

RE-ORGANIZATION OF SUMERBANK
A. Study of Strategic Responses to Environmental Change

A THESIS

SUBMITTED TO THE DEPARTMENT OF MANAGEMENT
AND
THE GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
OF
BILKENT UNIVERSITY
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS
FOR THE DEGREE OF
MASTER OF BUSINESS ADMINISTRATION

By

Cihan Erkul

February 1989

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Thesis

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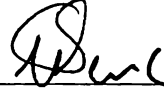
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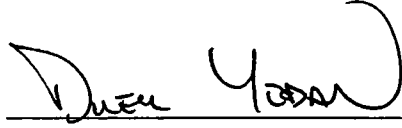
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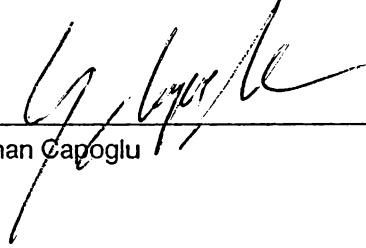
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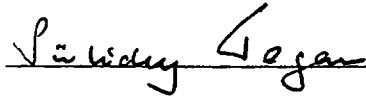
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ABSTRACT

RE-ORGANIZATION OF SUMERBANK

A Study of Strategic Responses to Environmental Change

Cihan Erkul

Master of Business Administration

Supervisor: Prof. Dr. Umit Berkman

February, 1989, v + 46 pages

The new economic environment in Turkey after the 1980 reforms posed strategic challenges to firms. The study of these challenges and of the actual responses of firms to these challenges in the form of new strategies may provide interesting case studies for management theory. In this thesis the strategic responses of a state economic enterprise, Sumerbank, to environmental changes are investigated. Sumerbank's strategy, formulated and implemented after 1982, was successful in many respects. However, it was not possible to procure the funds required for modernization investments because of governmental policies. As a result, the new strategy failed to enhance the profitability and viability of Sumerbank.

Keywords: Environment, Environmental Change, Strategy, State Economic Enterprises, Sumerbank.

ÖZET

SUMERBANK'IN RE-ORGANİZASYONU

Ortamdaki Değişime Stratejik Tepkiler Üzerine Bir Çalışma

Cihan Erkul

MBA Yüksek Lisans Tezi

Tez Danışmanı: Prof. Dr. Ümit Berkman

Şubat 1989, v + 46 sayfa

Türkiye'de 1980 reformlarından sonra oluşan yeni ekonomik ortam firmaları stratejilerini değiştirmelerine neden olmuştur. Ortamdaki değişikliklerin firmalar üzerindeki etkilerinin ve firmaların bu etkilere gösterdikleri stratejik tepkilerin incelenmesi işletme yönetimi kuramı açısından ilginç olacaktır. Bu tezde, Türkiye'deki bir kamu iktisadi teşebbüsünün, Sümerbank'ın, ortamdaki değişikliklere gösterdiği stratejik tepkiler incelenmiştir. Sümerbank'ın 1982 sonrası geliştirdiği yeni strateji bir çok bakımdan başarılı olmuştur. Ancak, bu dönemdeki hükümet politikaları nedeniyle, modernizasyon yatırımları için gerekli kaynaklar bulunamamıştır. Bu nedenle, yeni strateji Sümerbank'ın karlılığının artırılmasını sağlayamamıştır.

Anahtar kelimeler: Ortam, Ortamdaki Değişim, Strateji, Kamu İktisadi Teşebbüsleri, Sümerbank.

TABLE OF CONTENTS

1.	INTRODUCTION	1
2.	THE ENVIRONMENT, CHANGE AND STRATEGIC RESPONSE	3
2.1.	Environment and Change	3
2.1.1.	<i>Socio-economic sector</i>	3
2.1.2.	<i>Technological sector</i>	5
2.1.3.	<i>Supplier sector</i>	6
2.1.4.	<i>Competitor sector</i>	6
2.1.5.	<i>Governmental Sector</i>	7
2.2.	Strategic Responses to Environmental Change	8
3.	SUMERBANK AND STRATEGIC CHALLENGES	14
3.1.	Brief History of Sumerbank	14
3.1.1.	<i>Manufacturing</i>	15
3.1.2.	<i>Banking</i>	18
3.1.3.	<i>Retailing</i>	19
3.2.	Changes in the Environment of Sumerbank	20
4.	SUMERBANK'S NEW STRATEGY	30
4.1.	The New Strategy	30
4.2.	Strategies and Policies after 1982	32
4.2.1.	<i>Organizational Policies</i>	32
4.2.2.	<i>Marketing Policies</i>	35
4.2.3.	<i>Production-Operations Management Policies</i>	38
4.2.4.	<i>Research and Development Policies</i>	39
4.2.5.	<i>Personnel Policies</i>	39
4.2.6.	<i>Legal Policies</i>	40
5.	CONCLUSION	42
	REFERENCES	45
	VITA	46

1. INTRODUCTION

The firms operate in a dynamic environment. Socio-economic, technological, competitive and governmental factors which characterize the environment of a firm change continuously. A successful firm should revise its strategies in the face of these changes. A failure to adapt to environmental changes may lead to stagnation and finally to the bankruptcy of the firm.

The study of the responses of firms to environmental change is one of the most important fields of management research. Such studies show how firms alter their strategies in the face of new environmental factors and serve to demonstrate the effects of new strategies on the operations of the firm. In these studies, the management theory is applied to facts of business life.

The new economic environment in Turkey after the 1980 reforms posed strategic challenges to firms. The study of these challenges and of the actual responses of firms to these challenges in the form of new strategies may provide interesting case studies for the management theory.

In this thesis, a state economic enterprise, Sumerbank, is selected for this type of analysis. Sumerbank is one of the oldest state economic enterprises in Turkey. It recently developed and partly implemented a new strategy which generated substantial interest in the general public and academic circles. This thesis is a limited attempt to document this process.

No report or study is available on the assumptions and targets of Sumerbank's new strategy . Actually it was not developed as a result of a detailed strategic analysis and design, but as policy responses of a new management team to some urgent problems. It is usually called the 're-organization' of Sumerbank, but it is actually a strategic change in the orientation of Sumerbank.

As the process is not documented, the main information source of the thesis is a set of interviews conducted with the members of the new team. This information was supplemented with some unpublished reports on the operations of Sumerbank. The 're-organization' of Sumerbank continues at present. There are plans to substantially re-structure and privatize Sumerbank. The results of this re-structuring operation on the part of the government is difficult to guess at present.

The thesis is organized into five sections including this introduction. In the next section, the concepts of environment, environmental change and strategic responses to such changes are discussed. The third section gives a history of Sumerbank and discusses the environmental changes it faced in the recent past. The fourth section gives an account of the policy actions adopted by Sumerbank after 1984 in response to these changes. Finally, the thesis concludes with a summary of findings.

2. THE ENVIRONMENT, CHANGE AND STRATEGIC RESPONSE

2.1. Environment and Change¹

A large number of factors affect the firm within a given environment. Moreover, these factors interact with each other. There are many ways to organize different environmental factors for analysis and diagnosis. One approach is to divide the environment into a number of 'sectors'. Such categories as socio-economic, technological, supplier, competitor and governmental 'sectors' are used commonly. In what follows, we briefly describe the factors which affect the firm in each of these sectors.

