A SURVEY ON THE FOREIGN COMPANIES IN TURKEY

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

By
DİLEK SAĞLIK

JANUARY 1992

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DILEK SAGLIK
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Dilek Sağlık

tarafından bağışlanmıştır.

TO MY MOTHER,

MIHRIYE SAGLIK

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.

Assoc. Prof. Gokhan CAPOGLU

I certify that I have read this thesis and in my opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Business Administration.

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ABSTRACT

A SURVEY ON FOREIGN COMPANIES IN TURKEY

BY

DILEK SAGLIK

SUPERVISOR: ASSOC. PROF. GOKHAN CAPOGLU

JANUARY 1992

This study investigates the reasons behind the foreign companies growing interest in Turkey, and discusses different market entry strategies such as exporting, direct investment, franchising,and joint ventures. An analysis of the advantages and disadvantages of the Turkish market from the foreign companies point of view is followed by an analysis of the reasons that led to a particular choice of an entry strategy. The study made use of a questionnaire which was answered by 21 foreign companies, 19 of them located in Ankara. The results indicate that some policy changes towards foreign companies are necessary.

OZET

TURKIYE'DE YABANCI KURULUSLAR UZERINE BIR ARASTIRMA

DILEK SAGLIK

Yuksek Lisans Tezi, Isletme Enstitusu

Tez Yoneticisi: Doc. Dr. Gokhan CAPOGLU

Bu calisma, yabanci kuruluslarin Turkiye'ye artan ilgilerini arastirmakta, ithalat, direct yatirim, franchising, ve ortak yatirim gibi uluslararasi pazarlara giris stratejilerini incelemektedir. Yabanci isletmeler gozuyle Turkiye pazarinin avantaj ve dezavantajlarinin analizinden sonra secilen giris stratejisinin nedenleri arastirilmistir. Bu calisma 19'u Ankara'da bulunan, 21 kurulusla yapilan anketler yardimiyla hazirlanmistir. Sonuclar yabanci kuruluslara karsi uygulanan politikalarin bazilarinin degistirilmesinin gerektigini gostermektedir.

ACKNOWLEDGMENTS

I am grateful to Assoc. Prof. Gokhan CAPOGLU for his supervision and constructive comments throughout the study. I would also like to express my thanks to the members of the examining committee for their contribution and to the participant foreign companies.

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1-INTRODUCTION

Foreign capital inflows between 1980-1987 totaled approximately 210 million dollars, an amount ten times higher than foreign investment in the preceding 25 years. These significant inflows of foreign capital were the result of the economic liberalization measures taken in January 1980.

Many studies on foreign capital abound, however none have examined the reasons behind the foreign companies preference for Turkey nor have they drawn their attention to their specific entry strategies.

As a result, this study will first examine the different entry strategies, then will concentrate on the foreign companies entry strategies in Turkey. Next, a description of the research methodology will be given followed by an analysis of the results obtained.

2-BASIC CONCEPTS ABOUT ENTRY STRATEGIES TO INTERNATIONAL MARKETS

2.1-GOING ABROAD

" To go abroad " is a wonderful dream as it is risky.

Despite the risk involved, there are lots of reasons that force companies to go abroad;

i) To increase market share,

ii) To use excess production capacity,

iii) To reduce seasonal fluctuations,

iv) To reduce average manufacturing unit cost by increasing sales volume,

v) To extend product life cycle,

vi) To diversify the risk of only working in the domestic market,

vii) To learn the different processing techniques which are used abroad,

viii) To follow competitors who go abroad,

ix) To expand the company,

x) To increase the return on investment,

xi) To learn the power of the company in the international markets,

xii) To search the market opportunities,

xiii) Saturation of the domestic market,

xiv) To carry out technical and market tests of new products and/or services

xv) To look for less competitive markets abroad,

xvi) To look for the opportunity of cheaper labor and raw material,

xvii) To minimize the risk of bad economic situation at home market,

xviii) To gain more power by entering international markets,

xix) To lower taxes and some governmental benefits overseas (Stanton, 1984).

2.2-ENTRY STRATEGIES, ADVANTAGES AND DISADVANTAGES

Once a company decides to go international, it must choose an entry strategy. In this case, a company should analyze its ability, its market potential, the different types of investment available and the type of management effort required.

There are a variety of foreign market entry strategies.

2.2.1-EXPORTING

In exporting, a product is produced domestically which is then sent to the foreign market. It is the easiest, most flexible and most common approach adopted by companies going abroad (Negandhi, 1987).

