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## An analysis of internationalisation behavior of firms through activities and the case of Turkish firms

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### Abstract

This paper is structured as follows: in the first part we present the internationalisation process theories and arguments including learning process, born global approach, internetisation process and networking which are classified as market focused approaches. The second part presents some general patterns of the internationalisation process of Turkish firms. Our study on how and when Turkish companies began to invest abroad is based on a database consisting of all known manufacturing firms with subsidiaries abroad before the year 2000. This paper also discusses the internationalisation of Turkish firms in light of the internationalization process theory, and focuses on the period from the end of 1980 to 2010. It seems that Turkish firms, in their internationalisation process use their network in addition to learning from existing export markets and market knowledge. It is apparent from the secondary data analysis that companies make use of know-how knowledge resulting in gaining experience in international markets other than relying only on export.

*Keywords:* Internationalisation process, internationalisation strategy, international market knowledge, Turkish companies

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### 1. Introduction

The objective of this paper is to analyse market based theories and approaches used in explaining the accelerated internationalisation process of firms. For that purpose the underlying assumptions of knowledge based incremental internationalisation are investigated and an analysis of Turkish firms' performance between the years 1980 and 2010 is made. During the 1980s, Turkey's economy has turned to be an open market and export oriented economy. However, with the exclusion of exports as a criterion to measure the degree of internationalisation, the internationalisation of Turkish firms is a relatively new phenomenon.

The internationalisation process of Turkish companies is driven by learning from international operations over time and commitment to international business. The better the knowledge about the market, the more valuable are the other resources, and the stronger is the commitment to the market. Therefore, market knowledge and market penetration develops over time by performing international operations in an established market. Since international operations are risky, firms tend to start their internationalisation process in a country close to the home country as defined by the industrial network approach, which is directly linked to the behavioural theory. Later, as companies gain experience in such markets, they will gradually invest in more distant countries (Paunović, Zoran; Prebežac,

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Darko, 2010). Internationalisation is also a process of increasing commitment to foreign operations and to foreign markets in which firms have already been operating. According to discussed theory, the internationalisation process is driven by learning from international operations over time and commitment to international business. Market specific knowledge develops over time by performing international operations in a target market that is defined by physical and/or cultural distances (Etemad, Hamid; Wilkinson, Ian; Leo Paul Dana, 2010). Furthermore, as companies gain experience in such markets, they will gradually invest in more distant countries. The theory states that firms tend to internationalise gradually by developing step-by-step from producing for the domestic market to exporting through agents and sales offices before becoming multinational by establishing production units abroad (Amdam, Rolv Peter, 2009). When establishing themselves abroad, firms tend to invest and expand in countries with a short physical distance to the home country. Firms, thus become dependent on these markets and may expand further if conditions for expansion exist. Related with this framework, 'Business networks' are defined as a set of interconnected business relationships with other business actors, suppliers, and customers. According to this perspective, learning through networks matters for decisions on internationalisation.

The last two decades have seen significant internationalization of companies from Turkish firms in terms of their greater participation in international trade, growing outflows of foreign direct investment (FDI), and a surge in their cross-border mergers and acquisition activity. Outward investment from developing countries is not a new phenomenon but in recent years there has been a marked increase in the magnitude of flows and a qualitative transformation in their pattern. Flows of outward FDI from developing countries rose from about \$6 billion in 1989–1991 (about 2.7% of global outward flows) to \$253 billion for 2007 (nearly 13% of global outflows) (Deng, Xinning, 2009). Various theoretical and research issues are highlighted and discussed, including the important interactions that exist between the processes of internetization and internationalization. Also the internationalization of entrepreneurship is becoming increasingly facilitated through the use of the internet. This process may be compared to the firm's adoption and use of the internet and the internet-based processes in transforming the firm to a hybrid network internally and externally within the firm's home and international markets, especially when the members of its external network have already internationalized.

Internationalization process of Turkish firms have been analysed in the present study. Market entry methods they follow has also been investigated for the years of 2000s. According to the results of the secondary data analysis, Turkish firms have used export, investment and partnerships effectively. From the data it is apparent that once they have built their presence in traditional export markets, firms expanded their international business activities later relying more on direct investments and partnerships.

