

# “Post 2015 strategies to improve business models in corporate Turkey”

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# POST 2015 STRATEGIES TO IMPROVE BUSINESS MODELS IN CORPORATE TURKEY

## Abstract

The 2015 elections in Turkey disrupted corporate business models in the country. Conducting business in Turkey has unquestionably been impacted by political activity that has often erupted into cultural wars and civil demonstrations. This paper discusses the strategies corporations must undertake to secure a sustainable competitive advantage in Turkey. It researches and critically evaluates the business impact of the changing and often turbulent politics, as well as collects and analyzes economic data in order to propose a decision making platform allowing companies to make informed strategic decisions. Paralleling this research, the paper also investigates how supply chains into and out of Turkey have been severely disrupted as a result of political unrest. Supply chain disruption is increasing amongst trading nations as they (the supply chains) become more complex as a result of their global expansion. External, as well as internal data, are gathered and examined for this paper in order to recommend corporate action to be taken to minimize supply chain disruption. Protection of supply chains needs to also be a priority of government. Therefore, this paper suggests how involvement in supply chain management by a stable government in Turkey would help minimize disruption and make supply chains in the country much more productive and efficient.

## Keywords

political uncertainty, business model disruption, supply chains, strategy

## JEL Classification

F23, M31, O50

## INTRODUCTION

This study investigates the strategies manufacturing companies in Turkey, both domestic and foreign, are taking to secure their supply chains considering the uncertain political environment in the country. Political uncertainty has already had an impact on the economy best exemplified by decreasing demand and the lira under pressure. Although President Erdogan's AKP party failed to gain an outright majority in the June elections in 2015, it did regain a majority in the November 2015 election. However, political instability and slowing Foreign Direct Investment (FDI) still remain. Bureaucracy in Turkey is complex, which is challenging for companies, however, this will hopefully change when, and if, the country becomes a member of the European Union. Supply chains are becoming longer (global) and more complex thus increasing the propensity for disruptions threatening their efficiency and cost effectiveness. Research by the consulting company Accenture indicates that 80% of companies worldwide acknowledge that better protection of supply chains is a priority. Political unrest has proven to be a major disruptor of supply chains.

## 1. LITERATURE REVIEW

This paper examines Turkey's present economy and why it is on the list of "fragile economies", according to Morgan Stanley (2018). Akkoc (2015) discusses how Turkey's economy went from flying to flagging

and how many fear that past optimism has come to an abrupt end. Informal Comment 2016 notes that since 2014, economic growth has slowed as a result of a decline in tourism because of fears of terrorism, disruption of trade with Russia and the collapse of peace talks with Russia.

Turkey's economy was significantly impacted after the 2015 elections partly because corporate business models were being disrupted. These actions led to an uncertain business climate for small to medium enterprises (SMEs), as well as for larger corporations (Pitel & Cakir, 2018). During 2016, the government expropriated nearly one thousand Turkish companies, most of them accused of having ties with Gulen (Frayer, 2017).

Major achievements have been made by Turkish businesses to achieve a competitive advantage particularly by improving the functionality of their supply chains (Progressive Media, 2012; Supply Chain Movement, 2015). Companies have also reconfigured their business models making them more efficient (The Daily Pak Banker, 2014).

The paper examines Turkey's present economic situation and recommends strategies for SMEs and the larger corporations within the country to achieve a competitive advantage in order to compete globally (Ziemann & Guérard, 2016; Vargo & Lusch, 2017).

## 2. METHODS

The objective of this paper is to summarize the post 2015 state of affairs in Turkey for corporate entities, to investigate how supply chains into and out of the country have been disrupted in the aftermath of the elections, and to propose innovative strategies to manage the challenges identified. This article uses secondary research methods to achieve this objective, including compilation, collation, summary, analysis and synthesis.

To compile the data, the authors have systematically reviewed previously published documents, articles, journals, newspaper editorials, blogs, government documents and OECD working papers for the years from 2012 to 2018, sourced mainly from the USA, UK and Turkey in English

and Turkish. Collected data was summarized, analyzed and synthesized. At first, authors start out by describing the changes in Turkey's economy annually from 2015 to 2018. Then authors identify major achievements undertaken by Turkish companies in their global supply chain management. In the next section, the 2015 elections and the political landscape of the aftermath that disrupted the corporate business models and specifically the supply chains in Turkey are discussed.

In conclusion, the authors propose innovative strategies for Turkish businesses to build and achieve a global competitive advantage in this new context.

