

**EXAMINING THE UNDERLYING REASONS
BEHIND THE OUTWARD FOREIGN DIRECT INVESTMENT:
THE CASE OF ARÇELİK**

by

Ayşegül Emine Çarkman

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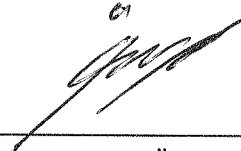
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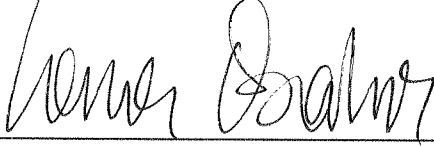
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examining committee have been made.

Committee Members:



Asst. Prof. Özlem Altan-Olcay



Asst. Prof. Caner Bakır



Prof. Dr. Mine Eder

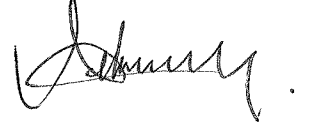
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ABSTRACT

In this study I examine outward foreign direct investment of countries and investigate what triggers multinational companies to invest abroad. Most people in Turkey mean inward foreign direct investment when they talk about foreign direct investment but as a growing phenomenon outward foreign direct investment from less developed countries requires more studies. This thesis addresses this need. I start with the argument that when firms make decisions to invest abroad; not only economic but also other factors play important roles. These include social networks, previously established relationships, and various forms of contacts between businesses, governments and individuals.

I lay out this argument in terms of a specific case study. This thesis examines the case of Arçelik as an example of a company which makes outward investment decisions from Turkey. The research is based on the following: analysis of Arçelik's annual reports, examination of video footage about the company's past and interviews with key figures in the company. While examining the outward investment strategies of the company, I ask to what extent general theories about internationalization of firms explain the case of Arçelik. This analysis reveals that while cost benefit calculations are of paramount importance, social networks, economic and political histories of countries in question, technological resources, even friendship bonds are influential in the firm's investment decisions.

Key words: Outward foreign direct investment, multinational companies, Arçelik, network relation

ÖZET

Bu çalışmada, ülkelerin dışa yönelik doğrudan yabancı yatırımlarını incelemekte ve firmaların yurtdışına yatırım yapmasına sebep olan nedenleri araştırmaktayım. Türkiye’de pek çok insan doğrudan yabancı yatırımlardan bahsederken içe dönük yabancı yatırımları kastediyor ancak gelişen bir olgu olarak az gelişmiş ülkelere dışa dönük yabancı yatırımlar daha fazla çalışma gerektiriyor. Bu tez de bu amaca yönelik bir çalışma. Çalışmaya firmalar yurtdışına yatırım yapma kararı aldığı anda sadece ekonomik değil diğer unsurların da önemli rol oynadığını savunarak başlıyorum. Bu etkenler sosyal ilişkiler, önceden kurulmuş ilişkiler ve iş dünyası, hükümetler ve bireyler arasındaki farklı çeşitlerdeki temasların kapsıyor.

Savunmamı belirli bir örnek olay incelemesi olarak sunuyorum. Bu tez, Türkiye’den yurtdışına yatırım yapan bir şirket olarak Arçelik’i vaka çalışması olarak inceliyor. Bu çalışma, Arçelik’in yıllık raporlarının incelenmesi, şirketin geçmişini anlatan video görüntülerinin incelenmesi ve öde gelen isimlerle mülakatlara dayanıyor. Şirketin yurtdışına yatırım stratejilerini incelerken, şirketlerin uluslararasılaşması hakkındaki genel teorilerin ne derece Arçelik ile örtüştüğünü sorguladım. Bu analiz, kar zarar hesaplamalarının azami derecede önemli olduğunu, sosyal ağlar, söz konusu ülkelerdeki ekonomik ve sosyal tarihin, teknolojik kaynakların hatta arkadaşlık bağlarının da şirketin yatırım kararlarında etkili olduğunu gösteriyor.