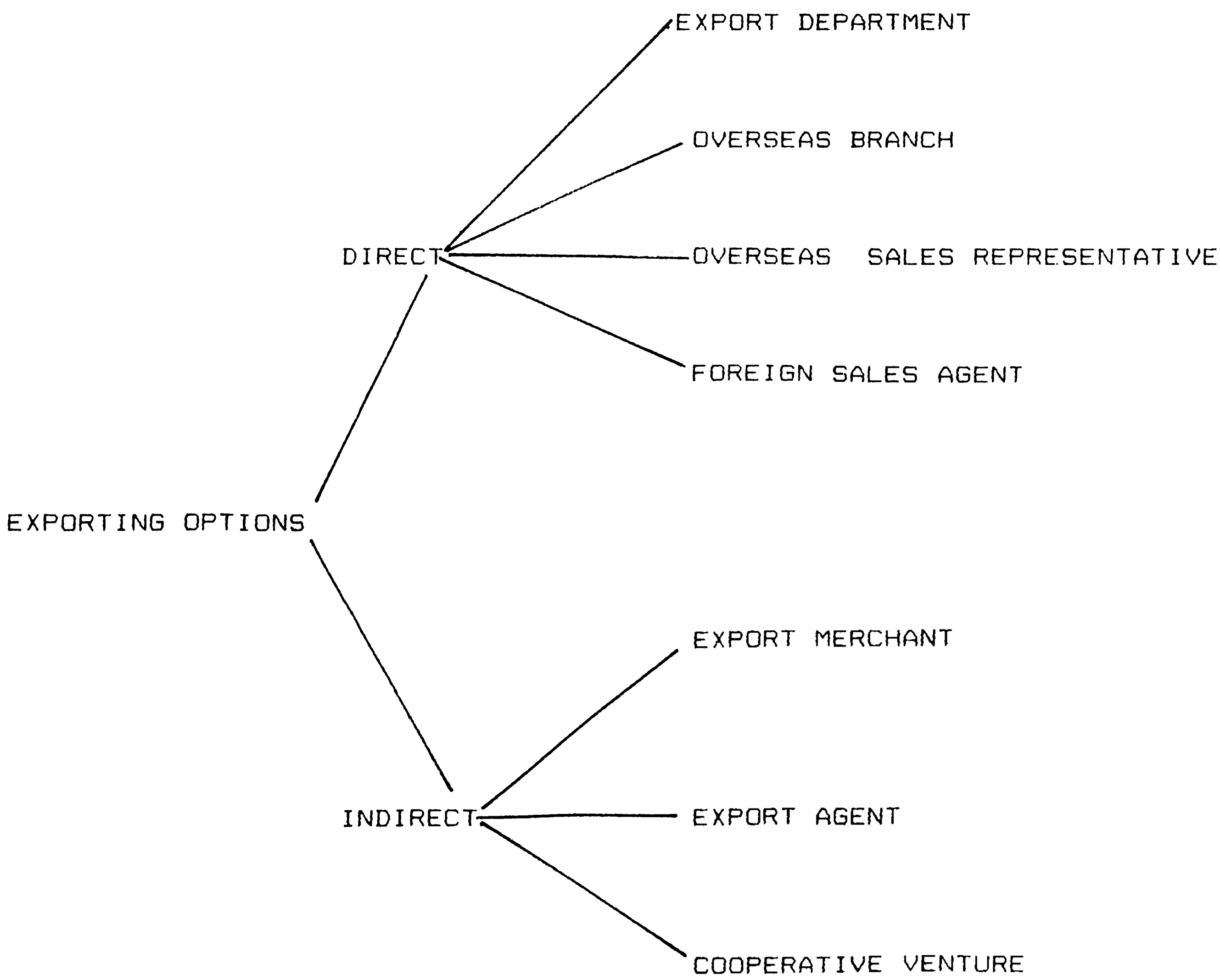
Exporters are faced with two different methods direct and indirect exporting as shown in Fig.1.

Direct exporting occurs when an exporter or a manufacturer sells directly to a foreign market, whereas in indirect exporting, intermediaries purchase the products from domestic market and distribute them overseas.

The advantages of direct exporting in comparison with the indirect exporting are ;

FIGURE 1

EXPORT OPTIONS FOR ENTERING FOREIGN MARKETS



SOURCE:"Marketing Principles and Strategy" J.Barry Mason, Hazel F. Ezell. 1987. Business Publications Inc. USA. pp.689

i) Control of foreign market,

ii) Getting accurate feedback from the foreign market,

iii) Better protection of intangible properties,

iv) Better learning of the foreign country's import procedure and other regulations (West, 1987).

2.2.2-FRANCHISING

Franchising, which is a form of licensing, is an another market entry strategy. It is the right granted by an organization to another to sell a product or service in a particular area. In this strategy, the franchisor provides the systems, management services and standard products and/or services. The franchisee works under the trade name of franchisor and provides his knowledge and capital. In return of the combination of skills, the franchisor gets fees, running royalties and controls the franchisee (West, 1987).

Franchising is a vertical market integration that has become more and more popular in international marketing. Despite its disadvantages, it has many advantages too.

The disadvantages are ;

i) No full control over the franchisee,

ii) Government regulations on franchising agreements,

iii) Limitations on franchisor's profit,

iv) Generally a high level of initial investment.

The advantages are;

i) Entering in a foreign market without major investment,

ii) Standardized marketing method,

iii) Low political risk,

iv) Making the name popular in international markets,

v) Franchisor gets maximum control over product (Root, 1987).

2.2.3. DIRECT INVESTMENT

Direct investment is the ultimate form of going abroad, in that the company establishes its own assembly or manufacturing facilities overseas. It is the most risky entering strategy, in particular for the firms going abroad for the first time, however it is also the most profitable one, since by adopting this kind of entering strategy, a company may build a stronger image in a foreign country and get into a closer relation with consumers, suppliers, middlemen and government of the host country and can reach full control abroad (Negandhi,1987).

2.2.4-JOINT-VENTURE

A joint-venture occurs when a foreign investor joins with a local investor to create a local business in the foreign country. A joint-venture can be desired for economic or political reasons. For example, a foreign firm may have lack of managerial and financial resources to take the risk of working alone. A joint-venture includes; licensing, contract manufacturing, contract management and equity-venture (Kotler, 1988).

2.2.4.1-LICENSING

Licensing is an agreement between two parties, one gains knowhow and/or marketing rights from the other in return for a payment. For example, a foreign firm gains the well known product and/or the name without investing in Research and Development. Therefore the licensor goes abroad with a little risk (Stanton, 1984).

Although licensing has many advantages, it has some disadvantages too.

Advantages of licensing;

i) Getting a high rate of return for a little investment,

ii) In the case of high tariff barriers or export quotas, instead of transferring a physical product, the manufacturer can transfer intangible assets and services which are not subject to import regulations,

iii) If exportation has no advantage because of competition or high imposition of quotas or tariffs, licensing will be more attractive for a manufacturer,

iv) If there is a continuous depreciation of the target countries currency, licensing is better than exporting,

v) In licensing, transportation problems are non existent,

vi) The risk of licensing is lower than equity venture,

vii) In a governmental change, the worst thing that could happen would be the manufacturer loosing his licensing income at the most,

viii) If there are import and investment restrictions in the target country , licensing may seem as the only entering strategy,

ix) As an internal factor, for companies whose end product is a service, licensing or franchising may be the best way to go abroad,

x) If a product requires physical adaptation for the foreign market, licensing may be advantageous as the cost of the adaptation can be given by the licensee,

xi) In a low or uncertain sales potential, licensing is much better than equity investment or direct export.

