invested in Germany. Followed by the research design of the explorative case study. The subsequent sections focus on analysing of the managers' perception of the extra-firm risk environment and firm-specific risk mitigation strategies. Finally, the results and implications of the case study are discussed.

FOREIGN DIRECT INVESTMENTS, EMBEDDEDNESS AND RISK

Firms active in international economic ventures, for example, via OFDI, are transnationally embedded within the socio-economic institutional environments of both their home and the host country (cf. Meyer *et al.* 2011; van Meeteren 2015; Revilla Diez *et al.* 2016). A rich body of literature on FDI addresses the significant role of the extra-firm environment by referring to the quality of the (economic) institutional environment. For instance, in terms of the degree of state interference in business procedures, state corruption level, the quality of contract enforcement, the trust-facilitating quality and the governance of the institutional environment in general (e.g. Du *et al.* 2008; Ascani *et al.* 2016; Rodríguez-Pose & Cols 2017). Due to the territorial manifestation of production networks in different spatial contexts, embedded firms are exposed to multiple extra-firm risk environments. The spatial contingent effects of risk exposure for firms and the agency of related mitigation strategies, vary depending on the affected value capture trajectories (cf. Micek *et al.* 2011; Schwabe 2020; Coe 2021).

Using the GPN 2.0 lens enables the analysis of (non)-economic actors, dynamic processes, firm strategies and organisational arrangements of production networks. Following the exposure of structural dynamics, firms engage, for example, in a set of actor-specific strategies in response to risk environments – for instance, an intra-firm coordination strategy – by internalisation of value-creating activities through OFDI. These strategies are related to the agency of decision-making that affects the firm's cost–capability ratio and value capture trajectory within existing global production network structures (Coe & Yeung 2015; Coe 2021). From a strategic perspective, firms are constantly reconfiguring and adapting the nature of their embeddedness. Through managerial processes, firms respond to place-based context dynamics (cf. Salder & Bryson 2019; Schwabe 2020). Recent studies in economic geography and international business indicate that institution-related risk in the home country can be negative drivers of OFDI.

Following this perspective, firms may follow an institutional escapism motive (e.g. Wu & Deng 2020; Chan & Yang 2021). However, the negative effects and nature of risk within production networks can be characterised *inter alia* as transmissive and amplifying. Thus, risk in one location can affect different (non-) firm actors and geographies across global production networks (Coe & Yeung 2015). Hence, by bridging different institutional environments, foreign firms often face risk on the structural level, for example, in the form of issues of liability of foreignness and socio-political legitimacy. In this way, firms may face resentment or scepticism from external stakeholders within the extra-firm environment of the host economy. Such challenges can be interpreted as reputation risk, and potentially limits the degree of embeddedness in the targeted host country environment (e.g. Micek *et al.* 2011; Mayes 2015; Coe 2021).

A strategic response to reputation risk is highlighted by Ibert *et al.* (2019a). The authors describe an actor-based agency to re-frame socially constructed intangible assets such as the (symbolic) value of reputation. This is done by firms employing a set of so-called geographical dissociation and association strategies. Re-reading Ibert's *et al.* (2019a) account, this perspective indicates a strategic and selective managerial practice of obscuring negative associations and signalling positive links of transnationally embedded firms. In this sense, strategies of dissociation and association can be understood as risk mitigation and adaptation strategies within the realm of dynamic embeddedness processes.

From a social-constructivist understanding, the geographical reference or representation mirrors a firm's embeddedness in a certain location. This may pose a value asset or reputation risk, forcing firms' decision-makers to react with an association (e.g. emphasising affiliation with the host environment) and a dissociation (e.g. symbolically decontextualising from home environment) strategy respectively. When strategically adapting to the host environment by signalling a certain degree of embeddedness, firms can use association and dissociation strategies to reduce reputation risks. To put it simply, this rationality of

indicating socio-cultural (de-)contextualisation, does not necessarily go hand in hand with geographical dis-embeddedness or network disarticulation processes (cf. Ibert *et al.* 2019a).