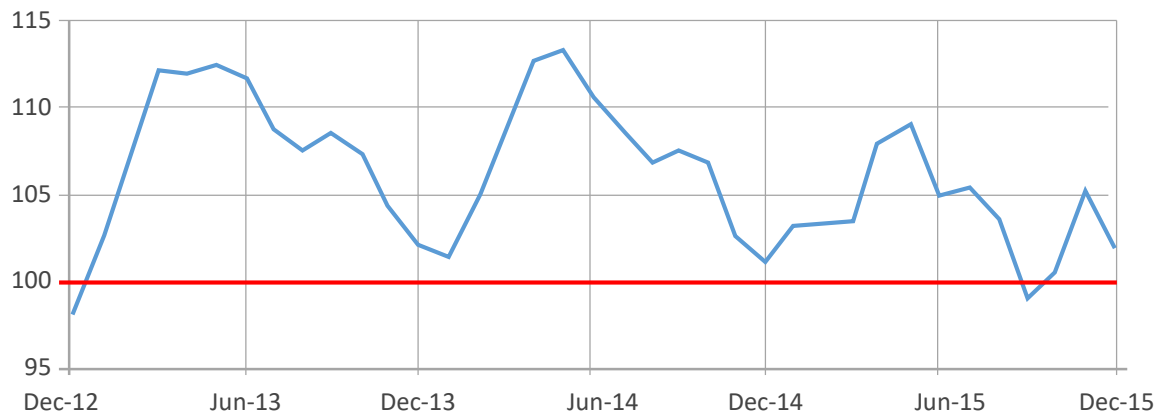
## 3. RESULTS

### 3.1. Turkey's economy in 2015

As a result of the political uncertainty at the time, global fund managers removed US\$ 6 billion from Turkish stocks and bonds during 2015. Additionally, the country suffered from a capital outflow of US\$ 10 billion during the year. This was a shock to the economy, as Turkey relies on FDI more than many other countries in order to service its large debt. The size of this debt equates to risk in the economy. The current account deficit also widened in 2015 to US\$ 45 billion indicating that Turkey spent more than it earned. Turkish exports were down 9 percent in 2015 even with a significant twenty-three percent depreciation of the lira. In mid-year, the exchange rate was 2.66 TR to 1 US\$. The country was faced with rising inflation and growth slowed. Unemployment hit 11.3% mid-year. Economic growth (GDP) in 2015 was 6 percent. This is a stark contrast to the Turkish economy five years ago when it was one of the world's fastest growing economies experiencing a great deal of attention from foreign investors and large amounts of FDI.

The positive results of November's elections (in 2015) turned downward as can be seen on the following chart reflecting the Real Sector Confidence Index (Figure 1). The values which are above 100 indicate an optimistic outlook, while those below 100 reflect a pessimistic outlook.

Source: Central Bank of the Republic of Turkey (CBRT)



**Figure 1.** Real Sector Confidence Index (RSCI)

### 3.2. Turkey's economy in 2016

In mid-July, 2016, Turkey witnessed a military coup against the government, which failed within 48 hours. The result of this short coup was a major political upheaval with mass arrests and detentions that caused uncertainty for the economy. During the same month, the country's current account deficit was 4.5 percent and economic growth (GDP) slowed to 3.5 percent. GDP ended the year at 2.9 percent, its slowest pace since 2009. In July the lira was at an all-time low against the US\$ at 3.09 TRY to 1 US\$, a drop of 6.3% from the previous month of June. Inflation hovered around 9%. Tourism was suffering. Rating institutions further downgraded its sovereign debt. Unemployment was at double digits, with one out of every five youth unable to find a job upon graduation from school.

Prior to the coup, the economy was fairly resilient and, compared to that of other emerging economies, it appeared to be doing quite well. Turkey relies heavily on foreign investment for a strong economy and the question remained whether investors would continue to enter the country after it had experienced bombings and killings resulting from the coup, the gun and bomb attack at the Ataturk Airport, which killed 41 people, and the mass shooting at a fashionable Istanbul night club. Foreign Direct Investment (FDI) reached a high of US\$ 22 billion in 2007, but has been trending downward since that time to around US\$ 12 billion.

The Deputy Prime Minister attempted to calm the investment community by assuring that the country would retain the market economy model indicating that the Turkish economy has performed well with the model even during difficult times. However, the investment climate in the country was not good and volatility was certain to continue into 2017 causing uncertainty in the business community and impacting the development of corporate strategies that include SCM (Supply Chain Management), logistics and ERP (Enterprise Resource Planning).