Disadvantages of licensing;

i) Licensing can be used as an entry mode, if the company's trademark, name or technology is attractive for foreign market,

ii) Licensor has no control over the foreign marketing strategies. Although the licensor depends on the licensee's decisions, licensor can overcome this disadvantage by closer cooperation,

iii) Licensing income is limited to the licensing agreement duration (5-10 years),

iv) Licensing may create a competitor for the manufacturer,

v) Commercial risk can be high as the licensee may become a competitor for a licensor in the world markets. A licenser can minimize this risk by forcing the licensee to sell in his own country,

vi) The legal side of licensing is costly, time consuming and success is uncertain,

vii) Since the licensee uses the technology and trade mark of licenser and sells in his country, a licenser can not use an alternative entry mode over this agreement (West, Root, 1987).

2.2.4.2-MANAGEMENT CONTRACT

A management contract is an agreement between one company and another to manage a hotel, a hospital or other organization in return for a fee. In this case, a service is exported. A management contract is most useful when there is no management expertise in the foreign market.

Management contracts have their advantages and disadvantages.

Advantages of management contract;

i) Management contracting is a low risk entry mode for international markets,

ii) Minimum investment with good return,

iii) Opportunity for understanding overseas markets.

Disadvantages of management contract;

i) Management contracts are often short term,

ii) Management contracts do not allow a company to form a market position,

iii) Prevents the company from setting up its operations for a longer period of time,

iv) It is often difficult to establish the operation (West, 1987).

2.2.4.3-CONTRACT MANUFACTURING

Contract manufacturing is an entry market strategy between licensing and direct investment. In contract manufacturing a company uses the manufacturing facilities of a foreign firm to produce products and markets these products in the country of production or elsewhere. This strategy is preferred when there is an export entry barrier or the target market is too small (West, 1987).

Contract manufacturing has many advantages and disadvantages.

Advantages of contract manufacturing;

i) Contract manufacturing enables the firm to overcome tariff barriers,

ii) Allows a faster start with less risk,

iii) Allows the firm to have some control over marketing,

iv) There is no problem of local ownership,

v) Enables the firm to adapt the product for local market conditions,

vi) Reduces transportation cost,

vii) Diversifies the affect of fluctuating demand,

viii) Minimizes the investment level.

Disadvantages of contract manufacturing;

i) Difficult to find a suitable local manufacturer and/or increase quality and/or volume level of this local manufacturer,

ii) Reduction in the potential profit,

iii) Risk of creating a future competitor,

iv) Less control over process of local firm (West, 1987).

2.2.4.4-EQUITY JOINT-VENTURE

In the equity joint-venture, a company joins with a foreign firm in the foreign country to establish a business. Equity joint-venture is desired when an international company has limited physical, managerial, financial resources and/or if the foreign government allows equity joint-venture investment entry strategy only. Joint ventures can be classified as minority, majority or 50-50 ventures.

These are many advantages and disadvantages of joint-equity ventures.

Advantages of joint equity venture;

i) By joint equity entry mode, legal problems can be solved,

ii) Partial or total control over the process,

iii) Not a complete financial, managerial, physical investment is needed,

iv) Risk reduction with respect to the direct investment,

v) Closer familiarization with the foreign market,

vi) Easy access to raw materials with the help of a local partner.

Disadvantages of joint equity venture;

i) If the international company has less control (lower than 50% share) it will be difficult for the company to carry out its strategy in the foreign country. It will be more difficult when local partners interests conflict with the international company,

ii) Preventing the partnership ratio is not easy,

iii) Joint equity venture is like a marriage, it is not easy to divorce,

iv) There may be a conflict deciding on how to use the profit. The international company may want to reinvest while the other partner may take out these earning (West, 1987).

3-FOREIGN COMPANIES IN TURKEY

3.1-CURRENT SITUATION OF FOREIGN COMPANIES IN TURKEY

The liberalization of the Turkish economy brought about by the January 1980 decisions, enabled the Turkish economy to achieve high growth rates in many sectors, and this in turn attracted some foreign companies attention to Turkey.

The foreign capital inflows between 1980-1987 increased significantly reaching 210 million dollars(YASED NO:23). By the end of 1990, the number of foreign capital companies reached two thousand. Table 1 shows the distribution of foreign investment in Turkey by sector by the end of 1990. Manufacturing and services are the main receives of foreign investments. While transport equipments and relative industries are taking the largest portion in manufacturing, tourism has the greatest share in service. Mining and agriculture are not popular.

Table 1 also shows the distribution of foreign investment in Turkey by country of origin. By the end of 1990,UK is the principal country with 15.8% of the total foreign capital invested followed by Switzerland, USA, FRG. As regards foreign investment in Turkish cities, Istanbul ranks first both in foreign capital and in the number of foreign firms, followed by Ankara.

3.2-IMPORTS OF TURKEY

The lifting of some import restrictions in Turkey aimed at increasing competition, putting an end to the protection of

TABLE 1

DISTRIBUTION OF FOREIGN INVESTMENT IN TURKEY
AT THE END OF 1990

A) BY COUNTRY OF ORIGIN

COUNTRY	Number of Firms	Foreign capital (Billion TL)	% Share of Total Foreign Capital
UK	148	609.2	15.8
Switzerland	132	432.8	11.2
USA	144	430.6	11.1
FRG	307	390.0	10.1
Japan	29	365.3	9.4
Netherlands	72	291.3	7.5
Italy	50	289.1	7.4
France	81	257.7	6.7
Saudi Arabia	46	92.8	2.4
Singapore	4	64.4	1.7
TOTAL	1813	3867.5	

B) BY SECTOR

SECTOR	Number of firms	Foreign Capital Billion TL	% Share of Total Foreign Capital
MANUFACTURING	508	2018.3	52.1
Chemicals	4	15.1	0.4
Electronics	27	244.3	6.3
Food&Beverages	65	201.9	5.2
Transport Equipment and Related Indust.	28	453.7	11.7
Iron&Steel	11	134.6	3.5
Textiles	85	107.6	2.8
Paper	10	37.6	1.0
Fertilizer	2	11.1	0.3
Others	265	808.5	20.7
SERVICES	1224	1728.6	44.7
Banking	33	346.7	9.0
Tourism	162	521.4	13.5
Trade	680	294.4	7.6
Shipping	9	16.0	0.4
AGRICULTURE	52	81.1	2.1
MINING	29	39.6	1.1
TOTAL	1813	3867.5	100.0

SOURCE:SPO, MAIN ECONOMIC INDICATORS, 1991.

domestic firms, and encouraging integration to the world economy.