Studies (e.g. Pred 1967; McDermott & Taylor 1982; Fuller 2022) indicate that spatial contingencies and the exposed external environments a firm is embedded in, shape the principal firm decision-makers' perception of and response to risk. Following a social constructivist view, risk is the result of a subjective perceptual and ongoing process of how principal firm decision-makers make sense of, interpret and label phenomena as risks. This interpretation process of extra-firm risk dynamics relies on the feedback processes within the multi-scalar firm-environment interaction (cf. McDermott & Taylor 1982; Afewerki 2019; Fuller 2022). Within the GPN 2.0 debate, the Knightian distinction between risk (predictable and calculable) and uncertainty (unpredictable and incalculable) is quite prevalent (e.g. Bryson & Vanchan 2020). The GPN debate on risk is predominantly based on the assumption of a rational economic decision-maker whose agency is oriented towards maximising profit (Neilson *et al.* 2018). Here, this discussion deviates from this rational understanding and rather subscribes to an actor-based relational perspective on risk (cf. van Meeteren 2015; Deng *et al.* 2020; Fuller 2022). As Holton (2004, p. 20, 24) puts it: 'In the absence of objective probabilities (however defined), there can be no risks under his [Knight's] definition [...] At best, we can operationally define our perception of risk'.

Considering the above, the function of risk is rather to render the always uncertain future into (risk) narratives of expectation, upon which manageable strategic options can be generated and enacted (cf. Green 2000; Rafiqui 2009; Christiansen 2021; Lanari *et al.* 2021). Furthermore, the subjective interpretation of risk is intertwined and refers to a perceived value that is at stake (cf. Bryson & Vanchan 2020). To paraphrase Aven and Renn (2010), risk relates to outcomes or consequences of a value activity (cf. Billing & Bryson 2019; Yeung 2021). Therefore, context-sensitivity in analysing the subjective risk interpretation of transnationally embedded decision-makers requires a

relational geographical perspective on risk (cf. November 2008; Gong & Hassink 2020; Lanari *et al.* 2021).

In disclosing the place-specificity of economic and socio-cultural contexts of transnationally embedded firms analytically, Hess (2004) provides a threefold notion of embeddedness: societal, network and territorial. According to the author, it is the social character of the relationship between non-/economic decision-makers that defines embeddedness. Societal embeddedness refers to the influence of a decision-maker's cultural–historical provenance, which can affect how business is conducted. Network embeddedness recognises the relational and structural aspect of relationships between both individual actors and extra-firm organisations. The local place where firms are embedded is conceptualised as territorial embeddedness. This type of embeddedness highlights the influence of the socio-economic dynamics of a particular or transnational place(s) that decision-makers face due to the local manifestation of firm-related production networks (Coe & Yeung 2015; van Meeteren 2015). Thus, utilising a GPN 2.0 lens by combining the analytical categories of embeddedness, risk and value provide an essential link to analytically unravel the impact on managers' perception of and strategic response to extra-firm risk environments (cf. Rodrigue *et al.* 2011; Mayes 2015; Bryson & Vanchan 2020).

TURKISH EXTRA-FIRM ENVIRONMENT AND FOREIGN DIRECT INVESTMENT INTO GERMANY

As of the 1980s, and especially since the 2002 election of the Justice and Development Party (AKP), Turkey developed into a prosperous emerging economy, in terms of overall market performance and economic growth (cf. Heinemann 2016). Since 2013, the quality of policymaking in Turkey – for instance, applying an unorthodox monetary policy – has affected the predictability, economic stability and performance of the respective extra-firm environment (cf. Arslan & Furtana 2020; Cevik & Erduman 2020; Şahinöz & Coşar 2020).

The 2021 World Bank report (2021, p. 13) on Turkey's economic situation, states that for

2020, a 'loose monetary policy, coupled with high inflation is likely to have exacerbated capital outflows in Turkey'. Comparing the last quarter of 2019 and 2020, the local currency (Turkish lira) shows a drop in value of 30 per cent 'making [it] the worst-performing of thirteen EM [emerging market] currencies' (World Bank 2021, p. 13). External and internal events of political and economic risk have negatively affected the rating of the Turkish economy many times during the period 2002 to 2019 (Franz & Müller 2019; Arslan & Furtana 2020; Völlers *et al.* 2021).