## **2. Theoretical Background**

There is a wide range of academic research analyzing international behavior of firms and the patterns they follow in the literature on internationalization process rely on different approaches depending on market factors. The literature in the field acknowledges two traditional approaches to internationalization, the Uppsala internationalization model (U-Model) and the innovation related model (I-Model), both referred to as the "stage models" The model, initiated by Johanson and Wiedersheim-Paul (1975) and reformulated by Johanson and Vahlne (1977) posits that as firms learn more about a certain market, they become more committed to it by investing more resources into that market. The interest paid by the U-Model to the "establishment chain" makes this approach particularly adequate for explaining the export and their internationalization process. The I-Models also suggests that SMEs' internationalization process is incrementally based on different stages that determine changes in the attitudinal and behavioral commitment of managers which, in turn, are reflected in the firms' increasing international orientation (Bilhes & Tesar, 1997; Cavusgil, 1980; Johanson and Matteson, 1988). This is an attempt to relate the internationalization process of firms to the notion of industrial network. Instead of regarding the internationalization as a process, the relationship between a firm and a somewhat anonymous market, they stress the relationship between independent firms forming the network. Due to an internal division of labour among the involved firms, each firm will become dependent at external resources to the extent to which it builds exchange relationship to other firms in the network. Such a relationship often takes time and effort to establish and develop, especially in the long term it implies a high degree of commitment and interconnectedness by different types of bonds (Johanson & Vahlne, 1977).

A new theory is centered on four core constructs developed from the literature; network structures, position, entry modes, and process. To execute strategies effectively, firms may increasingly need to rely on networks, consisting of multitudes of people and organizations to create innovation and commercialize products to international markets. In the context of internationalisation, an effective use of networks enables companies to overcome barriers, such as relatively small company size, lack of internal resources, and distance from international markets, to both innovate and execute on the global stage, creating increased export revenues (Chetty and Wilson, 2003; Kelly, 2000; Oviatt and McDougall, 1994).

Research has identified that for SMEs and entrepreneurial companies, the ability to create and use networks can facilitate product commercialization across international markets (Chetty and Wilson, 2003; Coviello and Munro, 1997), effectively enabling them to compete in the global marketplace (e.g., Freeman et al. 2010). Within the information technology sector, for example, consisting largely of SMEs, global commercialization is viewed as a necessary imperative, rather than a matter of choice. It is a synthesis of established theories and constructs relevant for examining how SMEs establish insider ship positions, institutionally different business networks thereby representing a theoretical framework developed from literature.

According to the network approach, internationalization is the outcome of firms' actions to establish relationship by strengthening network position (Johanson & Vhine, 2009). Consequently, it is essential for high-technology companies to push global product volumes from inception, before innovative offerings reach obsolescence and while demand has not been replaced by yet another disruptive innovation (Bell, McNaughton, and Young, 2001; Litvak, 1990). For these high-technology companies (with a global focus from inception), survival often largely depends on how quickly they enter international markets. Firms establish new positions, develop old position or increase the coordination between positions in different country – based network. Generally, firms are grouped into different categories depending on their degree of internationalization and the market's degree of internationalization (Clark and Pugh, 2001). This implies that international network extension processes are incremental, and founded on the same basic trait as internationalization process, in general being analyzed as a growth process that relies on the knowledge possessed by firms (Johanson & Vahlne, 2009). That knowledge is important because it reduces uncertainty about further commitment. The degree of international experience of the firm (Cavusgil, 1980) and network theory developed for the internationalization process. Firms are also assumed to build relationships differently depending on the stage of internationalization i.e. the higher the degree of internationalization, the more likely that SMEs act proactively in business networks (Agndal and Chartly, 2007).

Furthermore, networks might not only continue within a country, but may extend beyond borders. Differences are seen between countries and products regarding the international extension, coordination and integration of network. Accordingly, the degree of internationalization of the actual network has strong implications for the internationalization process of the particular firms. Such a process becomes much more individual, depending on the networks established in the industry as well as the position of the firm in the industry network (Madsen and Servais, 1997).

There are some other important improvements that concern the drivers of the new picture of internationalization process of firms. An answer to improvements also tells us something about the future diffusion of the phenomenon based on the literature i.e. the rise of Born Global may be attributed to at least three important factors; new market conditions, technological developments in the areas of production, transportation and communication, and more elaborate capabilities of people, including the funder/entrepreneur who starts the Born Global firm. All three factors are, however, interrelated (Madsen and Servais, 1997). These new market characteristics have not emerged by themselves, though. They have a high degree that can be seen by basic changes in technology. New production process technology has implied that small-scale operations may also be economically sound. Therefore, specialization and customization of production are more viable alternatives in today's markets.