However, the adoption of these measure did not prevent imports of low quality products. To counteract this trend, besides the antidamping regulations, the "quality" concept became a cause for import limitation. This new regulation was firstly applied to the iron-steel. According to this regulation, an importer is required to get a certificate showing that the imported good is of a standard and of high quality. The aim is to implement standardization, instead of regulating taxes and funds in importing (Panorama No:3, 1991).

In importing, there are no regulations for imports to be packaged, labeled and invoiced. But on the other hand, weighing scales should be calibrated and SI unit system should be used.

TABLE 2

IMPORTS OF TURKEY BY MAJOR COUNTRIES
(CIF, MILLION US $)

	1987	1988	1989	1990
FRG	2108.8	2054.3	2175.4	3496.8
USA	1365.4	1519.5	2094.4	2281.6
ITALY	1076.2	1005.7	1070.9	1727.1
FRANCE	609.3	828.8	744.9	1340.4
USSR	307.0	442.6	625.0	1247.4
JAPAN	859.9	554.8	529.9	1119.7
UK	697.4	739.1	727.7	1013.7
S.ARABIA	168.1	228.6	212.0	723.6
EEC	5667.8	5894.2	6055.3	9328.3
OECD	9030.9	9237.2	9913.1	14225.0
TOTAL	14157.8	14335.4	15792.1	22302.3

NOTE: Countries are ranked according to the 1990 figures
SOURCE: SIS,SPO, Main Economic Indicators, 1991.

In addition there are some regulations for imports of technical, educational and military products.

TABLE 3

IMPORTS OF TURKEY BY MAJOR COMMODITY GROUPS AND BY SECTORS

(CIF, MILLION US $)

	1987	1988	1989	1990
INVESTMENT GOODS	3816.6	3989.0	3845.1	5928.5
RAW&SEMIFINISHED MATERIALS	9177.7	9236.4	10558.1	13489.0
CONSUMPTION GOODS	1161.2	1110.0	1388.9	2884.8
TOTAL	14155.8	14335.4	15792.1	22302.3
AGRICULTURE	782.3	499.3	1041.2	1318.6
MINING&QUARRYING	3034.1	2861.3	2902.4	3989.3
CRUDE PETROLEUM	2711.1	2434.3	2455.6	3518.7
INDUSTRY	10341.4	10974.8	11848.4	16994.4

SOURCE: SIS, SPO Main Economic Indicators, 1991.

Nevertheless, according to the sixth five year plan, (1989-1994) there will be a reduction in customs duties for imports of metal goods, chemicals, spare parts of cars, electronic appliances (Exporter's Encyclopedia, 1990).

3.3-FRANCHISING

A few years ago, most of the foreign countries associated with Turkish companies through licensing or equity joint-venture, today franchising has become a popular entering strategy for Turkey. Turkish businessmen are more open-minded now compared to the last decade and they are eager to adopt new managerial techniques such as franchising. Examples of franchising were first seen in the fast food industry: Mc Donald's, Pizza Hut, Wendy's. This system then expanded to other industries,for example the famous American electronic printinghouse, Alphagraphics. Holdings are also using this technique, for example Cankurtaran Holding (with Canadian shoes company Bata).

The trend continued with the American ice-cream company Baskins-Robbins and the English beauty products company, Nectar (Panorama No:6, 1991). As the interest in foreign companies is great, most of the Turkish entrepreneurs want to use the franchising system. Especially young, ambitious entrepreneurs searching for new management techniques and who have enough courage to adapt new ways. Favorites of Turkish entrepreneurs are popular American companies, then English, German and French ones.

Increasing consumer demand for new and better products and services, and governmental support for the franchising method (no restrictions on the transfer of profits and loyalties) will undoubtedly create additional franchising activities. In Turkey, people generally trust foreign companies and their products and services which is an additional encouraging factor for foreign franchisor companies (Exporter's Encyclopedia, 1990).

3.4-DIRECT INVESTMENT

Until the 80's there was lack of competition because of the prevention of imports. Licensing was the only chance to reach the Turkish market without taking the risks which can be faced in equity joint venture or direct investment.

However, since 1980, laws and regulations have been simplified for the benefit of foreign companies. By 1986, recent legislation authorized the establisment of free trade areas and Turkey was for the first time opened to foreigners. Today, there is no limitation on the magnitude of foreign investment and they can also hold 100% of the company. Besides, all industries in Turkey are open to foreign investors and the government is still

TABLE 4

INCENTIVES

A.INVESTMENT PHASE	B.OPERATING PHASE
1.Customs exemption(for imports of investment good)	11.Investment incentive allowance
2.Low interest domestic and foreign investment credit	12.Funds for working capital
3.Exemptions from various taxes, duties and fees	13.Low interest credit
4.Resource allocation support fund	14.Exemption from the real estate tax
5.Incentive premium on investment goods available in the domestic market	15.Accelerated depreciation and allowance for revaluation
6.Exemption from construction fees	16.Allowance for imports of used plants
7.Value added tax (VAT) postponement	17.Exemption from taxes, duties and fees in medium and long term export credits
8.Allocation of foreign exchange	
9.Financial leasing	
10.Other incentives	