Empirical evidence indicates that the dynamic Turkish extra-firm environment has a significant impact on the investment decisions of firm managers (e.g. Arslan & Furtana 2020; Cevik & Erduman 2020; Şahinöz & Coşar 2020). Hence, it can be assumed that this risk-prone domestic environment affects Turkish firm strategies (Alimadadi & Pahlberg 2014; Akçay 2020). Erdilek (2008, p. 754) points out that, next to traditional FDI motives, OFDI becomes 'a lifesaver for survival' for Turkish firms in the face of recurring domestic crises. In addition, Uray *et al.* (2012), when analysing the OFDI motives of Turkish firms investing in the European Union, highlight the vital role of intangible assets, like the firms' branding, to improve their reputation among EU customers (and business partners). Aybar (2016) also shows that cultural proximity and the existence of trade agreements *inter alia*, also play an important role in the choice of a geographical investment destination.

The historically developed socio-cultural relations through migration between Turkey and Germany offer a source of potentially highly qualified labour who facilitate cross-border economic relations through their linguistic and cultural competencies (cf. Müller & Franz 2019; Aydın 2019). Despite the historically close socio-economic relationship between Turkey and Germany, there are rather few studies in economic geography focusing on bilateral business and investment relationships between both countries. The coverage is mostly FDI-related or oriented towards German firms in Turkey, including investment patterns, knowledge transfer and the role of (re-)migrants, as well as the reaction of German firms to institutional change

in Turkey (e.g. Ilgün 2009; Yavan 2010; Ozcan 2018; Müller & Franz 2019; Völlers *et al.* 2021; Verfürth 2022). However, the relevance of switching the direction is also considerable, as Germany is one of the most relevant target markets in for Turkish OFDI in Europe (cf. Szigetvári 2020). The close relationship between Turkey and Germany has manifested itself through the strong migration movements since the 1960s, and through FDI, as well as trade relations between the two countries (cf. Tekin & Wessels 2019; Bagci *et al.* 2022). Germany is one of Turkey's largest export trading partners (UNCTAD 2022). Between 2009 and 2019, the annual growth of OFDI inflows into Germany equalled 17.7 per cent in relation to the average total Turkish OFDI growth rate of 6.53 per cent (CBRT 2023). This dynamic shows that Germany has become a more relevant target market for Turkish OFDI (cf. Szigetvári 2020). However, the period between 2013 and 2016 marked a turning point in Turkish-German bilateral relations. Certainly, at the time of the Turkish government's response following the failed coup attempt and the Armenian Resolution of the German Bundestag in 2016¹, the relationship was composed of recurrent political conflicts and bilateral tensions (cf. Şenyuva & Çengel 2022). Since then, the German public opinion can be characterised as being 'Turkey-sceptic' (Aydın 2019, p. 183). In this light, the case of how transnationally embedded Turkish managers in Germany perceive and respond to extra-firm risks provides compelling insights. This makes this case suitable for analysing emerging market firms transnationally embedded in a relatively familiar advanced economy (cf. Bagci *et al.* 2022).

RESEARCH DESIGN AND METHOD

At the interface between extra-firm level dynamics and the strategic firm-level response, is the deliberate agency of firm decision-makers (Coe & Yeung 2015; Coe 2021; Fuller 2022). The analysis focuses on the micro-perspective of Turkish firm decision-makers in Germany, rather than on sectoral- or firm specificities other than the firm's origin (see Coe & Yeung 2015; Afewerki 2019). Accordingly,

the central unit of analysis are the individual decision-makers, embedded within a firm that is likewise embedded, with a set of strategic aims of creating, enhancing or capturing value (Coe & Yeung 2015; van Meeteren 2015; Fuller 2022): '[...] firms do not make decisions, as decisions are made by individuals employed by firms' (Bryson 2022, p. 230).

An exploratory case study design was applied to generate insights into how firms' decision-makers perceive and respond to extra-firm risks. Hence, the results are not statistically generalisable and do not capture unobserved firm behaviour. Analytical generalisation is achieved through cross-case synthesis (Eisenhardt 1989; Yin 2018). The identification of managers is primarily based on a commercial firm database (Markus database, Bureau van Dijk) listed firms in Germany with Turkish FDIs. Due to the coronavirus pandemic circumstances and the research topic, contact with firm managers was challenging. Adapting the strategy during the empirical phase was necessary and required additional Internet and social media research (e.g. Xing, LinkedIn, and news reports). To identify experts in the field, the latter method was used exclusively. The selection of the interviewees followed a purposive and snowball sampling strategy.

The data collection took place between 2019 and 2022, and the in-depth interviews were primarily conducted via telecommunication devices (video conference systems) due to the pandemic situation. The case study is based on semi-structured interviews with 15 managers of Turkish firms in Germany. An additional 24 experts in the field of German-Turkish business relations were interviewed (Table 1).