2.1.1. *Socio-economic sector*

There are a variety of factors which affect the demand for products and services and the costs of producing them. These factors may be classified as economic, demographic, geographical and social factors.

Economic factors: The state of the economy at present and in the future can affect the prospects and the strategies of the firm. The specific economic factors that the firms should analyze include the following:

- The stage of the business cycle, that is whether the economy is in a depression, recession, recovery or boom;
- The inflationary or deflationary trends;
- Economic policies, especially monetary and fiscal policies;
- Fiscal policies, especially corporate and income taxes;
- Trade policies, especially tariffs and exchange rate policies.

¹ This section draws on Glueck and Jauch (1984:98ff).

Each of the above factors can help or hinder the achievement of the objectives of a firm and lead to success and failure of a particular strategy.

Demographic factors: The analysis of demographic factors is important in determining the demand for products and services. Economists and marketing experts often refer to demographic factors as *primary demand factors*. Among the important characteristics of the population which should be analyzed while developing a strategy for a firm are the following:

- The growth rate of the population and its segments;
- The age, employment, income distribution of the population;
- Urban and rural distribution of the population.

Geographical factors: A firm produces and distributes in different geographical locations. An effective strategist should hence continuously evaluate the locations in which the firm operates to identify opportunities and problems. According to this evaluation, the strategist may propose

- New locations to add to present locations;
- Relocation of certain premises to new locations;
- Closing of certain premises;
- Moving corporate headquarters to a new region.

The above types of decisions will naturally involve a careful analysis of economic, business, demographic and physical factors which characterize a geographical location.

Social factors: The last group of socio-economic factors which should be considered relates to the values and attitudes of the customers and employees. These values translate into life styles which affect the demand for products and

services. The values and attitudes are also important in the behavior of the employees.

A successful strategy should take into account these values and attitudes. The firm should monitor the changes in educational levels, social trends, new ideas and even fashions in order to assess their likely impact. The firm may then consider modifying its product and marketing strategies. The firm may also attempt to influence its customers to adopt desirable values and attitudes through public relations efforts. A particular strategy may also call for the changes in the behavior of the managers and the employees, especially of those having direct relations with customers.

2.1.2. Technological sector

Besides examining socio-economic factors for their possible impact on products, markets or ways of conducting business, the firm should also search the environment for new technologies relating to its raw materials, operations, products and services. New technologies can offer major opportunities for the profitability of the firm. Conversely, new technologies, if employed by the competitors, may threaten the market share or even the very existence of the firm.

Not all industries are likely to be equally affected by technological change. Some industries are more volatile in technology than others. Strategists in industries subject to rapid technological change should be more alert in assessing the impacts of new technologies than those in technologically stable industries.

2.1.3. Supplier sector

A firm procures the inputs it employs in production of goods and services from many suppliers. As the complexity of the product increases, as exemplified by the automotive industry, the number of such suppliers may reach hundreds.

The common practice in modern industries is to sub-contract for most of the parts of a particular product and produce those parts which may be produced with least cost and/or higher quality. This mode of operation provides a flexibility in production planning and cost control.

Hence, a firm should keep under constant review the costs and availability of inputs it procures (or it might procure) from suppliers. As a result of these reviews, following actions may be considered:

- Sub-contracting certain parts of a particular product to suppliers which may produce it with least cost or with better quality;
- Shift from a particular supplier to another if the latter is expected to provide a better service;
- Changes in relations with existing suppliers, e.g. in prices, payment terms, delivery schedules, quality standards.

2.1.4. Competitor sector

The state of competition a firm faces is an important dimension of the environment. Three factors need to be examined regarding competition: entry and exit of major competitors; substitutes for current products and services; and strategic changes implemented by major competitors.

Entry and exit of competitors: Competitors do come and go. The firm should analyze the likely impacts of entry of new competitors and exit of old ones. In the

case of new competitors the firm should consider actions to guard its market share, technological position and its image in the minds of its customers. If a competitor exits from the industry, the firm should consider actions to capture the market share of that particular firm. Moreover, the firm should (i) carefully analyze the strategic reasons affecting the entry and exit of competitors, and (ii) modify its own strategies according to this analysis.

Substitutes for current products: The competitors of the firm are not only confined to the other firms producing the same product as the firm, but also to those producing substitutes. In the case of substitutes, the characteristics of the substitute may be changed by the other firm in such a way to increase the 'degree of substitution' with the product of the firm. Hence the consumers may select this substitute which became more similar to the product the firm is selling and capture part of its market share.

Strategies of competitors: Product, market, pricing and advertising strategies of the competitors should also be continuously monitored for their likely impacts. A competitor may target a particular market segment, population group etc and may intensify its investments, product development, marketing efforts in that direction. An early understanding of such strategic decisions will help the firm to develop counter-strategies.

2.1.5. Governmental Sector

Governmental policies affect the way a business operates through legislation and regulations in such matters as wages and prices, taxes, employment conditions, health and safety at workplace, accounting principles, construction specifications

etc. These laws and regulations change continuously forcing the firm to devote substantial resources to following, evaluating, and implementing them.

Apart from these general governmental actions, governments do have industrial policies which favour certain industries and types of businesses. They provide explicit or implicit subsidies to these industries and they protect these industries through tariffs and other measures. Such actions of the governments increase or decrease the opportunity set of a particular firm.

The governments are also big consumers of products and services. Hence the level and composition of governmental spending directly affects the demand for the products of a particular firm. This effect may be direct or indirect. The government may either directly purchase the products of the firm or the governmental purchases may indirectly induce an increase in the demand through input-output relations between firms.

2.2. Strategic Responses to Environmental Change

Every firm has some sort of a strategy or a set of strategies. Whether the strategy is a detailed document or implicit in the minds and practices of the managers, it depends on certain assumptions about the environment.

As evident from the above discussion, the environment of a firm changes continuously. These changes are also interrelated, one change leading to others in other environmental sectors.

A business firm should continuously monitor these changes in the environment and their interrelations and analyze which strategic assumptions are invalidated with the advent of these changes. New assumptions should then be formulated and the overall strategy should be modified accordingly.

Hence, strategy development and updating is also a continuous and complex process. Its complexity increases with the complexity of the business itself and frequency of change in environmental factors.

Different sets of assumptions produce different strategies. It is the task of the management to make a detailed analysis of these strategic alternatives and choose the most appropriate strategy given the new environmental factors.

Once a strategy is chosen, new resources should be allocated to the business and new organizational structures should be designed and put into use. The planning and design of the latter is an important stage of the implementation of the chosen strategy.

Most of the above steps of strategy development and implementation is undertaken by the strategists. The strategists may be experts specialized in this field and/or the top management of the firm. Then comes the most important stage of strategy implementation, that is policy development and implementation.

Policy development is a process where the strategy is communicated to other parts of the firms, especially to subordinate managers.² Policies are developed to ensure that

The strategy is implemented;

2 See Glueck and Jauch (1984:347ff)

There is a basis for control;
The amount of time top management spend making decisions is reduced;
Similar situations are handled consistently;
Coordination across units will occur where necessary.

Policy development is a crucial part of the strategy implementation. Without policies a well-formulated strategy may be implemented in a faulty way, hence damaging the objectives of the firm incorporated in the strategy. The lack of policies may lead to confusion among the managers about the direction the firm has to take, about the proper course of action in a particular situation.