C.INCENTIVES APPLICABLE TO BOTH INVESTMENT AND OPERATING PHASES

18.State allocation of land and undertaking of infrastructural investment

19.Tax reduction to wages of workers in regions of special importance or with priority in development

20.Exemption from taxes, duties and fees in housing construction and in regions with priority in development

21.Use of credit in cash and in kind

22.Low interest credits for touristic and agricultural investments from state funds (Tourism Development Fund) or from specialized banks

23.Wharfage exemption(according to Decree No.85/9569, dated June 8,1985)

Source:Foreign Capital Legislation in Turkey YASED September 1988 No:23

TABLE 5

FOREIGN DIRECT INVESTMENT
$ MILLION

		Authorization					Realization			
	TOTAL	of which Manufacturing Per cent of total	New Investments	Extension	Capital Increase	Equity Participation	Inflow	Outflow	Net	Inflow as per cent of authorization
			PER CENT OF TOTAL							
1981	338	73.2	36.7	15.1	16.9	31.4	141	46	95	41.7
1982	167	59.3	45.5	12.6	28.7	13.2	103	48	55	61.7
1983	103	86.7	22.4	42.8	29.2	5.8	87	41	46	84.5
1984	271	68.5	63.4	10.3	21.7	4.4	162	49	113	59.8
1985	235	61.0	62.3	3.8	23.9	9.8	158	59	99	67.5
1986	364	53.3	67.3	6.6	17.9	8.5	170	45	125	46.7
1987	537	51.1	50.7	5.2	33.2	11.2	171	65	106	31.9
1988	825	58.7	38.9	9.2	33.2	18.7	387	33	354	46.9
1989	1471	61.3	37.1	8.9	25.8	28.3	738	75	663	50.2

SOURCE: SPO, Main Economic Indicators, 1990.

working on programs to encourage foreign capital in order to promote economic development.

Table 4 shows (a) the incentives applicable to the investment and operating phases separately (b) the incentives applicable to both phases. Both domestic and foreign companies benefit from these incentives (Exporter's Encyclopedia, 1990).

Despite the incentives, foreign direct investment applications and inflows have increased in the past two years, mainly because of the liberalization of capital movements (Table 5).

3.5-JOINT-VENTURE

Licensing agreements in Turkey are limited to 10 years, however, they can be extended for a longer period. This type of entering strategy benefits from unrestricted production and exports. In addition, technology transfer between the partners is encouraged. Finally the licensing fee is determined by the parties involved and not by any Turkish regulation (Exporter's Encyclopedia, 1990).

For equity venture there is no limitation, foreign companies can participate in state owned enterprises.

Contract management is very common in Turkey as foreign companies are better in technology and knowhow. Contract management is mostly found in hotel management.

Because of Turkey's lack of technology compared with other foreign countries especially Western countries and Japan, contract manufacturing is not preferred.

4-RESEARCH DESIGN AND METHODOLOGY

The main objective of this study is to explore the perceptions of foreign companies towards Turkey by focusing on two points:

(1) the advantages and disadvantages of the Turkish market in the eye's of foreign companies

(2) the reasons behind the foreign companies entry strategies to Turkey.

4.1-DATA COLLECTION PROCEDURE

Data is collected with the utilization of a questionnaire (Appendix) designed specifically to meet the objectives of this research study. The main target for this study is the foreign companies in Ankara which is the second city in which foreign companies are mostly interested after Istanbul. A list of foreign companies was obtained from the State Planning Organization. 40 companies were chosen randomly from this list making sure that they belonged to different sectors. However, only the telephone numbers of 24 companies could be obtained from 011. Out of these, only 21 (2 of them in Istanbul) could be contacted for an interview since the other three were closed. The questionnaire used is divided into three parts: The first part is concerned with the sectors, the second part deals with the size of the companies in question while the third part, composed of multiple choice questions, concentrates on the entry strategies adopted.

5-RESEARCH FINDINGS

The results are based on the answers given by 21 companies.

5.1-SECTOR

The questionnaire asked foreign companies which sector they were working in. Nearly 71.4% of them worked in services and the rest in manufacturing (28.57%). Distribution according to the sectors is as follows;

-5 in tourism

-2 in soft drinks industry

-1 in housing construction

-1 in petroleum

-5 in export

-1 in foreign language education

-1 in construction of highway

-1 in airport operation

-1 in fast-food

-1 in public relations

-1 in boiler manufacturing

-1 in banking

5.2-SIZE

Some of the companies answered the questions by giving the number of workers, while others said they did not know, or simply talked about the share of foreign partnership. To illustrate, a company involved in tourism gave figures in terms of bed capacity (280 beds) while others in the same sector gave figures in terms of room capacity (311/302 rooms).

TABLE 6

FOREIGN COMPANIES
ENTRY STRATEGIES ACCORDING TO THE SECTORS

	Exporting	Franchising	Direct Investment	Joint Venture			
				Licen.	Cont.Mngmt	C.Manu.	E-
Export trading companies	*****						
Fast food		*					
Tourism(hotel)			*		**		*
Soft Drink			*	*			
Construction							*
Boiler Manuf.							
Banking							
Public Relations					*		
Foreign Lan. Edn			*				
Airport Operation							
Airline					*		
Petroleum			*				

TABLE 7

FOREIGN COMPANIES ENTRY STRATEGIES TO TURKEY (%)

EXPORTING	FRANCHISING	DIRECT	JOINT-VENTURE		
		INVESTMENT	LICENSING	CONT.MANAG.	E-V
23.8	4.76	19	4.76	19	28.57

A housing construction company has a capacity of 1000 houses/year. One of the soft drink companies has a licensing agreement with eight bottling companies. A construction company has 150 workers, 130 of them Turkish. A boiler manufacturing company has a capital of $ 500 000 shared by Canadian and Turkish partners. Americans have 30% share in bank.