Open-ended semi-structured interviews with managers give contextual insights and rationales about the firm's behaviour and strategies at the expense of representativeness (Schoenberger 1991). The interview guidelines were revised throughout the research process following further literature review and information provided by the experts and managers interviewed. The interviews with the managers focused mainly on the strategic reasons for the Turkish firm's investment in Germany and the managers' perceptions and reactions

Table 1. List of conducted interviews with experts (24) and managers (15) from 2019 to 2022.

Expert interviews			Manager interviews		
No.	Interview date	Interview ID	No.	Interview date	Interview ID
1	04.09.2020	Business Association 1	1	27.07.2020	Automotive 1
2	07.04.2021	Business Association 2	2	09.12.2021	Ceramic 1
3	08.01.2020	Chamber of Commerce and Industry 1	3	20.01.2022	Ceramic 2
4	14.01.2020	Chamber of Commerce and Industry 2	4	22.01.2022	Ceramic 3
5	23.07.2020	Chamber of Commerce and Industry 3	5	28.01.2022	Ceramic 4
6	29.07.2020	Chamber of Commerce and Industry 4	6	07.08.2020	Chemical 1
7	15.04.2021	Chamber of Commerce and Industry 5	7	11.12.2019	Furniture 1
8	12.05.2021	Consulting Firm 1	8	17.11.2021	IT 1
9	09.02.2022	Consulting Firm 2	9	26.11.2021	IT 2
10	27.07.2020	Economic Development Agency 1	10	17.11.2021	Logistics 1
11	26.08.2020	Economic Development Agency 2	11	23.12.2021	Logistics 2
12	15.12.2021	Economic Development Agency 3	12	13.07.2020	Textile 1
13	21.12.2021	Economic Development Agency 4	13	26.11.2021	Textile 2
14	26.06.2020	Foreign Trade and Marketing Agency 1	14	03.12.2021	Textile 3
15	01.07.2020	Internationalisation Agency 1	15	27.03.2022	Textile 4
16	08.07.2020	Investment Agency 1			
17	25.08.2020	Investment Agency 2			
18	01.11.2021	Investment Agency 3			
19	26.11.2021	Investment Agency 4			
20	07.01.2022	Investment Agency 5			
21	02.07.2020	Law Firm 1			
22	29.07.2020	Law Firm 2			
23	12.08.2020	Law Firm 3			
24	09.02.2022	Law Firm 4			

of the firm to the challenges associated with this venture. Before each interview, web-based desk research was carried out on each interviewee's organisation. In case of a manager interview, a short questionnaire was conducted to generate background information (i.e. date of investment, firm structure and functions, size and sector) to contextualise the interview dialogue. The experts were selected based on their expertise in the field of German-Turkish business and investment relations. The expert interviews covered topics related to challenges, opportunities and strategies of Turkish firms investing or operating in Germany. The interviews with experts in the field enabled the identification of themes and the verification as well as the validation of managers' statements (cf. Yin 2018). Except for one interview which lasted about 30 min, all interviews lasted about one to one and a half hours. With the explicit agreement of the interview partners, the interviews – carried out in German and English – were recorded and fully transcribed.

Based on the developed conceptual framework, the empirical results were interpreted in rounds of qualitative coding of the interview transcripts. The codebook was iteratively revised throughout the process. The analysis procedure was realised via computer-assisted analysis software. For this article, German language quotes from the interviews were translated into English by the author (cf. Table 2).

MANAGERS' EXTRA-FIRM RISK PERCEPTION OF TURKISH FIRMS IN GERMANY

Within their home market environment, Turkish firms are confronted with a relatively high degree of external risk exposure. The embeddedness within the Turkish extra-firm environment renders these firms susceptible to political and economic risk, leading to fewer value-creation opportunities and a weaker overall market position. 'In Turkey,