Policies should be practical, workable and compatible with other policies. They should reflect present or desired company practices. Policies should be developed in areas critical to firm's success. Moreover, the amount of policy-making should reflect the present and future size and complexity of the business. A small business may operate with a few policies. However if it is a small business growing rapidly it should start formulating a greater number of policies in crucial business areas. A big firm will have a large set of policies in place. These policies should be kept under constant review so that they are in conformity with the strategy of the firm. Any problems emerging because of inappropriate policies should be dealt with quickly.

Policies may classified into a number of areas: financial and accounting, marketing, production-operations management, research and development, personnel, legal and public relations policies.

Financial and accounting policies: These policies relate to financing of the firms' activities and projects and to accounting methods to be employed.

Among the financial policies, the most important ones relate to capital employed in the business. The capital may be acquired in the form of short-term and long-term debt or in the form of equity. The firm should have a set of policies about the composition of its capital in terms of above instruments. These policies should also be compatible with policies regarding to uses of capital. The firm should consider whether to buy or lease fixed assets. In the case of leasing, the working capital will increase, or alternatively, the need to borrow will decrease.

The firm must also chose among different accounting methods and practices. It may select LIFO (Last-In-First-Out), FIFO (First-In-First-Out) in the case of inventory accounting, or book value or market value of fixed assets. These accounting policies will have an impact on the after-tax profits of the firm.

Marketing policies: Marketing policies relate to the products, markets, distribution and promotion, and pricing.

The firm should develop policies about the products to be focused on, the new products to be developed, the markets to be targeted, the distribution channels, and the composition of promotional activities in terms of different media channels such as TV, newspapers, radio, direct-mail.

The most important set of marketing policies are related to pricing. In the case of new product, the firm should consider whether to price it below-cost to gain rapid sales volume or sufficiently above-cost to cover development expenses. In the case of established products, such policies as volume-discounts or different prices in different locations may be considered.

Production-operations management policies: The firm should develop policies relating to existing capacity and its level of utilization. If the current production capacities are inadequate under the new strategy, investments in new capacity should be considered. A related question arises in the latter case, that is where to locate new facilities. Policies should also be developed on equipment purchases for both the old and new production facilities.

Another area of policy-making in production management relates to sourcing of inputs. The important decision in this regard is the make or buy question. This decision depends on comparative costs of making or buying and the availability of reliable suppliers.

Research and development policies: In the case of a business firm, research and development relating to new products and processes is an important function. The firm should have a detailed R & D policy which specifies whether the R & D efforts should be confined to products or processes, whether research should be basic or applied, whether the R & D should be offensive aiming at introducing new products to the market or be defensive following what the other firms has already introduced.

The above R & D policies should be compatible with the policies about the resources to be devoted to R & D. The latter may be set as a percentage of sales, gross profits etc.

Personnel, legal and public relations policies: These last three policy areas are also important for the smooth operation of a particular strategy.

A successful strategy should have a detailed human resources component. The firm should first consider whether the existing level and composition of human

resources is adequate for the strategy. If new recruitment is needed the availability of the necessary work force with the required skills should be considered. The firm should then look into its policies regarding salaries, benefits, job evaluation and performance appraisal and consider the necessary revisions in these policies under the new strategy.

Possible legal issues should also be considered before the implementation of a particular strategy or policy. There may be cases where the legal position of a particular action is not clear-cut and the firm may wish to seek legal opinion or instructions from the authorities. In other cases, if the firm thinks that a particular legal question will cause problems it may decide to drop the policy concerned.

Public relations policies have an impact on the image of the firm in the minds of the general public, not only in the minds of its customers. Every firm of a respectable size should have a set of public relations policies. Some of these policies may be directed to the community where the facilities are located. Other policies may be directed to general public or policy-makers in the government.

Another set of public relations policies may be needed in the case of bad publicity. A firm may be involved in the production of a dangerous product, its research and selling policies may raise ethical questions, and it may receive the attention of media and general public for these practices. The firm should react quickly to these issues and present its viewpoint to the public to limit the damage to its public image.

3.SUMERBANK AND STRATEGIC CHALLENGES

3.1. Brief History of Sumerbank³

Sumerbank was established on July 11, 1933. The law establishing Sumerbank assigned it a very broad task: To manage the existing state industrial enterprises on the one hand and to establish new enterprises on the other hand. Given this task, the law stated the following objectives for Sumerbank:

To assist in the industrialization of Turkey by utilizing national resources;

To cooperate with other state and private enterprises in establishing industries which are given high priority in the industrialization programme of the State;

To take the necessary actions to train the personnel needed in industrial enterprises;

To prepare studies and projects of industrial enterprises to be established with the equity participation of the State.

As evident from above, Sumerbank was established as the principal instrument for the realization of the industrialization strategy of the Republic. Its task was not limited to a particular industry or a given set of projects.

Sumerbank had also a unique structure. As its name implies, it was established as a bank instead of an industrial holding company. The principal purpose of this arrangement was to mobilize deposits from the general public and to use these funds for industrial investments. Hence Sumerbank established a separate banking division with its own branch network.

3 This section draws on Sumerbank (1986).

The original plan for Sumerbank also included retail activities in the form of a chain of stores. These stores were established to sell the products of Sumerbank.

Hence Sumerbank may be best analyzed in three divisions, namely manufacturing, banking and retailing.

3.1.1. Manufacturing

At the very start, four existing industrial enterprises were transferred to Sumerbank.

These were

Bakirkoy Cotton Mill;
Feshane Woolen Mill⁴;
Hereke Silk and Woolen Mill⁵;
Beykoz Leather and Shoe Factory.

The above four enterprises were quite old, all established in 19th century. Feshane started its operations in 1836, Hereke in 1843, and Bakirkoy in 1850.

The fifth industrial enterprise, the ownership of which was transferred to Sumerbank in 1934, was Bunyan Carpet Factory. Bunyan was established in 1927 and was one of the first industrial enterprises of the new Republic.

After this initial stage, Sumerbank started its own industrial investments and established a number of factories:

Kayseri Cotton Mill, 1935;
The first paper factory in Turkey, Izmit Paper Factory, which started its operations in 1936;
The first printed cotton fabric factory, Nazilli Printed Fabric Mill, 1937;

4 Feshane is now called as Defterdar Woolen Mill.

5 As of 1986 Hereke operates as two enterprises. One is called the Hereke Woolen Mill, the other Hereke Carpets.

Eregli Cotton Mill, 1937;
The first modern woolen mill, Merinos (Bursa) Woolen Mill, 1938;
Gemlik Artificial Silk and Viscose Factory, 1937
Malatya Printed Fabric Mill, 1939.

As evident from above, in the first 6 years [1934-1939] of its operation, Sumerbank had implemented an active policy of investment and had established seven modern industrial enterprises. Moreover its investments were not only limited to textiles, but also covered paper, iron and steel.⁶

The Second World War slowed the investment programme of Sumerbank. Sumerbank was able to include the following four enterprises in its portfolio in 1940s:

Isparta Carpet Factory, 1943
Adana Cotton Mill, 1946
Taskopru Jute Mill, 1947
Adana Cotton Ginning Mill, 1949

The Isparta Carpet was first established in 1926 and was transferred to Sumerbank in 1943. Adana Cotton Mill was also a transfer. Hence Sumerbank established only two enterprises in this period, Taskopru and Adana Ginning, and these represented a relatively small capital outlay.