5.3-ENTRY STRATEGY

While 23.8% of the participants are interested in exporting, 4.76% of them are working with franchising and 4.76% of them have a licensing agreement. Contract management entry strategy count for 19%. Although equity-venture has 28.57%, direct investment has 19%. An equity-venture(airport operation) and a direct investment (foreign language education courses) have been waiting for the new government's attitudes to foreign companies before starting the operation (Table 7).

Table 8 clearly enumerates the reasons behind each entry strategy adopted for the Turkish market.

Choosing one entry strategy does not necessarily mean that it can not be replaced by another strategy. For example, one of the hotels, Sheraton, had started with contract management, after realizing the high market potential they re-entered with an equity-venture strategy. In the soft drink business one of the companies,Coca-Cola, had been using a licensing agreement. But realization of the market potential and failure of its Turkish partner, forced this company to change to direct investment. A boiler manufacturing company used all joint-venture agreement types (licensing, contract manufacturing, contract management, equity-venture) to enter into the market and it is quite happy with its Turkish partner. Because of the high market potential, the company is thinking of buying a boiler manufacturing firm which would be owned totally by itself.

TABLE 8

REASONS BEHIND FOREIGN COMPANIES ENTRY STRATEGIES TO TURKEY

A)EXPORTING

1)Foreign export companies are still trying to learn Turkish market,

2)Companies do not have financial resources to enable them to choose other entry strategies,

3)Moderate sales potential.

B)FRANCHISING

1)Better entering strategy than licensing by more control of franchisee when the product is standard, no product adaptation is needed,

2)No government regulations on franchising agreements,

3)Learn the market characteristics without major investment unlike direct investment or equity venture,

4)Lower political risk is taken than equity venture or direct investment,

5)Moderate sales potential.

C)DIRECT INVESTMENT

1)High sales potential,

2)Direct investment is a more attractive strategy now compared to the period before 1980 because of simplified laws and regulations.

D)JOINT VENTURE

D.1.LICENSING

1)Moderate sales potential,

2)Less political risk may be faced in comparison to direct investment or equity venture,

3)Little investment is needed,

4)Better than exporting as transportation cost is high in exporting,

5)Although ten year is a limit for licensing agreements, there is no restrictive rule not to extend this period.

D.2.CONTRACT MANUFACTURING

1)If it is possible to find a Turkish company which has good quality production and/or volume level, contract management is better than direct investment as less risk is taken,

2)No major initial investment,

3)Moderate sales potential.

D.3.CONTRACT MANAGEMENT

1)Understanding of the Turkish market by taking less risk compared to direct investment,

2)Best entering strategy especially in hotel management,

3)Turkish companies need know-how and managerial techniques, 4)Moderate sales potential.

D.4.EQUITY VENTURE

1)Best entry mode for projects done for the State. In this case, the Turkish company becomes a mediator between the foreign company and the Turkish State,
2)Using financial resources of Turkish companies while having a major share (greater than 50 %) is the best equity venture,
3)Easy access to raw materials, low salary workers and facility to learn market characteristics with the help of the Turkish company,
4)High sales potential,
5)Reduction of risk compared to direct investment.

5.4-CHARACTERISTICS OF THE TURKISH MARKET FROM THE FOREIGN COMPANIES POINT OF VIEW

The percentages in total in Table 9 is lower than 100% because some of the questions were not answered.

Therefore, only 90.48% of the respondents find that Turkey has a high sales potential. This statement takes into consideration not only the Turkish market but also the neighbors of Turkey. 76.2% of the foreign companies head offices are situated in their country of origin, and this can be explained by the fact that most foreign companies are of American origin. When considering exportation, they find geographical distance a major disadvantage because of high transportation cost. However, when considering other entry strategies, geographical distance is not taken into account since the telecommunication network is sufficiently advanced in Turkey and it is easy to contact the head offices. Nearly half of them (47.6%) find a large cultural distance between themselves and the Turkish people,nevertheless this is not viewed as a problem for them because they find Turkish people friendly and more modern than other Eastern countries.

57.14% of the participants mentioned that production cost was low in Turkey. Besides the low salaries, it was also stated that productivity was low. In addition they pointed out that the price of electricity was high.

While 38% of foreign companies consider Turkish imports policy as liberal, 4.8% of them find it restrictive. It should be noted that import liberalization policy is still going on. Also 33.3% of the foreigners believe that the incentives in the operating and in the investment phases are quite good.

Persistent high inflation does not discourage foreign companies since they receive their payments in foreign currency. In particular, companies selling industrial equipment feel that it does not affect them at all. However, inflation does affect companies selling consumer goods since it decreases the consumers purchasing power. Moverover, high unemployment also contributes to the reduction in purchasing power.

The continuous depreciation of the Turkish currency creates problems in accounting. Sometimes, foreign companies apparently making profits in terms of Turkish money, lose when the amount is converted into dollars.

TABLE 9

DEFINITION OF TURKISH MARKET FACTORS
BY THE FOREIGN COMPANIES (%)

	High	Moderate	Low
Sales potential	90.48	9.52	
Competition	61.9	19	19.3
Production cost	19	57.14	
Geographical distance	76.2	23.8	
Cultural distance	47.6		19
Political risk	52.4	14.3	33.3

	Good	No affect	Bad
Incentives in operating and in investment phase	33.3		
Exchange rate depreciation		9.52	28.6
High inflation		19	57.1
Quality of Turkish labor		52.4	4.76
Marketing infrastructure		42.86	4.76
Unemployment rate			28.57
Tax		9.52	9.52

	Liberal	Restrictive
Import policy	38	4.76
Investment policy	38	

A major problem for foreign companies is political risk. 52.4% of the respondents consider Turkey has high political risk, this ratio is 14.35% for the ones who consider the risk moderate and 33.3% that think it is low. Most of the respondents agree that in Turkey, a government policy is changed everytime, the cabinet changes. For instance, regulations change as the cabinet changes. In addition, they complain of the slow moving bureaucracy and red-tape. However, against all these negative images, they also mention that Turkey is much better than most countries as there is no revolution and they are optimistic about the future.