Table 2. *Example of qualitative coding (own table).*

Code	Indicator	Example
Extra-firm risk	Political situation; changes in customer relations; consequences or problems for firms; risk transfer	'The [positive business development] came to an abrupt end with the political situation in Gezi Park. [...] that changed our relationship with our customers. [...] the political skirmishes [between Turkey and Germany] [...] ruin a lot'. (Textile 1)
Reputation risk	Manage external communication; belong to Erdoğan; perception of Turkey and Turkish investors; political situation	'For me, the most important thing was how to manage communication with the external environment. What I have always noticed here [in Germany]: Entrepreneurs who have been told, "with you I do not do business, you belong to Erdoğan". [...] the Turkish name equals Erdoğan'. (Business Association 1)
Societal embeddedness: Association/dissociation	Hiding Turkish origin; German name; German firm; image of Turkey; bank account	'[...] on the subject of image, which is also addressed [by Turkish firms investing in Germany]. Then they [the managers'] say: "Yes, [interviewee's name], we want to be perceived as a German firm, but if [Turkish bank name] [...] is written somewhere in my billing address, then the German entrepreneur will, of course, know directly what is behind it [...]". (Investment Agency 1)
Territorial embeddedness: Association/dissociation	Perception as premium manufacturer; brand perception; Turkish origin hampers; profit surplus	'[...] it is important to be perceived as a premium manufacturer. [...] [W]e would also like to enhance the [firm name] brand. [...] It's not so easy to be perceived as a well-known brand from Turkey in Western Europe. With the acquisition of [firm name], we expect to be perceived in this way'. (Ceramic 2)
Network embeddedness: Association/dissociation	Distribution from Germany; German product versus Turkish product; profit surplus; network position	'[...] we sell [our products] already [to] French, Italian, English markets [...] Germany is a hub for us [...]. Everything is produced in Turkey, but we have warehouse logistics in [German city name]. By the activity [investment in Germany], we have increased the turnover of the firm from 11 to 30 million'. (Furniture 1)

institutions are an issue [...] of stability, also in exchange rates [...] – in terms of the presidential office and the central bank' (Ceramic 1). Thus, the extra-firm risk environment has implications for the cost–capability ratio and, in turn, for the firm's value trajectories (cf. Coe & Yeung 2015). Domestic firms face significant economic risk due to the local currency depreciation: 'In the domestic market, you now have to work four times as hard as

you did in 2015 to maintain anything like the level you have achieved. [...] before our savings that we have built up slowly melt away' (IT 2).

Part of the strategies that the interviewed firms have chosen to reduce the extra-firm risks in the domestic market, is to turn to other markets and locations: 'We – as domestic [Turkish] firms – must also go other ways by trying to offer our services [...] in other

economic regions, such as Germany' (IT 2). The perception of the home market extra-firm risk environment seems to contribute to motivating investors to be transnationally embedded within a more predictable German environment (cf. Erdilek 2008; Fuller 2022). This involves leveraging existing economic relationships to establish a presence within Germany as one of the key target markets (Investment Agency 1; Investment Agency 4). The firm managers interviewed mentioned the stability and predictability of the German in contrast to their home extra-firm environment as one important reason for choosing to invest in Germany. One firm manager summarises the situation like this: 'The main reason [to invest] was the stability of the German economy. Turkey has a big economy as well. But having a business in Turkey is like living in a jungle' (IT 1). Another interviewee (Chemical 1), for instance, even reported that the decision was made to move the corporate headquarters from Turkey to Germany. This decision was prompted by the perceived need to reduce the extra-firm risk of recurring political and economic crises faced by the Turkish parent company. 'That [stability] was the first reason why we went to Germany. Since [19]92, I have experienced ten crises. Devaluation, crisis, earthquake, no government, government problem, politician problem, now we almost have war. How are you going to plan anything in the long term?' (Chemical 1).

The empirical evidence suggests that part of the motivation of the interviewed firms to invest in Germany, is to reduce the perceived extra-firm risk exposure of the Turkish location (cf. Coe 2021). By leveraging what Coe and Yeung (2015) term an intra-firm coordination strategy, the firms can embed transnationally into a more predictable German environment via OFDI.

Although Turkish firms choose to invest in Germany to reduce perceived extra-firm home country risk exposure, risks remain due to their transnational embeddedness. Turkish firms investing in Germany improve their capabilities while reducing, but not getting rid of, the external risk environment of their home country. 'We, of course, draw loans from banks in Germany, Holland, and so on, whose

mother [parent companies] are Turkish banks. If the country's risk increases, we could then also have greater problems financing our business here [in Germany]. This then leads to the fact that the shareholder must then bring in capital himself through investments. [...], but it could be that the Turkish state will also impose restrictions because nowadays you can't rule anything out' (Ceramic 1).