1950s was the second expansion period of Sumerbank. It established the following 7 enterprises in this period:

Denizli Cotton Mill, 1953
Izmir Printed Fabric Mill, 1953
Erzincan Cotton Mill, 1954
Diyarbakir Wool and Carpet Factory, 1954.
Bergama Cotton Industry, 1954

⁶ Izmit Paper Factory was later transferred to SEKA. Sumerbank also established the Karabuk Steel Works which remained under Sumerbank ownership until its transfer to TDCI.

Karaman Cotton Mill, 1955
Turkey Raw Wool and Mohair Corporation, 1955⁷.

The Bergama Cotton in the above list represented a new trend on the part of Sumerbank. Sumerbank established this modern plant with the equity participation of local interests. Sumerbank holds a 72.3 % stake in this corporation.

Sumerbank further expanded its operations in the 1960s with the following 9 enterprises:

Manisa Cotton Industry, 1960⁸
Salihli Valonia and Valex Plant, 1961⁹
Antalya Cotton Industry, 1961¹⁰
Yildiz Porcelain Factory, 1962¹¹
Kahraman Maras Cotton Mill, 1963¹²
Eskisehir Printed Fabric Mill, 1965
Tarsus Textile Dyes Factory, 1966
Adiyaman Cotton Mill, 1967
Nevsehir Cotton Mill, 1967.

With the completion of above investments, Sumerbank had a manufacturing portfolio of 31 enterprises. The investments in 1970s and early 1980s were confined to technological modernization for the purpose of vertical integration of these enterprises. Hence, the investment in new plants was limited to three small shoe

7 This enterprise is owned 99 % by Sumerbank. It started operations in 1955 and was incorporated in 1984. It has two factories, Sanli Urfa Wool Scouring and Yarn Spinning [Yapagi Yikama ve Yun Ipligi] Factory and Afyon/Sincanli Mohair [Tiftik] Tops Factory. It is the largest purchaser of raw wool and mohair in Turkey.

8 Sumerbank has a 84.5 % share in this corporation.

9 This plant was originally established in 1955. It was transferred to Sumerbank in 1961. It produces valex from valonia [palamut] which is used as a chemical in leather industry.

10 Sumerbank has a 81.6 % share in this corporation.

11 Yildiz Porcelain was established in 1892 by Sultan Abdulhamid the Second and remained operational until 1908. It remained closed between 1908-1960. In 1960 it was transferred to Sumerbank which opened it in 1962 after a complete rehabilitation.

12 This factory was established in 1963 by local interests and the ownership was transferred to Sumerbank in 1968.

factories, one artificial leather factory, a small cotton mill which only produces cotton yarn, and a wool yarn factory:

Diyarbakir Cotton Mill, 1978
Van Leather and Shoe Factory, 1982
Canakkale Artificial Leather Factory, 1982
Sarikamis Shoe Factory, 1982
Tercan Shoe Factory, 1982
Pertek Wool Yarn (Carpet Yarn) Plant, 1983

As evident from the above list of enterprises, Sumerbank is a formidable industrial conglomerate. Its industrial portfolio is not limited to the above list of enterprises. It has equity participations in 32 other companies in which it owns different percentages of the shares.¹³

Sumerbank is the largest textile producer in Turkey. Its share in total cotton yarn production of Turkey is 16.4%, 16 % in cotton fabrics, 8 % in wool yarns, 15 % in woolen fabrics, 2 % in hand-woven carpets and 2.5 % in machine-woven carpets. It also produces 11 % of shoes. It employs around 28,000 workers in its manufacturing establishments.

3.1.2. Banking

As said previously, Sumerbank was established as a deposit-taking bank. It was given the task of collecting deposits from the general public and employing them in industrial investments.

13 Significant Sumerbank equity participations are Van Yun Ipligi Sanayii A.S. (48%), SUTI Sumerbank Tekstil Isletme A.S. (40%), Oralgim Orta Anadolu Giyim Sanayi A.S. (40%), BASF-Sumerbank Kimya Sanayi A.S. (40%), Mannesman-Sumerbank Boru Endustri A.S. (35.7%), Balikesir Pamuklu Dokuma Sanayi A.S. (21%), Yifas Yesilyurt Tekstil Sanayi A.S. (15.3%), Koyteks Yatirim Holding A.S. (15%), and Sidas Sivas Dokuma Sanayi A.S. (15%).

However, Sumerbank management never acted as a banker and was unsuccessful in realizing the above objective. The bank remained a small in-house bank serving only to Sumerbank industrial and retail activities. The bank had only three branches until 1950 which increased to 16 between 1950-60 and to 23 between 1960-75. As a result, its deposits remained quite small. The bank provided short-term credits and banking facilities to Sumerbank enterprises. For this reason, branches were established near the manufacturing enterprises.

The number of branches increased quite rapidly after 1975 and reached 42 in 1980 and 44 in 1988. The banking division became relatively more active in 1980s and the total assets of the bank have grown rapidly. However, this expansion was mainly due to the increase in time-deposits which Sumerbank attracted with high interest rates.

3.1.3. Retailing

Sumerbank established its first shops under the title of 'Domestic Goods Markets' [Yerli Mallar Pazari]. These shops proved quite popular and Sumerbank increased their number under the "Sumerbank" name. The shops were dedicated to selling only Sumerbank products, namely textiles, shoes and carpets.

The number of shops was 39 in 1940, 50 in 1950, 151 in 1960, 194 in 1970. A rapid expansion occurred in 1970s and the number of shops reached 458 in 1980.

As of 1988, Sumerbank has 465 shops all over Turkey. The Sumerbank chain is the biggest in Turkey. The retail network covers 87.2 % of the Turkish population. No other chain reaches even one-tenth of its size. In 1987, total sales of Sumerbank through these retail network was 189 billion TL.

3.2. Changes in the Environment of Sumerbank

Sumerbank is one of the oldest state economic enterprises in Turkey. As summarized above, it inherited industrial enterprises established in the Ottoman times and in the first years of Republic. Subsequently, it was active as an industrial conglomerate and as a retailer in every period of the Republican era.

As the Turkish economy and society transformed itself, the environment of Sumerbank has changed quite rapidly. Sumerbank experienced many strategic challenges due to this rapid transformation. It was successful in meeting some of these challenges with new strategies and policies in the past. However, as a state economic enterprise under heavy government control, its efforts in this direction were constrained by many factors. As a result, it was unable to adapt itself to its new environment especially after the 1960s -- a period of rapid industrialization in Turkey.

At the end of 1970s, Sumerbank was regarded as an old-fashioned state economic enterprise which accomplished its economic mission. With its plants located in less-developed parts of the country, with product range and prices appealing to low-income customers, it was at best fulfilling a social mission.

The economic reforms of 1980 again substantially changed the environment of Sumerbank. The new policy was forcing the state economic enterprises to be more profit-oriented. In this new environment, Sumerbank could not receive subsidies from the government, and, especially after 1983, could not obtain cheap credits from the Central Bank. The governmental policies were giving preference to exports, an area where Sumerbank had little experience.

Moreover, Sumerbank was in need of substantial new investment funds in the 1980s. Its plants were employing technologies dating back to 1930s. It still had some uncompleted investment projects especially in less-developed parts of Turkey. The government was reluctant to provide the required funds and was forcing Sumerbank to generate the funds internally or from international sources.

The new economic environment, hence, was not very supportive of Sumerbank. Moreover, as Sumerbank was unable to implement the necessary policies starting with 1960s, it had an accumulated stock of problems. The new environment increased the negative effect of these accumulated problems on the profitability and viability of Sumerbank. In what follows, the new environmental factors affecting Sumerbank in early 1980s are summarized.