Transportation of people and goods has become much more frequent, reliable and even cheaper than ever before. This means that cost barriers for international approach have been removed. This is also a result of development in the area of communication and world markets have become more accessible at low cost by the use of fax machine, e-mail, etc. Day – to day business often is carried out in many countries from the same desk. A final precondition for the changing market conditions and hence the rise of Born Global is the increased ability of human resources to exploit the possibilities of the technological changes on the internal markets (Lin, Liu and Cheng, 2011).

### **3. Literature Review**

International growth orientation is a construct that differentiates companies according to their motivation to seek growth in international markets, and thus for identifying the factors behind the chosen growth strategies (Nummela, Bunmalainen, Saarenkto, 2005). An extensive body of literature has examined internationalization as a process and researchers have also focused on the content of internationalization strategy (Solberg and Durniev, 2006). Approaches used in explaining internationalization of the firms are often classified broadly into three main groups. These are the process or stage – models of internationalization (Johanson and Wiedersheim, 1975), the network approach, the foreign direct investment theory and internalization transaction cost theories. We can classify firms according to the path they followed in their internationalization.

Previous studies suggest that entrepreneurial orientation and market orientation provide the foundation on which the firm's behavior and international performance is determined. These are the internationalization, the choice of entry/operation modes and the choice between geographical concentration strategy and diversification. When trying to illuminate the determinants explaining the firm's internationalization strategy, especially the role of firm's knowledge-based assets has lately been highlighted in the internationalization literature (Kniht and Cavusgil, 2004).

Changes in environmental factors such as decreasing transportation costs, developments in communication technology and ease of access to market information have resulted in globalization of markets and globalization of production. Rapid technological advancements in communications, transportation and logistic have made it increasingly possible for goods and services to be traded across national borders of lower cost than decades ago (Wang, Suh, 2009). Regional cooperation and free trade agreements offer the firms within the region more appropriate circumstances to get involved in foreign activities. Regulations and rules related to foreign trade put forward by WTO (World Trade Organization) have encouraged international trade and foreign investments. The standardization of the "rule of the game" in regional trading blocks such as NAFTA and EU also lowered the costs for firms outside North America and Europe of doing business with firms inside the region with greater opportunities for achieving better scale and scope of economies through region- based FDI. Finally bi-lateral institutional arrangements such as free trade agreements (EFTA) and bi-lateral investment treaties (BIT) lead to additional protection for foreign investors reducing uncertainty and FDI-related costs (Grosse and Treuino, 2005). Risk and uncertainty, primarily as a composite, have occupied an important place in explanation of firm's internationalization and in theorizing regarding international entrepreneurship as applied to international expansion of the firm since emergence of both fields.

Literature focuses basically on international expansion and growth of international firms. The global business environment, instead of increasing foreign involvement incrementally as predicted by the stages model, many late comer East Asian MNEs accelerated their internationalization process in both developed countries and other developing countries. The term internationalization refers to the process whereby a firm increases its commitment and involvement to international markets, on all aspects of its productive activities. With the term internetization, we suggest that it provides for the information, the information infrastructure, and the internet-based information processing capabilities for the interlinking of value creating agents and processes in the firm. In the most basic characterization, productive activities result in value creation by the firm and its suppliers and buyers whose collective activities bring value to the market (Porter, 1990). In contrast to the traditional model of the firm (Coase, 1997; Williamson, 1975) with clear firm boundaries, this characterization of the value implies a very different view of the firm: whereby the firm acts as the coordinating epicenter of information-intensive flows between the two expanding ends of its network: (1) the members of its supply chain, or the suppliers, at the upper streams and (2) the members of marketing and distribution network at the lower stream that reach the far corners of the global market.

The members of supply chain can in turn be viewed similarly; each could have its own supply chain that may span globally. However, such network of suppliers must necessarily converge to a principal buyer who supplies to next buyer in the firm's supply chain to enable the supply process to move downward towards the focal firm's ultimate customers. They engage in internal operations in different parts of the world for different purposes and as a result the internationalization process is more complex and pluralistic, hence can be captured by any single theoretical approach.