Additionally, by investing in Germany, the Turkish firms facing a socio-political environment turns out to be highly sensitive to political issues (cf. Şenyuva & Çengel 2022). As a firm from Turkey, German subsidiaries seem to be associated with the risk-prone Turkish environment by external stakeholders in the host environment. In this way, the Turkish extra-firm risk environment transmits via the production network and value chain. The effects extend across the relationally connected locations and necessitates to be strategically addressed also within the host environment (cf. Coe & Yeung 2015; Mayes 2015). Appearing as narratives of prejudice and scepticism against the Turkish origin, the extra-firm risk in the host country is perceived as reputation risk by the affected firms. 'We simply have a prejudiced situation [...] there are many [Turkish] firms that deliberately give themselves a German name for their German subsidiary [...] because they are aware that they would simply have problems in the market with their Turkish parent company name. [...] this includes the political dimension' (Economic development agency 4).

RISK MITIGATION STRATEGIES

The results of the analysis indicate that Turkish firms respond to the transnational extra-firm risk environment with strategies of association and dissociation through the territorial, societal and network dimension of embeddedness (cf. Ibert *et al.* 2019a). Overall, being embedded and associated with the German context environment becomes an option to spatially diversify extra-firm risk exposure. To indicate this association, it is valorised at the level of network embeddedness throughout the production network and value chain. For example, it enables Turkish firms to use transnational advantages, new

Table 3. *Functions of embeddedness dimension of transnational-embedded Turkish firms in Germany (own table based on Hess 2004).*

Embeddedness dimension	Effect/Function
Territorial	Reducing perceived home country extra-firm risks via OFDI as intra-firm coordination strategy
Societal	Mitigating perceived reputation risks by mimicking German firms
Network	Turning perceived risks into asset value via enhancement opportunities within production networks/value chains

value capture capabilities and production network structures (cf. Werner 2019). The empirical analysis also resonates with what Coe and Yeung (2015) identified as an intra-firm coordination strategy to mitigate home-based extra-firm risk environments. Seeking to reduce perceived extra-firm risk, the transnationally embedded Turkish firms use mimicry strategies on the level of societal embeddedness to deepen the degree of territorial embeddedness in Germany (cf. Coe & Lee 2013). In accordance with Ibert *et al.* (2019a), the firms adapt and associate themselves to the German context environment. By reframing their representation, the Turkish firms dissociate from the proliferated extra-firm risk narratives of their home country (cf. Table 3).

Strategies regarding the societal and territorial embeddedness dimension – An expert (Law Firm 1) reported having several requests from Turkish firms to be explicitly perceived as a German firm. For example, one should not be able to conclude from the firm's name that they are of Turkish origin. Several managers and experts confirm that especially political issues associated with their Turkish embeddedness pose a risk of distrust and scepticism for their business relations with external stakeholders (e.g. Business Association 1; Investment Agency 1; Automotive 1). Turkish firms in Germany respond to this reputation risk by strategically emphasising a high degree of societal embeddedness in the German environment. An example is a Turkish IT firm: By persuading the general manager in Turkey to prioritise increasing the firm's territorial and societal embeddedness in Germany, the interviewed manager took a proactive approach to mitigate the perceived reputation risk associated with

the Turkish subsidiary. He proposed setting up a German bank account with the strategic goal of signalling dissociation from the Turkish and at the same time association with the German environment: '[T]o be integrated as a firm here [in Germany], and the project partners then say "this is a serious firm" [...] Because a lot of people, business partners also put things together. To stop something like that in an early stage and say, "hey, we're just like any other normal German firm"' (IT 2). This strategic adaptation and risk mitigation as part of the German embeddedness process can be understood as a mimicry strategy on the level of societal embeddedness, which deepens the degree of territorial embeddedness (cf. Coe & Lee 2013).

Firms try to minimise the external representation of their embeddedness in Turkey, to be perceived as a highly embedded firm in Germany. The strategy aims to establish trust-generating business relations with other stakeholders (cf. Billing & Bryson 2019). Mimicry strategies masquerading as societal embeddedness in Germany, include organisational adaptation measures, such as the firm's name, the billing address and the appointment of a German or at least linguistically highly capable manager (e.g. Automotive 1). The firms' strategic response to the effects of extra-firm risk that extend across the Turkish-German transnational embeddedness context, is a combination of association and dissociation. By adapting the degree of societal and territorial embeddedness, the embeddedness serves as a kind of platform to indicate association with the German environment (cf. Salder & Bryson 2019). This is done by the strategic investment in mimicking the same societal and territorial embeddedness as German firms have. Referring to Ibert *et al.* (2019a), the

Turkish firms simultaneously blur their representation as a Turkish firm and dissociate from the extra-firm risk narratives related to their country of origin.