### 3.3. Turkey's economy in 2017

The political fallout from the failed coup in 2016 hindered economic growth and made it harder for firms to operate in a market many see as saturated with bureaucratic red tape. The trade deficit, for example, increased by 82.5% to US\$ 8.8 billion in July, 2017 from US\$ 4.8 billion in July 2016. This is the widest trade gap since December 2013. However, GDP growth rate for the year was an astounding 7% (BBVA research, 2018). Between mid-2016 and mid-2017, the lira dropped a further 17 percent against the US\$. Presently, many Turkish companies are finding it easier to deal with foreign bureaucracy than deal with the bureaucracy within their country. Examples are Turkiye Petrolleri AO, which is allocating 80% of its investments outside of the country, and another company Yildirim, which sees too many constraints in Turkey, particularly with antitrust regulations limiting its ability to expand domestically (Ersoy & Kandemir, 2017).

### 3.4. Turkey's current economic outlook in 2018

GDP is forecasted to drop to 4.5% during the year and the lira is forecasted to be 4.15 TRY to 1 US\$ by the end of the year (BDVA research, 2018). Security has improved dramatically in the country and, as a result, tourism is expected to increase. At the beginning of 2018, the trade deficit had jumped to US\$ 9.07 billion. Although exports increased to US\$ 12.46 billion, imports increased to US\$ 21.52 billion. The main reason for the increase in imports is that much of Turkey's exports of final products contain imported components (Atabek, Andrews, & Gönenç, 2017). And the country remains on Morgan Stanley's list of "fragile economies" based on its country risk in anticipation of the TRY value dropping even further, and becoming overly dependent on short-term investments in servicing its debt.

### 3.5. Major achievements by Turkish companies in global supply chain management

CEVA Logistics, a global supply chain management company located in Turkey, unveiled a control tower in Istanbul in 2012 allowing it to monitor all operations in their supply chain from one single location. The tower permits customers to oversee all of their operations, i.e. flow of materials throughout the supply chain, thus optimizing transportation logistics and minimizing costs. The tower identifies problems in real time and prepares reports on all functions in the supply chain. It also has the ability to set off alarms when unusual activities such as theft and accidents are recognized (Progressive Media, 2012).

In March 2014, the European Bank for Reconstruction and Development made a loan of up to US\$ 25 million to one of Turkey's leading logistics companies, Netlog Logistics (The Daily Pak Banker, 2014). The loan was made, so Netlog could expand its cold chain storage facilities across the country. The company's business model is to collect, preserve and distribute fresh foods in a hygienic environment utilizing temperature controlled trucks and cold storage facilities to achieve this. The additional facilities extend the life of food and other products requiring cold storage.

Unilever Turkey's strategy is to halve its environmental impact. The company realizes that controlling the supply chain is an important factor in accomplishing this goal. Unilever's objective is to "create a sustainable supply chain, which is perfect in procurement, manufacturing and logistics, as it delivers to stores and customers, all of which will give it a competitive advantage". The company acknowledges that this is a big challenge, as it can be at the expense of competitiveness. They are setting up control towers to improve the visibility of their operations too (SCM Supply Chain Movement, 2015).

Twelve years ago, the country's textile industry was foundering, priced out by East Asia, but it has since discovered a lucrative niche supplying higher quality goods to Europe on shorter time cycles (Imamoglu, 2016).

In 2016, the Electric Articulated Truck Project was inaugurated to reduce shipping costs between Turkey and Georgia. This system facilitates transportation by eliminating formalities, thereby reducing transportation costs and speeding up commercial transactions. Georgia imports more than US\$ 1 billion of goods from Turkey annually (Daily Sabah Business, 2016).

### 3.6. Disruptions in Turkish corporate business models post-2015 elections

Tourism was the most popular industry for investors and businesses alike in Turkey for the last decade and a half. The number of foreign tourists went from 10.4 million in 2000 to 36.2 million in 2014. Since 2014, however, the threat of terrorism has significantly affected the tourism sector, which, in turn, has slowed the economic growth in the country. The number of tourists visiting the country dropped down to 2011 levels in 2017. Istanbul, which used to be a top-10 destination for Europeans, has not been able to recover due to security risk.

Fueling a further decline in growth have been tensions with Russia over Syria, which have disrupted trade with Russia. In July 2016, a coup by some members of the Turkish military occurred that was quickly ended by President Tayyip Erdogan.

However, the slowing economy and the coup have impacted corporations both inside Turkey and those outside the country doing business with Turkey presenting challenges to the strategic business models of these companies. Adding to these challenges is the discharge of thousands of civil servants from the government who were allegedly loyal to Fethullah Gulen, leader of the Gulen Movement, and an adversary of the president who accuses Gulen for the coup. Approximately 1000 companies with alleged direct or indirect ties to the Gulen movement have been taken over by the government controlled Savings Deposit Insurance Fund (TMSF). Many of these companies have also faced tax investigations. Thousands of corporate accounts have been frozen by Turkey's banks as the state investigates these clients (Skinner, 2016).