In isolation, existing theoretical approaches cannot fit the firm's internationalization process, especially the accelerated internationalization by these latecomer and newcomer multinational enterprises from East Asian economies, labeled as dragon multinational (Matthews, 2006). In emerging markets internationalization may take forms of exporting, licensing, OEM, joint venture and strategic alliance. Secondly the literature suggests that asset-exploiting internationalization of firms –expand overseas to develop market, and asset- seeking international firms emerge in internationalization to acquire new resources and capabilities (Wang, Suh, 2009). International growth orientation (EO) is a construct which differentiates companies according to their motivation to seek growth in internal markets, identifying the factors behind the chosen growth strategies. It encompasses both external pressures and the internal factors that might drive the firms, such as the manager's attitude or global mindset and the assessment of the perceived risks in foreign operations.

The entrepreneurial orientation which reflects a firm's property to pursue new market opportunities is associated with innovativeness, managerial vision, and proactive competitive posture paying more attention to the intersection of international business and EO (Liu, Li, Xue, 2011). Some scholars point out that international EO implies and that firms make the leap into international markets by structure of aggressiveness, innovativeness and boldness because of unique entrepreneurial competencies and outlook (Autio et al, 2000). In international markets, firms from emerging economies suffer from same weaknesses, relative to global and local competitors, because of their unfamiliarity with the foreign market (Child, Redriques, 2005; Uo & Thng, 2007). These firms need to nurture market orientation because of its consideration of customer attitudes and benefits, analyzing information about competitors, and providing the required products and services at the right time and places. Market orientation can make the firms focus on knowledge derived from analyses of customers and competitors and there by respond more appropriately to foreign markets (Narver & Slater, 1990). Thus, market oriented firms will favorably impact decisions made by emerging-market firms during international expansion.

#### **4. An Analysis of Turkish Firms' Internationalization**

Turkish firms have considerable experience in exporting due to the export incentive regulations put forward during the early 1980s. Firms in those years followed strategies to expand in such markets as EU, Middle East and North African countries. The expansion of Turkish firms in the foreign markets has continued in connection with free trade agreements and development of regional cooperations. During the same period (1980s) industrial production capability of Turkish firms has improved and the share of industrial goods in total exports has reached to about 87 percent.

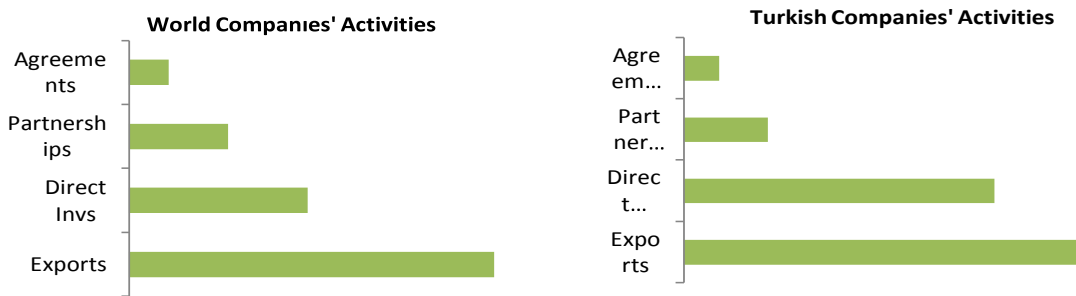
Since the early 1990s, firms have entered new international business activities building joint ventures and strategic alliances in the neighbouring countries. As for the European markets in which once exporting activities have been built, joint ventures and distribution channels networks have been established within neighbouring countries such as Germany, the Netherlands and England.

During the 2000s, however, Turkish companies have used different entry modes including agreements, acquisitions and direct investments more extensively than before, meaning more penetration into the foreign markets. Diminishing world markets did not seem to have affected international business activities of Turkish firms during the years 2008 and 2009. Foreign investments of Turkish firms have been about 2 billion US dollars in 2004 reaching a very high point 20 billion US dollars in 2008 and 22.5 billion USD for the year 2009 (Turkish Ministry of Economics Report, 2011). According to types of investment as summarized in the report foreign investments can be classified as industrial production investment, international ventures and financial investments. Market entry strategies followed by Turkish firms have been various. The rate of opening new branches and establishing new firms in foreign markets have been about 73 percent and this is followed by maintaining partnerships with 19 percent. The rate of building joint ventures has been about 8 per cent. Although Turkish firms get involved more in direct investments than joint ventures, it is obvious from the previous literatures that firms generally attempt joint ventures as an entry strategy into the foreign markets.