Economic factors: The Turkish economy experienced an economic crisis in late 1970s. As a result, the government put into effect a series of economic measures in January 1980. These measures were followed by new measures and policies in the latter years. The Turkish Lira was devaluated continuously and the interest rates were increased substantially. The prices of goods and services produced by state economic enterprises were increased to reflect the costs and to eliminate government subsidies. The policies also aimed at limiting domestic demand and increasing the exports. The government subsequently reduced import protection by decreasing tariffs and eliminating import quotas.

The effect of these measures on industry as well as on Sumerbank was quite substantial. The decrease in domestic demand limited the possibility of selling goods to a protected domestic market. Most of the enterprises were not equipped to export goods abroad. The constant devaluation of TL increased the cost of imported

inputs. The interest rates were kept above inflation which increased the cost of credit. Simultaneously, the government reduced the amount of cheap credits given to state economic enterprises and private sector through Central Bank and other state banks. As Turkish enterprises were under-capitalized, in need of credits for both working capital and investment projects, this last measure had substantial effects on their costs and investment plans.

The new economic policies hence changed the environment of Sumerbank in a negative direction. Sumerbank was accustomed to selling goods to domestic market, not to export markets. It was depending on cheap state credits for working capital and investment projects.

However, the new economic policy also had a beneficial effect on Sumerbank. It liberated the state economic enterprises from price controls. Hence Sumerbank was now able to set its prices according to costs.

Demographic factors: Sumerbank was established in a period when the majority of the Turkish population was in rural areas. Its product range was determined according to the demands of this largely rural population. With the subsequent urbanization in Turkey, Sumerbank was faced with changing demands which it was unable to meet with its old product range.

The increase in the per-capita income of the population further decreased the demand for Sumerbank's products. Hence while Sumerbank was serving the demands of larger proportion of the population in the 1940s and 1950s, its customer base was more limited in the later years. Typical Sumerbank customers were basically from the low-income and middle-aged segments of the population.

Demographic factors also affected the retail network of Sumerbank. In the past, Sumerbank followed a strategy of opening a store in every small town of Turkey. Subsequent changes in the relative population of towns and cities and the above-mentioned changes in demand led to a decline in the demand of small shops. Sumerbank was under-represented in big cities with few big stores in Istanbul, Ankara and Izmir.

Geographic factors: Sumerbank from the very start followed a policy of locating its plants and stores all over Turkey. The government has given Sumerbank the task of investing in developing parts of the country. It became the main employer in most of the towns and hence contributed substantially to local economies.¹⁴

In the early stages, the selection of locations for plants was based on economic reasons. For instance, Merinos Factory was located in Bursa because the region was an important wool production center. Cotton Mills were located in cotton-producing regions. However, subsequently, Sumerbank was forced to invest in some small towns without much economic reason. Moreover, under political demands, it established very small plants in some locations which proved to be uneconomical.

One beneficial side-effect of this policy of spreading investments to different locations was acquiring a large land portfolio. As a result of rapid urbanization and the increase in real estate prices, the lands of some Sumerbank factories are now more valuable than the plants located on them.

¹⁴ Sumerbank plants were also seen as 'civilization centers' in the early years. They had modern housing, restaurants, ball-rooms, tennis courts etc. Hence they introduced modern ways of life to local populations.

As a result, Sumerbank has a geographically dispersed set of factories some of which are un-economical and as a by-product a very valuable real estate portfolio. A successful strategy for Sumerbank should take into account the problem of unsuitable locations and opportunities provided by the real-estate portfolio.

Social factors: Some of the social factors affecting Sumerbank are related to demographic factors discussed above. Basically, as a result of population and income growth, the values, demands and life styles of the population changed drastically in the past decades and Sumerbank was very slow in adapting to these changes. Hence, it became a supplier to lower income groups and rural areas, and its consumer base in urban population contracted continuously. It was very unpopular among the higher income groups and especially urban youth.

A social trend which Sumerbank tried to respond to in the past was the preference of the people for ready-made garments. It made attempts after 1960s to add ready-made garment lines to its cotton and wool plants. But since it was short of necessary funds to invest in modern garment technology while the private sector was establishing modern plants, its products were not of high standards. Hence these products also appealed to its lower income customers.

The corporate culture of Sumerbank was also out-of-date. It was run by civil servants who were not profit- and customer-oriented. Even the lower-level employees were regarding themselves as public servants and not part of a business establishment. The level of customer service in the retail shops was very low compared to private shops.

The social factors hence posed another challenge to Sumerbank management. The management should have taken the new social trends into account to widen the

customer base and simultaneously change the corporate culture in a way to better serve the customers.¹⁵

Technological factors: Sumerbank was the pioneer in the Turkish textile industry in the early years. However, the private textile industry developed quite rapidly after 1950s. The Sumerbank was slow in investing in new technologies in this period. As a result, the technology of Sumerbank is quite old now.

Sumerbank had responded to its technological problems with a modernization programme, called Rationalisation and Modernization Programme (RMP) developed in the late 1970s. This programme was partly implemented with World Bank loans. The following quotations from BCG (1985) study reflect the state of technology in Sumerbank cotton plants after the implementation of RMP:

Sumerbank has eighteen cotton mills... These mills have, over the past few years, benefitted from an \$ 85 million RMP programme...

Cotton spinning: Sumerbank mills suffer by comparison with the private sector in that their spindles are somewhat older than those operating in the private sector... A detailed analysis of labour productivity in 1984 shows Sumerbank mills considerably underperforming the private sector...

Cotton weaving: Sumerbank's cotton weaving operations are handicapped by its looms. In comparison to looms in the organized private sector, these are both narrower (with 80% less than 1.6m wide, compared to 50% in the private sector) and older (with 55% over 20 years old, as against 20% in the private sector).

Cotton finishing: There has been considerable evolution in finishing technology in recent years ... the [Turkish] private sector has invested very heavily in finishing, and their finishing equipment is generally modern. In Sumerbank the opposite is true: finishing has suffered from a lack of investment and older than both spinning and weaving.

¹⁵ The Boston Consulting Group study, hereafter referred as BCG (1985), emphasizes this point by calling for 'large scale cultural changes in organization'.

Ready-made Garments: ...Sumerbank's RMG machinery is between 6 and 12 years old. This means that it is somewhat older than average for the subsector, but despite this should be reasonably competitive, as RMG production depends on work flow organisation and worker skills, as on machinery age.

Knitting: Sumerbank has a knitting operation in Adiyaman, which relative to private sector is

large (about twice typical private sector scale) and modern (seven years old).

Adiyaman achieves high productivity levels..

Similar observations are made in the case of wool mills of Sumerbank in the BCG report. Hence, in summary, most Sumerbank operations are employing older technology compared to private sector and are recording lower productivity levels. This fact poses a major challenge for the Sumerbank management.

Suppliers: Sumerbank emphasized vertical-integration in its operations. Hence both cotton and wool operations are integrated and factories either produce their own raw material or obtain it from other Sumerbank factories. As the technology of Sumerbank operations are quite old and the factories are over-staffed, the production costs in most cases are higher than private operations. Hence, it is possible for some plants to reduce input costs if they are left free to obtain their inputs from outside suppliers. However, Sumerbank factories are not independent in their sourcing decisions. It is the policy of Sumerbank management to keep all its production lines operating, hence profitable factories use inputs from unprofitable factories to keep the latter in operation.