52.4% of foreign companies defined the quality of Turkish labor as good. However they point out that it is difficult to find people who speak English very well. This seems to be a major problem in the tourism sector because they have to train the workers to improve their language which means additional costs.

Foreign companies who choose joint-venture or franchising as an entry strategy into the Turkish market realize that the partner is an important factor to deal with local matters such as state requirements. Although the delay of timely payments for state work is hardly considered as a disadvantage , foreign companies are reluctant to work for the Turkish State preferring projects financed by the World Bank (Table 10).

Another factor is fierce competition among foreign companies which forces some of them to seize overseas opportunities offered and as a result foreign companies in Turkey try to adapt to the Turkish political system and high inflationary environment. They have come to Turkey with a vision of future opportunities within Turkey on the one hand and with its neighbors on the other hand. Another negative factor is terrorism in South Eastern Anatolia which reduces Turkey's prestige. Foreign companies also see Turkey as a risky country because of this terrorism. Especially companies working in the petroleum industry in the Southeastern part of Turkey.

Today, most of the foreign companies do not know Turkey and even some Western companies define Turkey as "THE BEST OF THE MIDDLE EAST".

5.5-ADVANTAGES AND DISADVANTAGES OF TURKEY ACCORDING TO THE SECTORS AND ENTRY STRATEGIES

Table 11 shows the advantages of the Turkish market from the foreign companies point of view. The major advantage without any doubt is a high sales potential both for companies working in the service sector and for companies working in the manufacturing sector. The second most important advantage is finding a trustworthy partner followed by low production cost in manufacturing and liberal import policy in services.

Low production costs in manufacturing concern low labor wages, other production costs are high (electricity, low productivity).

Table 12 shows the advantages of the Turkish market from the point of view of entry strategies. As before, sales potential is the major advantage for every foreign company entry strategy to Turkey. Besides, the sales potential, there are other advantages which are placed in a different order of importance because of the different entry strategy adopted.

Although the disadvantages of Turkish market change according to the entry strategies, high inflation, political risk and difficulty of finding a trustworthy partner are the major ones (Table 13).

TABLE 10

RANKED DISADVANTAGES OF TURKISH MARKET
ACCORDING TO THE FOREIGN COMPANIES

A)WHICH ARE WORKING IN SERVICE SECTOR (%)

	1	2	3	4	5	No response
Political risk	20		33.3			46.7
High inflation	13.3	33.3				53.4
Language training of employees		26.6				73.4
High taxes				33.3		66.7
Conflict between state organizations	6.6					93.4
Difficulty of finding a thrustworthy partner	6.6	6.6		33.3		46.5
Exchange rate depreciation				40		60
Low GNP		6.6				93.4
Tough competition			13.3			86.7
Large geographical distance	26.6					73.4
Not so much liberal policy			26.6		26.6	46.8

B)WHICH ARE WORKING IN MANUFACTURING (%)

	1	2	3	4	5	No response
Political risk	33.3	33.3				33.4
High inflation	16.6	33.3	16.6			33.5
Difficulty of finding a trustworthy partner	16.6					83.4
Exchange rate depreciation				33.3		66.7
High taxes				16.6		83.4
High cost of electricity				33.3		66.7
Terrorism in Southeast of Turkey	16.6					83.4
Low GNP		16.6	16.6			66.8
Tough competition					50	50
Untimely payment of state jobs		16.6	16.6			66.8
Low productivity	16.6					83.4

*Ranked from most preferred to least preferred

TABLE 11

RANKED ADVANTAGES OF TURKISH MARKET

ACCORDING TO THE FOREIGN COMPANIES

A) WHICH ARE WORKING IN SERVICE SECTOR (%)

	1	2	3	4	No response
Sales potential	86.7	13.3			
Liberal import policy		33.3			66.7
Good marketing infrastructure			33.3		66.7
Quality of labor		26.6	23.8	9.52	40
Trustworthy partner	13.3	26.6	13.3		46.8

B)WHICH ARE WORKING IN MANUFACTURING (%)

	1	2	3	4	give no answer
Sales potential	83.4	16.6			
Trustworthy partner	16.6	33.4	50		
Quality of labor		16.6	33.3		50.1
Good marketing infrastructure				33.3	66.6
Incentives in operating in investment phase				16.6	83.4
Low production cost		33.3	16.6		50.1

* Ranked from most preferred to least preferred

TABLE 12

RANKED ADVANTAGES OF THE TURKISH MARKET ACCORDING TO ENTRY STRATEGIES

A)EXPORTING

1)Moderate sales potential,

2)Liberal import policy,

3)Good marketing infrastructure.

B)FRANCHISING

1)Moderate sales potential,

2)No telecommunication problem,

3)Lots of fields not exploited before.

C)DIRECT INVESTMENT

1)High sales potential,

2)Low labor cost,

3)Liberal investment policy,

4)Incentives offered in operating and in investment,

5)No telecommunication problem.

D)JOINT-VENTURE

D.1.LICENSING

1)Moderate sales potential,

2)No telecommunication problem.

D.2.CONTRACT MANUFACTURING

1)Moderate sales potential,

2)Quality of labor is good,

3)No telecommunication problem.

D.3.CONTRACT MANAGEMENT

1)Moderate sales potential,

2)No telecommunication problem,

3)Quality of labor is good.

D.4.EQUITY VENTURE

1)High sales potential,

2)Quality of labor is good.

*Ranked from most preferred to least preferred

In ranking the disadvantages of the Turkish market according to sectors, the most important ones are political risk and high inflation (Table 10). By comparing parts a and b in table 10 we observe that manufacturers are mostly concerned with political risk.

Political risk is created more from the frequent change in governments rather than from any fear of revolutions. However, for companies working in Southeastern Anatolia, terrorism is a constant threat and the Curdish problem a cause for concern. High inflation is seen as a major problem because it prevents companies to forecast the future accurately, in particular for long run agreements.

The third disadvantage is the geographical distance especially for exporting companies as this is seen as an additional cost.