An analysis of why firms prefer different ways of entering foreign markets other than export gives interesting cues in the case of Turkey. Market differentiation and maintaining long-term market penetration has been ranked at the highest level of 45 per cent by the firms, followed by energy costs saving with 18 percent, lowering labor costs with 8

percent and confronting tariffs and quotas with 7 percent respectively. Taking advantage of input costs has been stated as another driving force in entering markets with 7 percent (Turkish Ministry of Economics Report, 2011). International activities are conducted and market presence is established in the foreign markets by firms with strategic thought considering opportunities and threats. Firms attempt such business activities as foreign direct investment, joint ventures and partnerships to take advantage of markets characterized by financial benefits, economic and political stability.

Fig. 1; Distribution of international activities of Turkish companies and World companies



In a similar vein, small and medium sized enterprises gaining experience in exports have expanded their business activities in different projects by using their market knowledge and foreign trade practices. Turkish firms have begun to build new partnerships with their competitors and customers creating new business models. To give an example, in Germany, one of the traditional markets of Turkey, Turkish firms have 1160 offices and/or stores and 2300 different partnerships (Turkish Ministry of Economics Report, 2011).

The journey of Turkish firms in international markets exhibits similar behaviour practised by other firms as discussed in the literature. Turkish firms have managed the international distribution and promotion efforts having access to potential customers, and matching organizational structure. During subsequent phases, Turkish firms have gained ability in projecting and taking advantage of long term opportunities, arranging market entry modes and developing relations with other organizations for more effective market penetration. As firms have gained knowledge and experience, their inclination and tendency for getting involved in international business efforts have also increased, resulting in countertrade agreements, joint ventures, strategic alliances and licensing.

According to the reports of Istanbul Chamber of Industry, ICI (1992) the distribution of international activities of Turkish firms have been joint ventures with 19.4 percent, licensing with 9 percent, contractual agreements with 22 percent, foreign direct investment with 5 percent and exports with 45 percent (ICI The Biggest 500 Company Survey, 1992).

The same survey results summarize the ranking of the importance of factors as proximity to potential markets with 28 percent, resources advantage with 21 percent, openness to foreign markets with 12 percent, ability to use technology with 26 percent, and market knowledge with 8 percent. In another survey conducted by Turkish Ministry of Economics (2011) findings indicate that firms have preferred establishing new ventures and foreign direct investment with 75 percent, partnerships with 19 percent and contractual agreements with 4 percent.

The motives behind direct investments have also been analyzed in the survey conducted by ICI. Factors effecting FDI behaviour of firms are given as financial availability with 45 percent, proximity and diversification with 18 percent, reduction in labour costs with 8 percent, overcoming trade barrier of tariffs with 7 percent and reducing other input costs with 12 percent.

Figure 2; Reasons for outward investments.

## General picture



## Turkey's picture



## 5. Conclusion

Globalization of markets and globalization of production is not a new phenomenon. Strategic behavior of firms, developments in technology, communication and transportation have given pace to the internationalization of firms both from developed and developing countries. Accumulation of capital, increases in welfare of nations and purchasing power have also played an important role in the rise of international companies.

The present paper has made a number of contributions to the debate on the internationalization process of firms. First, this paper has made an overall review on internationalization process. Second, market based approaches namely, stage approach, network and born-global approaches have been mentioned in the study and linkages with Turkish firms have been established by using secondary data available for the analysis.

This study reports an evaluation of activities of Turkish firms based on quantitative secondary data obtained from Istanbul Chamber of Industry and Ministry of Economics. 1992 and 2011 figures have been used comparatively in order to understand the international behaviour of Turkish firms. This study aimed to advance the understanding of internationalization, and its contribution lies in addressing the market knowledge gaps that were mentioned in the introduction part.

1992 and 2011 survey results have brought interesting points about Turkish firms' internationalization process. Traditionally, Turkish companies first entering neighbouring countries by exporting have expanded their international activities and market penetration later characterised by stage and network approaches. Some of the findings indicate similarities to that of internationalization behaviour of firms in a general manner whereas some other findings support different approaches used by Turkish firms. For example, Turkish firms attempt more "foreign direct investment" than "joint ventures" when growing in abroad. Thereby, we can conclude that Turkish firms use "direct investment" more extensively in foreign markets, although they invest in small scales. Another surprising conclusion we can draw from the reports mentioned above is that "long-term market effectiveness" which is recognized as one of the top priorities of firms in the world, is not given primary importance that much by Turkish firms.

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