Sumerbank has also refrained from sub-contracting to lower cost producers. The only exception in this regard is ready-made garments. Sumerbank has seven mills with ready-made garment production capacity, but subcontracts most of its

production to lower cost private producers. This has proved very profitable for Sumerbank. However, as observed in BCG (1985) report, this profitability derives from the state contracts. Such large buyers as army and police are, by government rules and regulations, forced to buy ready-made garments from Sumerbank. BCG concluded that if such rules change or Sumerbank is privatized, subcontracting may not be profitable.¹⁶

In conclusion, another strategic challenge for Sumerbank management is whether to continue to source inputs from its own operations or to use outside sources, including subcontracting.

Competitors: It is already observed that Sumerbank, the pioneer in Turkish textiles industry, has now quite formidable competitors in the private sector. Private textile operations employ more modern technology, are not over-staffed, and hence more productive. They respond to fashion trends and market demands more quickly. In the 1980s the private textile producers became more export-oriented and now account for a major portion of Turkish exports. In contrast, Sumerbank is burdened with old plants, unprofitable operations, and a bureaucratic corporate culture.

The competitive Turkish textiles industry posed another challenge to Sumerbank management. A successful strategy was needed to strengthen the competitive position of Sumerbank.

Government: Sumerbank is affected by the governmental decisions at two levels. At the first level the governmental policies, especially economic ones, change the environment of Sumerbank substantially as they do change the environment of other

¹⁶ This happened in 1988 when army and police was left free in their purchasing decisions. Private producers offered lower prices to the Army for army boots, and Army decided to supply part of its requirement from these producers.

public and private firms. This was already discussed above. The second level of governmental actions that affect Sumerbank are those relating to state economic enterprises (SEEs). As Sumerbank is a SEE, it is regarded as an agent of government's economic and social policies. Its actions should take this fact into account.

The governmental policies limited every action of Sumerbank in the past. The locations of its plants were determined by government preferences. Its investment projects were subject to government approval, and it depended on government approved funds for investments. The management was not given the authority of closing unprofitable plants. It was not free to set prices without consulting the government. It was over-staffed because of the social policies of government, and it was not free to hire and fire its employees. The salaries of Sumerbank staff was determined according to the state salary system, and hence the management could not offer market salaries to staff. As a result, the professional staff was leaving Sumerbank for higher-paying jobs in the private sector.

The above list of factors which limited the independence of Sumerbank management in taking business decisions was common to all SEEs. With the 1980 reforms, the situation changed substantially. SEEs were requested to become more market-oriented and business-like. Price controls were abolished, the SEE managements were given more freedom in their decisions, and certain flexible arrangements were introduced for staffing and salaries. However, the reforms had also a negative side for SEEs. The subsidies they were getting from the state were reduced and they were forced to depend on internal funds for growth and investments. This was rather difficult for SEE managements who were accustomed

to cheap credits for investments and working-capital. The new policies needed a new management culture and policies on the part of SEE managements.

Hence, the last strategic challenge posed to Sumerbank management was to adapt to this new environment which provided both freedom of action and formidable constraints.

4.SUMERBANK'S NEW STRATEGY

4.1. The New Strategy

The new environment created by 1980 economic reforms created a series of responses on the part of Sumerbank management in early 1980s. The management immediately realized that it could not continue with its substantial investment programme without state credits and therefore, reduced the number of new projects. It even left some projects under construction un-finished and completed only those small projects which were in advanced stages, such as the three shoe factories in Van, Sarikamis and Tercan.¹⁷ The modernization of existing plants was given high priority and a Rationalisation and Modernization Programme (RMP) was developed. The RMP was implemented with funds from a World Bank loan. The number of shops were kept almost at their 1980 level. (Sumerbank actually opened 9 new shops between 1980 and 1985, in contrast to 264 new shops between 1970 and 1980.) The banking operations was given a high priority to collect deposits to be used as credit in Sumerbank manufacturing and retail operations. The employment growth was limited and Sumerbank was able to reduce its total number of employees from its 1980 peak of 46,897 to 42,177 in 1985.

Despite these operations the profitability of Sumerbank decreased. While it recorded a profit of around 417 million TL in 1981, it recorded a loss of 2,305 million TL in 1982. The loss was reduced to 121 million TL in 1983.

¹⁷ Some of the un-finished plants were either leased or sold to private sector by the government.

1984 was an important year in Sumerbank history. The new government completely cut the cheap credits Sumerbank was drawing from the Central Bank. These credits were reduced relatively after 1980 but still reached the level of 26 billion TL in 1983. Hence Sumerbank was cut short of an important source of credit. On the other hand, its exports reached to around 39 million US dollars, a considerable success compared to around 20 million in 1980 and 9 million in 1981.

The year 1984 also saw a management change in Sumerbank. In November 1984 the government appointed a new General Manager, Dr. Erkan Tapan. He was the first General Manager from outside Sumerbank and state bureaucracy. He brought to Sumerbank substantial managerial experience acquired in the Turkish private sector. Dr. Tapan assembled a new management team and immediately started a highly visible re-organisation plan.

The strategy of the new management team was basically oriented to change the corporate culture in Sumerbank and to restore its profitability through a marketing campaign. An organizational restructuring was first implemented in the headquarters and a successful public relations campaign was started to enhance the image of Sumerbank in the eyes of the general public. New lines of merchandise were added to the traditional product range and new consumer segments such as youth and children were targeted for sales expansion. The strategy was successful in addressing some of the strategic challenges summarized in the previous section.

In what follows, the actions of the new management team are discussed briefly.

4.2. Strategies and Policies after 1984

4.2.1. Organizational Policies

The management first analyzed the organizational set-up of Sumerbank and substantially re-structured it to better coordinate the activities of the conglomerate.

As part of this re-organization, the number of Assistant General Managers (AGMs) were increased from 2 to 5. One AGM was made responsible from Manufacturing, the second AGM from Administrative and Financial Affairs, the third AGM from Marketing, the fourth from Banking, and the fifth AGM from Carpets and Developing Regions.

12 departments were also established to achieve better coordination of operations:

Planning Department, reporting to the General Manager, responsible from production planning, cost effectiveness studies, purchasing, computer systems, and organization and method studies.

Textiles Department, reporting to AGM (Manufacturing), responsible from all cotton and wool operations of Sumerbank. These operations are grouped into 5 groups, each headed by a Group Head.

Leather and Chemicals Department, reporting to AGM (Manufacturing), responsible from shoe and leather factories. The factories report to two Group Heads. Yildiz Porcelain is also coordinated by this Department.

Projects and Investments Department, reporting to AGM (Manufacturing), responsible from investment projects, construction, engineering services, and industrial engineering.

Administration Department, reporting to AGM (Administration and Finance), responsible from personnel, training, public relations, communications, health and welfare.

Finance Department, reporting to AGM (Administration and Finance), responsible from accounting, finance, budgeting, cash flow planning, and equity participations.

Export Department, reporting to AGM (Marketing), responsible from export marketing and export operations.

Sales Department, reporting to AGM (Marketing), responsible from domestic sales including retail sales through Sumerbank shops, sales to governmental agencies and distribution.

Carpets Department, reporting to AGM (Carpets and Developing Regions), responsible from carpet operations of Sumerbank.