TABLE 13

RANKED DISADVANTAGES OF THE TURKISH MARKET ACCORDING TO ENTRY STRATEGIES

A)EXPORTING

1)Geographical distance,

2)Non liberalization in some products.

B)FRANCHISING

1)High inflation,

2)Difficulty of finding a trustworthy partner,

3)Exchange rate depreciation,

4)Fear of changing franchising regulation with changing government.

C)DIRECT INVESTMENT

1)High political risk,

2)High inflation,

3)Conflict between state organizations,

4)Terrorism in Southeast of Turkey,

5)High cost of electricity,

6)Bureaucracy,

7)English language training of employees,

8)High taxes.

D)JOINT VENTURE

D.1.LICENSING

1)High inflation,

2)Difficulty of finding a trustworthy partner,

3)Low GNP,

4)High unemployment rate,

5)Competition,

6)High cost of electricity,

7)High taxes,

8)Exchange rate depreciation.

D.2.CONTRACT MANUFACTURING

1)Difficulty of finding a trustworthy partner,

2)Low technology is used in Turkey,

3)Low productivity of Turkish labor.

D.3.CONTRACT MANAGEMENT

1)Difficulty of finding a trustworthy partner,

2)Language training of employees.

D.4.EQUITY VENTURE

1)Political risk,

2)Difficulty of finding a trustworthy partner,

3)No timely payment of state organizations,

4)Exchange rate depreciation,

5)Competition,

6)Low standard of reporting, auditing and security analysis of Turkish firms.

*Ranked from most preferred to least preferred

6-SUMMARY AND CONCLUSIONS

The examination of the advantages and disadvantages of the Turkish market from the foreign companies point of view and the reasons behind foreign companies entry strategies showed that 71.4%* of the foreign companies interviewed worked in the service sector whereas 28.57%* worked in manufacturing. The major factor attracting foreign companies to Turkey is the huge potential market, in many fields; not only the domestic market, but also the neighbors of Turkey (Bulgaria, Greece, Iran, Iraq, USSR and Syria). Although the respondents state that productivity is lower than all Western countries, low labor cost still attracts foreigners. The changing image of Turkey since 1980, the liberalization of import policy and Turkey's efforts to enter the EC have all contributed to attract foreign companies.

Another point that arises in this study that, foreign companies suffer from political risk and high inflation. Political risk is mainly affecting the companies that want to be involved in direct investment or joint-venture in Turkey. Also the terrorism Southeastern Turkey creates an additional risk for these entry strategies, especially for the companies that work in this region. Although high inflation does not affect the companies that work in foreign currency, high inflation adversely affects the companies which earn TL in addition to deteriorating the consumers purchasing power. Foreign companies are still reluctant to work for the Turkish State because of delayed payments. They prefer World Bank financed projects especially big projects like construction of highway. In addition they have

* figures differ from Table 1 because the study deals with companies located mostly in Ankara.

difficulties in finding Turkish companies that have the managerial knowhow they require. Furthermore English is a problem for the foreign companies as it is not easy to find one who speaks English well.

By solving the telecommunication problem Turkey got extra credit in the eyes of foreign companies. Another point that is important for foreign companies is to find a trustworthy, a Turkish partner for franchising or joint ventures.

Based on the results of this study, to attract foreign companies, especially direct investment or joint-ventures, the image of Turkey should be changed. The main disadvantages, political instability and high inflation rates, should be reduced. In addition, measures should be taken towards eliminating continuous changes in regulations and a slow moving bureaucracy.

Although foreign companies define the incentives and investment policy of Turkey as good, they do not view it as an advantage of the Turkish market. Governments, instead of trying to attract foreign companies by more incentives, should be more consistent in their policies.

Untimely payments of state works and disagreement between state organizations on giving authority to foreign companies are all discouraging factors. For instance, although permission was granted by the State Planning Organization to a language institute, the permission was later refused by the Ministry of Education. Unnecessary conflicts of this kind should be avoided by the introduction of appropriate measures.

Turkish entrepreneurs who are looking for foreign partners to expand their companies and expertise should not search for foreign capital when they are short of financial resources. Otherwise this can cause any unbalanced bargaining which will benefit the foreign company. Turkish companies have to consider foreign companies as a route to globalization, and as a necessary step to get know-how at a low cost. The Turkish market is still attracting foreign companies but foreigners do not have much knowledge about this country. To understand the Turkish market, and the business environment, they rely on the Turkish partner who is not only a guide but a mediator between the State and themselves. That is why the Turkish companies should be trustworthy partners. By using the foreign company experiences, the Turkish firms can prepare themselves for global competition, through acquiring managerial knowhow and recent technological developments.

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APPENDIX

IMPORTANT : THANK YOU FOR YOUR PARTICIPATION. IN PART B WHILE ANSWERING THE QUESTIONS SHOW THE EFFECT OF THE FACTOR WITH (-) OR (+) SIGN. ALSO PLEASE GIVE THE ANSWERS OF 'WHY ' AND 'HOW' QUESTIONS THAT YOU HAD SIGNED.

A) Sector

B) Size

C) Which entering strategy did the company choose for Turkish market?

1)direct exporting

2)indirect exporting

3)franchising

4)direct investment

5)joint venture

(a)contract manufacturing

(b)contract management

(c)licensing

(d)equity-venture

D) Factors affecting this entry strategy (According to its importance, number the factors starting with 1)

(1) low sales potential

(2) moderate sales potential

(3) high sales potential

(4) competition

(5) poor marketing infrastructure

(6) good marketing infrastructure

(7) low production cost

(8) high production cost

(9) restrictive import policies

(10) liberal import policies

(11) restrictive investment policies

(12) liberal investment policies

(13) small geographical distance

(14) large geographical distance

(15) economic climate of Turkey

(16) exchange rate depreciation

(17) small cultural distance

(18) large cultural distance

(19) low political risk

(20) high political risk

(21) tax benefits

(22) incentives in investment phase

(23) incentives in operating phase

(24) high inflation rate

(25) quality of Turkish labor

(26) high unemployment rate