Businesses seeking financing now find that investors, in particular, are scarce in light of the uncertainties in the country. By mid-2017, FDI was down by half compared to the same time in 2016. Supply chains, particularly the global supply chains of multinationals, have been and will be further disrupted because of events in the country over the past several years and the possibility of additional terrorist interference. For example, the Turkish government has filed numerous complaints about European companies accusing them of "financing terrorism" all the while hurting and hindering trade and exports in particular, and, subsequently, investor confidence.

Some companies were discharging employees that had ties to the Gulen Movement. These tactical actions were an indication of how serious these businesses considered Erdogan was about ridding Gulenists from the cultural diversity of the country and thus the business fabric of the country. Therefore, in the short run, corporations having any business with government agencies must unfortunately rid themselves of such employees.

Other factors disrupting corporate strategizing, and tactics, have been the weakened lira and the uncertainty of fluctuations in value of the currency. There is also concern the government may well put a limit on access to foreign currency and foreign currency transfers. Burdensome regulations make it hard for small businesses to grow and become more efficient. Also, the coup certainly dials

back any chance of EU (European Union) membership in the near future altering the strategic plans of Turkish corporations doing business in the EU. Dampening EU membership even further was Erdogan's crackdown on anti-government protests in the first half of June 2017.

Strategizing has been severely impacted recently by the President's recent decree that will bring thousands of workers onto the government payroll. These workers will come from mainly small, family businesses, many of which will undoubtedly go out of business. This adds to the uncertainty within these companies. According to the Finance Minister, the government will save money by cutting out the middlemen.

## 4. DISCUSSION

### 4.1. Strategies for Turkish businesses to achieve a competitive advantage

Turkey's industrial manufacturing has grown over the years, but it is inefficient, lacks adequate quality control, productivity is poor, skills are low, and English language capabilities are weak – 70% of global export companies carry out their communications in English. Turkey is below its capacity in participating in global supply chains (Ziemann & Guérard, 2016). Further impeding its capability to be a world class manufacturer is the level of foreign investment, which is limited because of barriers. However, Turkey's strategic geographic location in the world facilitates the country's access to North Africa, the Middle East, as well as Eastern Europe, and gives the country the opportunity to gain a competitive advantage resulting from its nearness to these markets. Also, Turkey has a competitive advantage in the fact that half the country's population is under 30 and has a higher expected college graduation rate than Italy. Additionally, the country's position between East and West makes it a fertile ground for startups and multinational businesses (Oguz, 2015).

The challenge for Turkey's businesses, therefore, is to have the most efficient, agile and responsive supply chains to reach these markets (Culp, 2013). This necessitates excellence in the management of



sustainable supply chains, that is, managers who are thoroughly familiar with the chain of events that occur from the procurement and flow of raw materials to the delivery of the final product to the consumer. To achieve this, strong leadership is required with managers who are familiar with the assets of the firm (i.e. people, equipment and finance) and know how best to deploy them to maximize results and minimize costs. Since these managers need to be strategic with their decisions, they need to be an integral part of the team developing the corporate strategy of the firm. These leaders also have to be able to retrieve information about all the functions in the supply chain and effectively use this information to optimize the supply chain and deliver products to the customer in the shortest time period, while, at the same time, keeping the cost of operations at a minimum.

Leaders also need to address the sustainability of the supply chain. That is, they need to evaluate the present and future environment in which the supply chain operates from the procurement of raw materials, through the various stages of the supply chain such as the supplier network, transportation, manufacturing, warehousing, retailing and finally delivery to the customer. This environmental exam-

ination also includes an analysis of the political, cultural, economic and legal, as well as social concerns.

The role of management in SCM has changed significantly over the years from one of being familiar with inventory and logic to one of being a strategist. That is, one that can clearly define the needs of the customer and has a vision of how the requirements to fill that need can be accomplished, one that has a solid understanding of the environment both domestically, as well as the international environment in which the company will be doing business.

Today's supply chain manager, as well as the manager of the future, needs to understand how technology benefits and sometimes disrupts supply chains. Familiarity with newer technology such as drones, the internet and self-driving vehicles is essential. To compete in the global world of trade a country (Turkey in this case), needs to engage in partnerships in global supply chains and that requires Turkey having superior global strategists at the helm. In their paper titled "Evolving to a New Dominant Logic for Marketing" (Vargo & Lusch, 2004) conclude, and we agree, that partnerships result in the co-creation of value leading to both collective and individual achievement of greater competitive advantage.

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