Anahtar Kelimeler: Dışa yönelik doğrudan yatırımlar, çokuluslu şirketler, Arçelik, ağ ilişkileri

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ABBREVIATIONS

AKP: Justice and Development Party

AMU: Arab Maghreb Union

ANAP: Motherland Party

CEE: Central Eastern Europe

CFC: Chloro Fluoro Carbon

CIS: Commonwealth of Independent States

CUP: Committee of Union and Progress

DMO: State Supply Office

DYP: True Path Party

FDI: Foreign Direct Investment

HKTNC: Hong Kong Transnational Corporations

MNE: Multinational Enterprise

MÜSİAD: Independent Association of Industrialists and Businessmen

NUC: National Union Committee

OECD: Organization for Economic Co-operation and Development

OYAK: Armed Forces Trust and Pension Fund

SME: Small- and Medium- Sized Enterprise

TDI: Turkish Direct Investment

TPAO: Turkish Petroleum Corporation

TÜSİAD: Turkish Industrialists and Businessmen's Association

TZDK: Agrarian Equipment Association of Turkey

UNCTAD: United Nations Conference on Trade and Development

USSR: United Soviet Socialist Republic

CHAPTER 1

INTRODUCTION

1.1 RESEARCH QUESTION

In Turkey, when people talk about foreign direct investment (FDI), they usually mean FDI *inflow* which is defined by UNCTAD (Major FDI Indicators, 2009) as “capital provided by a foreign direct investor to a FDI enterprise”¹. In fact, studies about outflow of foreign direct investment activities of Turkish companies are rare. This type of FDI is again defined by UNCTAD as “capital received by a foreign direct investor from an FDI enterprise”.

On the other hand, as it is seen in the table I below, although the amount of inward FDI Turkey received is more than the outward FDI, the latter has quadrupled in ten years, increasing more than two times in the last three years. Furthermore, when the increase in Turkey’s outward FDI ratio is compared to the world, as it is seen in the Table II, despite fluctuations the volume has increased five times between 2002 and 2008. On the other hand, although the amount of inward foreign direct investment of Turkey is greater than the outward foreign direct investment, the former shows a decrease in the ratio when compared to the world (See Table 1 and Figure 1). Those statistics indicate that outward FDI is a phenomenon of increasing importance for Turkey, and therefore, worth studying.

¹<http://stats.unctad.org/FDI/TableViewer/tableView.aspx?ReportId=3084> Consulted 29 October 2009

TABLE 1: Turkey's inward and outward FDI amounts (1980-2008)

YEARS	OUTWARD FDI (\$ MILLIONS)	INWARD FDI (\$ MILLIONS)
1980	0	18
1990	-16	684
2000	870	982
2001	497	3352
2002	143	1082
2003	480	1702
2004	780	2785
2005	1064	10031
2006	924	20185
2007	2106	22046
2008	2585	18198

(UNCTAD Statistics; World Investment Report, 2009)