Developing Regions Department, reporting to AGM (Carpets and Developing Regions), responsible from implementing Sumerbank projects in Developing Regions.¹⁸

Banking Department, reporting to AGM (Banking), responsible from bank branches grouped into five regions.

Banking Support Services Department, reporting to AGM (Banking), responsible from foreign and domestic banking operations, and administration.

Apart from the above basic organizational structure, a post of Secretary-General was created. The General Manager also employed a group of experts directly reporting to him and working on special projects.

This new organizational structure reflected the desire of the new management team to better coordinate the diverse activities of Sumerbank. It was designed to create new units to focus on certain new activities. For instance, within the Sales Department a 'Group' was created for retail sales. This Group had a section for department stores and another section for specialized stores. This arrangement, as will be seen below, reflected the new marketing strategy of targeting certain consumer groups.

However, the new structure has not solved the basic organizational problem of Sumerbank. It was very complex and centralist. There were four layers of

¹⁸ The government has given Sumerbank the task of implementing projects in certain priority regions [Kalkinmada Oncelikli Yoreler] to increase employment and income. These projects are basically hand-woven carpet and handicraft projects and are funded by the government from a special Development Fund.

management in the headquarters: AGM [Genel Mudur Yardimcisi], Department Head [Daire Baskani], Group Head [Grup Baskani] and Section Head [Mudur]. The number of Section Heads was increased from 34 to 60 under the new organization structure to encourage specialization. All heads of factories and retail stores were reporting to the headquarters through a Group Head or Section Head. As the factory heads were running large operations with hundreds of employees, this top-heavy organization structure limited their ability to communicate with the headquarters. The decisions they were expecting from the headquarters were not taken as quickly as they would like. They were not given more operational freedom in their day-to-day operations under the new set-up.

Moreover, because of this centralist tendency of coordinating everything at the headquarters at the level of departments, the functional responsibility of Departments were not very clear. For instance, the Planning Department, reporting directly to the General Manager, was not only responsible from planning-type operations but from all purchasing of Sumerbank from outside suppliers. Even the Adana Ginning Factory was reporting to this Department through the Purchasing Organisation. Another example was that the Communications Section and Health Services Sections were reporting to the same Group Head.

The new General Manager has staffed some of the newly-created positions from outside Sumerbank. However, the number of such appointments were kept limited and most new positions were staffed from within Sumerbank. This policy was designed to boost the morale of the employees of Sumerbank who were afraid of drastic personnel changes under the new management. As Sumerbank is a very closely-knit community with most of its employees serving it for long years, new managers from outside might have caused problems. The new management

avoided this problem and decided to follow a policy of gradual change in operations and corporate culture.¹⁹

4.2.2. Marketing Policies

The central strategic action of the new management was to turn Sumerbank into a more market-oriented operation. In the face of funding requirements of Sumerbank, it was realized that a rapid increase in sales was the only way to increase cash-flow.

The first action taken in this area was to initiate a big promotional campaign to change the image of Sumerbank. Sumerbank had little promotional activity and the general public, apart from its traditional customers, was unaware of its product range and prices. It was perceived as a low-price low-quality retailer appealing to lower-income consumers.

An advertising campaign was started both in the TV and newspapers which emphasized the traditional strengths of Sumerbank: a dependable producer with sensible pricing and a retail network covering Turkey. The main theme of the campaign was the historical characteristics of Sumerbank: Sumerbank is a company with a long tradition of service to the Turkish consumer. It was the main supplier of textiles to the Turkish public in the past and the previous generations depended on it for their needs. A slogan was developed to reflect this historical relationship of the Turkish consumer with Sumerbank: *I love Sumerbank !*

¹⁹ An example of adaptation problems of new managers to Sumerbank culture had emerged in late 1988 under another management team. They recruited as AGM for Banking an executive from one of the private banks. The new AGM had plans to change the direction of banking operations which was approved by the management. However, he was not able to obtain quick decisions from the Board in most cases and resigned immediately. He served only around a month in his new job.

This advertising campaign was very successful in re-building the image of Sumerbank. The campaign has also given to the public the message that, under its new management, Sumerbank was turning itself into a dynamic enterprise responsive to the demands of the consumer.

Concurrent with this promotion campaign, the new management team also analyzed the characteristics of the consumer base of Sumerbank. It was found that Sumerbank was mainly selling its products to low-income, middle-aged customers. The younger segments of the population and middle-income consumers were not among the customers of Sumerbank.

Hence, it was decided that Sumerbank would target this consumer segments for sales expansion. This new strategy was implemented in three stages. Firstly, a new range of ready-made garments were designed and produced for the middle-income consumers. As this consumer group was fashion-conscious, the new line of products were designed to reflect the latest fashion trends. Both the quality of material and the standard of workmanship were higher compared to traditional Sumerbank-produced garments. This new set of products were given a distinct image under the brand name *New Line* [Yeni Cizgi]. An advertising campaign, very similar to the campaigns run by higher-priced private ready-made garment producers, was undertaken to promote this new line of products.

Secondly, Sumerbank designed a set of garments for the youth under the brand name *Young & Young* [Genc ve Genc] targeted to young consumers. This line was designed especially for university youth and was marketed separately. Sumerbank followed a different marketing strategy in this case. With an advertising campaign, it gave the message to the university students that Sumerbank trusts the youth and

will sell its specially designed goods to them under an installment sale program. The university students were given the option of purchasing garments and shoes to a certain limit immediately from Sumerbank stores and paying in monthly installments.

Thirdly, Sumerbank targeted babies and children as another potential consumer group. A set of baby and children's clothing and toys were marketed under the brand name *Flying Balloon* [Ucan Balon]. This line also had its own advertising campaign.

Sumerbank management also started to make some alterations in the retail network. Some shops were identified as department stores selling fabrics, ready-made garments, shoes, porcelain, and carpets. Some shops were turned into specialized shops selling only garments, fabrics, or carpets. As seen above, special Sections were established in the headquarters to coordinate these two types of shops. Most of the shops were re-decorated to make them similar to private shops. Sumerbank also opened new shops in university campuses for *Young & Young* product line, and specialized shops for *Flying Balloon* product line.

As a result of this marketing campaign, Sumerbank succeeded in broadening its consumer base. Sumerbank has also not neglected its traditional customers, and promoted its traditional products with frequent price reductions. An example of the latter policy was selling shoes for 25,000 TL at the start of 1989, a figure substantially below the market prices.

Sumerbank also followed an export-oriented marketing strategy under the new management. Exports of Sumerbank, consisting of textile products produced in its own factories, amounted to US\$ 66.5 million in 1987. This figure was US\$ 34.5 million in 1983, US\$ 26.5 million in 1984, US\$ 24.6 million in 1985, and US\$ 43.1

million in 1986. The Exports Department in the headquarters coordinated the export sales of Sumerbank, and, apart from increasing the total volume of exports, was also successful in increasing the number of foreign countries Sumerbank is exporting.

4.2.3. Production-Operations Management Policies

Sumerbank's new marketing strategy depended on mostly ready-made garments. However, as discussed in the previous section, Sumerbank has limited ready-made garment producing capacity. The existing capacity is also not as efficient as that of the private producers. Because of the lack of investment funds, it was not possible for the management to invest in new capacity or in modernizing the existing plants. As a result, Sumerbank management depended on sub-contractors to produce the new product lines.