Strategies regarding the network embeddedness dimension – This mimicry strategy of societal embeddedness to strengthen territorial embeddedness has advantages not only in terms of dissociating from Turkish context. On the level of network embeddedness, the association to the German, and the dissociation from the Turkish environment can be also utilised vis-à-vis external stakeholders in other countries (cf. Ibert *et al.* 2019a; Werner 2019). As several managers confirmed, the choice of location in Germany serves as spatial risk mitigation to reduce the home country's extra-firm risk exposure; on the level of network embeddedness, it also contributes to a new position with improved value creation opportunities (e.g. Chemical 1; IT 1, 2; Textile 3). 'I'm not a German citizen, but my firm is German. So, when I represent my firm, people react to me like I am a German' (IT 1). This statement from a Turkish manager emphasises the significance of the perceived societal embeddedness of the German subsidiary. Not just that it reduces (potential) reputation risks, but also it has implications for the firm's value trajectories at the level of network embeddedness (cf. Coe 2021). Emphasising association with the German embeddedness context, they can be perceived as more reliable or even indigenous German firms by potential external stakeholders. This may ultimately lead to the creation of new value-creating opportunities.

Appearing to be strongly associated with the German context environment by mimicking a domestic firm, the firms can also gain advantages vis-à-vis the customer across the transnational embeddedness context. One interviewee (IT 1) offers the same service in Turkey and Germany, but, as the manager reports, some of his Turkish customers prefer to get the service done by the German subsidiary at a higher price: 'Made in Germany is something valuable. [...] [W]e have maybe 10–15% of our customers in Turkey, and they like to buy German products [...] [because

of] its reputation'. The association effect described above also enhances the network capabilities of those firms. Regarding the division of labour in the production network, the same division is used that German firms use, signalling the function of the mimicry strategy beyond societal embeddedness. In other words, having labour- and cost-intensive production facilities in Turkey, and a value-creating position due to the German embeddedness context also has implications on the level of firms' network embeddedness. The transnationally embedded firms may re-configure their value-capturing trajectory at the firm and network level respectively (cf. Werner 2019). In this way, they take advantage of the locational benefits of Turkey (e.g. low production cost, highly qualified workforce and infrastructure) and exploit the assets of both countries, for example, by using the branding 'Made in Germany' (cf. Uray *et al.* 2012; Szigetvári 2020). The transnational network embeddedness puts the Turkish corporations in a unique position of competitive advantage. 'We can use the price advantage of Turkey [and] [...] getting the benefits of two countries' (Textile 3).

At the same time, interpreted through the lens of association and dissociation strategies, the German embeddedness context provides an intangible asset (reputation and trust), which can be leveraged as a firm's capability to couple with other production networks (cf. Ibert *et al.* 2019a). Once a certain threshold degree of embeddedness is reached, the German association predominates the Turkish. The home country-related reputation risks are transformed into an asset by representing association with the German embeddedness context. This managerial practice involves symbolic decontextualisation from the framing of being embedded in a risk-prone Turkish environment (cf. Figure 1).

'Having a firm in Europe also gives a high level of confidence towards other firms. Germany is a very stable country. [...] If you have a firm in Germany, that is also prestigious. We have also heard that in America [...], "wow you have your own Ltd. [...] in Germany". That is prestige and trust that the firm is reliable [...]' (Textile 3).

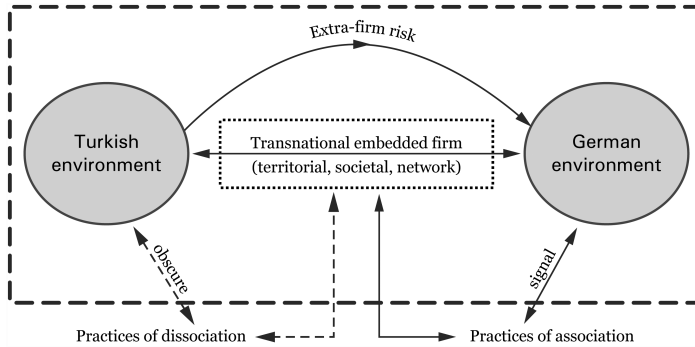


Figure 1. A conceptual schema of extra-firm risk and firms' response within the context of a transnational production network (own design based on Hess 2004; Coe & Yeung 2015; van Meeteren 2015; Ibert *et al.* 2019a).

CONCLUSION

Following an exploratory case study design, the empirical results point to the assumption that transnationally embedded Turkish firms mitigate extra-firm risks by deepening the degree of territorial embeddedness in the host country. Even though the Turkish firms appear to use an intra-firm coordination strategy in investing in a more predictable and stable German market, they are still confronted with extra-firm risk narratives related to their home country (cf. Coe & Yeung 2015). These risk narratives seem to be transferred from home to host environments rendering Turkish firms susceptible to reputation risks in Germany. The firms' respond to this extra-firm risk environment using embeddedness as a strategic platform. Through deepening the degree of territorial embeddedness in Germany, the firms mimic domestic firms in their external presentation through practices of association. At the same time, the firms decontextualise (dissociate) themselves from extra-firm risk narratives related to their home country (cf. Coe & Lee 2013; Mayes 2015; Ibert *et al.* 2019a). In this way, the Turkish firms interviewed created, for example, a German bank account, adopted a German-sounding firm name and installed a German (or at least linguistically highly capable) manager. Representing a strong association with the German context environment also leads to effects across the production network. This association creates opportunities to enhance value creation trajectories on the firm and network levels. As a result, Turkish firms

can reduce and transform some perceived extra-firm risks into value assets by exploiting the location advantages of both countries on the level of network embeddedness. Thus, Turkish firms potentially gain an enhanced network position and competitive advantage over local firms (cf. Uray *et al.* 2012; Werner 2019; Szunomár 2020).

Thus, territorial and societal embeddedness may serve as a toolkit to adapt to transnational extra-firm environments with implications for the network embeddedness. Firms' risk mitigation practices of dissociation and association, strategically employed via different embeddedness dimensions, have the potential to (re-)shape value capture trajectories within transnational production networks and value chains (cf. Hess 2004; Coe & Yeung 2015; Ibert *et al.* 2019a).

The perception and firm-level responses of the firm managers seems to be sensitive to place-specific transnational extra-firm risk environments. Employing a GPN 2.0 lens by combining the analytical categories of embeddedness, risk and value enabled a context-sensitive and actor-based analysis of extra-firm risk environments. In combination with the dissociation perspective, both lenses provided fruitful and enriching analytical access to managers' risk perception and firm-level mitigation strategies. Within the GVC and GPN debate, this heuristic promises useful empirical application. For example, by conceptually envisioning societal, network and territorial embeddedness more strongly as a strategic device rather than a mere spatio-analytical category. A dynamic embeddedness perspective, on the other hand, can open new vistas for

empirical research avenues which may fertilise debate on geographies of dissociation (cf. Ibert *et al.* 2019b; Coe 2021; Wigren-Kristoferson *et al.* 2022).

Undoubtedly, in an intricate and dynamic global economy, reactions to extra-firm risks are not the only factor explaining the firm's motivations and behaviours (cf. Uray *et al.* 2012). How risk is perceived and mitigated may, indeed, also vary depending on the intra-, inter- and extra-firm context environment and the interpretation of principal firm decision-makers (Schwabe 2020; Coe 2021; Lanari *et al.* 2021). As such, the results are not representative and unobserved firm behaviour is certain.

However, the empirical evidence covered in this explorative case study facilitate a better understanding of how transnationally embedded firms perceive and react to extra-firm risk environments (cf. Mayes 2015; Bryson & Vanchan 2020; Kano *et al.* 2020). This analysis also exemplifies an empirical interpretation of how risks transfer across production network manifestations in certain locations (cf. Coe & Yeung 2015). It would be interesting to delve deeper into investigating how subjective risk perceptions and narratives causally matter for multiple embedded firms and the (re)-configuration processes of their production networks and value chains.

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CONFLICT OF INTEREST STATEMENT

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Endnote

- On 02 June 2016, the German Bundestag decided to recognise the almost complete annihilation of the Armenian population (1914–1915) under the Ottoman Empire – which was carried out with the connivance of the German Reich – as genocide. The signal sent by this political statement led to sharp criticism on the part of the Turkish government (cf. German Federal Government 2023).

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