This proved to be a very profitable arrangement for Sumerbank. The private producers were supplying goods at comparatively low prices and they had the flexibility to produce new products in required quantities at a short notice. As Sumerbank's profit margins were lower than those of the private shops, Sumerbank was still able to sell these goods with lower prices compared to private shops.

The present Sumerbank management maintains that even if they have the funds to invest in ready-made garment production, they would not undertake such investments because of the profitability and flexibility of subcontracting arrangements. Private producers have lower overheads compared to Sumerbank establishments, and it is very difficult for Sumerbank to achieve such low overheads even if new investments are undertaken.

4.2.4. Research and Development Policies

Research and development efforts of Sumerbank was institutionalized in the form of an R & D center in 1972. This center, located in Bursa, is called SAGEM [Sumerbank Arastirma, Gelistirme ve Egitim Muessesisi] and is also active in training of Sumerbank personnel.

The new management broadened the R & D activities of SAGEM in the direction of development of new products. SAGEM contributed to the above-mentioned marketing efforts of Sumerbank by designing new products. Furthermore, SAGEM followed technological trends in the world textile industry and evolved plans for the adaptation of these new technologies by Sumerbank enterprises. It also undertook studies to increase the overall productivity of Sumerbank operations, and to increase the quality of goods produced.

As Sumerbank became more export-oriented, production of goods according to international standards gained in importance. SAGEM contributed to this process by following these standards and by helping the individual enterprises to make the necessary changes in their operations for producing according to these standards.

4.2.5. Personnel Policies

Sumerbank, as every state economic enterprise in Turkey, is over-staffed. Despite this problem, it is generally agreed that the quality of its technical staff, both professionals and workers, in textiles and shoes is quite high. However, it lacks the necessary skills in retailing and banking. The level of salaries of the staff is also low compared to private sector.

In the 1980s, Sumerbank management introduced a number of measures to solve these problems. Firstly, a limit on hiring was introduced and as a result it was possible to reduce the total number of employees from 46,897 in 1980 to 42,177 in 1985. In 1988 this figure came down to around 38,000. Secondly, the new regulations enacted by the government after 1983 provided Sumerbank with some flexibility in raising the salaries of the staff. Under new regulations, it was given the freedom to employ contractual employees with relatively higher salaries than the comparative civil service salaries. As a result, some existing employees chose to become contractual employees. Thirdly, under the new strategy, Sumerbank management ran a campaign to raise the productivity and motivation of the employees. Special efforts were made to train and motivate the employees in especially the retail network to better respond to customers.

4.2.6. Legal Policies

As already mentioned above, the government has given more freedom to the managements of SEEs after 1980. This took the form of eliminating numerous regulations on hiring and purchasing. The Boards of the SEEs were also given more freedom in decision-making. This legal environment was crucial for the implementation of the new strategy of Sumerbank.

The Sumerbank management, as a result of these changes in the regulations, has critically evaluated its own rules and regulations and made the necessary changes. These changes gave more freedom to factories and the headquarters departments especially in purchasing. The increase in subcontracting arrangements was also a result of the changes in the legal environment.

The last and the most important legal change happened in 1987. With a decision of the Council of Ministers, Sumerbank was put in the list of SEEs to be privatized. The government shares in Sumerbank were transferred to the Housing Development and Public Participation Administration, the principal vehicle of the government in privatization, and a new holding company was established which was called Sumerbank Holding Incorporated. Hence Sumerbank became a corporation in the proper sense and its decisions were not subject to direct government interference. The Sumerbank Board of Directors were reconstituted with members who had experience in private sector.

The new legal arrangements also coincided with a change in the management of Sumerbank. Dr. Erkan Tapan resigned in early 1988 over a dispute with the Housing Development and Public Participation Administration on privatization strategy. A new General Manager, Mr. Ahmet Ozerdim, was appointed and a new management team was constituted.

In January 1989, the Housing Development and Public Participation Administration appointed a consortium of advisors to provide consultancy services in the privatization of Sumerbank.

Hence as of 1989, Sumerbank entered into a new era as a state-owned corporation, the assets of which will be privatized in the 1990s.

5. CONCLUSION

Sumerbank is the oldest state economic enterprise in Turkey established some 55 years ago. It contributed significantly to the formation of the Turkish industrial infrastructure, especially in the field of textiles.

As every industrial enterprise with a long history, the environment of Sumerbank changed substantially in the past. Sumerbank was able to adapt to some of these changes, but was slow in adapting to most of them. Hence, at the start of 1980s, Sumerbank was a stagnant industrial conglomerate. It was not responsive to the changing customer demands and its customer base was limited to low-income segments of the population.

The 1980 economic reforms further aggravated these problems. The new freedom given to state economic enterprises was beneficial to Sumerbank. However it was also cut short of Government subsidies and cheap credits. Moreover, the new environment was very competitive.

The new management of Sumerbank, which took over in late 1984, evolved a strategy to respond to these environmental changes. The new strategy turned Sumerbank into a more market oriented enterprise. A number of marketing campaigns were implemented and new lines of products were designed and marketed. Sumerbank targeted new consumer groups such as middle-income, university youth, children groups in these campaigns. The new strategy also made changes in the organizational structure of Sumerbank, the rules and regulations and

the personnel policies. It supported R & D efforts and made Sumerbank more dependent on subcontracting especially in the case of ready-made garments.

The new strategy was quite successful in broadening the customer base of Sumerbank and increasing both domestic and export sales. The image of the Sumerbank improved substantially in the eyes of the general public as a result of advertising campaigns.

However the new strategy was not able to solve all the problems of Sumerbank. Because of lack of funds, it was not possible to undertake major investments and hence improve the technology of Sumerbank which is quite old compared to private sector. As a result, the overall productivity of Sumerbank has not improved much under the new strategy.

Sumerbank became a holding company as of 1989 and a new management team replaced the previous team who had implemented the strategy summarized in this thesis. The new holding company is in the privatization list of the government. In January 1989, The Housing Development and Public Participation Administration, the government agency implementing the privatization programme, had appointed advisors for the preparation of a master plan for the privatization of Sumerbank.

At this stage, it would be very difficult to forecast what could emerge out of this new initiative of the government. It is evident from the above that Sumerbank needs substantial investment to adapt to its new environment. As Sumerbank could not generate the required funds out of its operations, the funds should either be provided by the government or by some financing agency. At present, the government, as a general policy, is channeling its investable funds to infrastructure projects, not to manufacturing. One may also expect that the textile goods

manufacturing will not be in the priority list for public investment in the future even if this policy against manufacturing changes. As a result, the government thinks that it would be more appropriate to privatize Sumerbank and led the private sector undertake the necessary investments. This policy stance of the government also limits the ability of Sumerbank to procure funds from external sources like World Bank.

While the privatisation programme may change direction or discontinued by a future government, it would be highly improbable for Sumerbank to receive all the required investment funds. One open question is whether Sumerbank could partly generate these funds out of its operations. If Sumerbank management could implement a sensible strategy for an increase in profitability through some re-structuring of its operations, a future government might be willing to put into some funds for investment funds. The record of Sumerbank in the past few years shows that despite substantial efforts it was not possible to increase the profitability significantly.

Hence, the future of Sumerbank would very much depend on the governmental policies. At the one extreme, it may be expected that Sumerbank would be liquidated through privatization or other measures. At the other extreme, one may expect that Sumerbank would be modernized in technology through a combination of public, foreign and internal funds. The actual outcome would most probably be in between these two extremes.

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