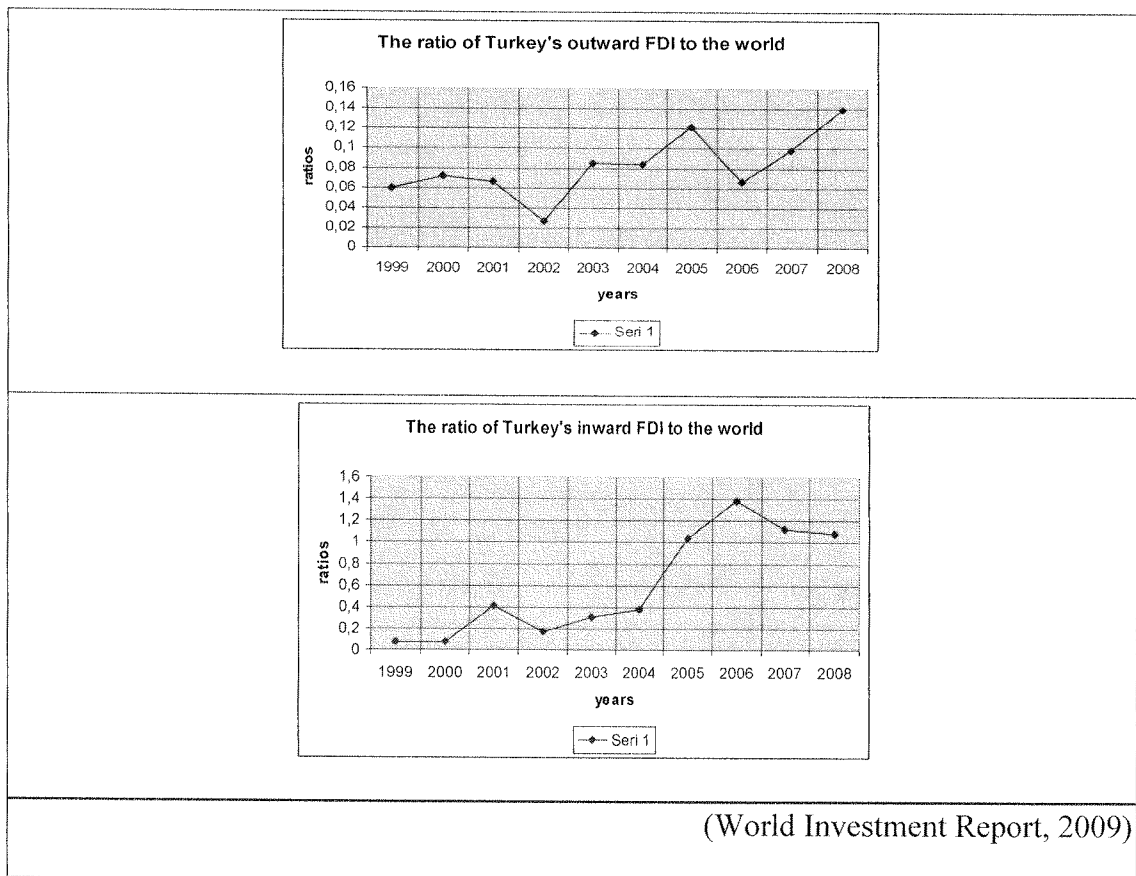


Figure 1: The ratio of Turkey's outward and inward FDI to the world

This thesis investigates the underlying reasons behind the outward foreign direct investment of firms. In doing so, it takes into consideration different scholars' theories about FDI activities of firms. It also pays attention to studies concerning

network relations and historical institutionalism. The main question of the thesis is as follows: How can we explain the choices companies make for outward FDI using different theories?

For this purpose, I focus on the case of Arçelik from Koç Holding to examine this. The holding ranks as the number 1 firm among the top 100 firms in Turkey according to the inquiry of monthly magazine Forbes (May, 2008) Among Koç Holding's areas of activities, such as automotive, household appliances, agricultural equipment, textiles, liquefied petroleum gas, heating devices, food, retailing tourism, finance and insurance services, I investigate the field of household appliances through the company Arçelik. This is because Koç Holding plays a remarkable role in the sector as Turkey's leading, Europe's third largest manufacturer, and world's sixth largest manufacturer (*Koç Holding Annual Report*, 2008: 25). In addition, Arçelik provides products and services to consumers in over 100 countries and has 32 companies outside Turkey. Since my main aim is to investigate the underlying reasons of outward foreign direct investment, Arçelik's extensive activities provide us with a good case study.

Arçelik initially started interaction with foreign companies by engaging in export activities and its relations with foreign markets expanded by purchasing brands. Among the brands that Arçelik purchased, there were Blomberg, Elektra Bregenz, Tirolia and Leisure. As a result of buying those brands, Arçelik increased its markets. Later, Arçelik developed its strategy to engage in foreign markets and started to buy production plants. First of all, the company bought the factory of Arctic from Romania in 2002. Later in 2005 the company invested in Russia and although initially invested there for producing laundry machines, later they increased type of their production and produced refrigerators and televisions. Lastly the

company invested in China in 2007 and laundry machines were produced in that production plant. As a result of buying those brands, Arçelik increased its market share which will be examined in the fourth chapter in detail.

With regards to examining outward foreign direct investment activities of firms, I seek answers to two main questions. First, what triggers multinational companies' to engage in foreign direct investment activities? For this purpose, first of all I carry out a literature review that contains the chief scholars' studies about FDI that explain the reasons of firms' investing abroad, focusing on economic factors. In order to find out whether there are causes other than economic rationalities, I study the importance of network relations, between businesses, employees and other relevant parties. Lastly, I examine history's importance in the FDI activities of firms and conduct this by examining the theory of historical institutionalism.

The second inquiry is about my specific case study: to what extent do each of these approaches explain Arçelik's FDI activities? For this purpose, I have conducted three types of primary research. First I interviewed some key figures in the company. These are Hasan Subaşı, who is a current member of the Arçelik board of directors and a former general manager at the company between 1983 and 1991; Uğur Kayalı a former general manager of Arçelik's Romanian brand Arctic; and Levent Çakıroğlu, the general manager of Arçelik. With the help of those interviews, I had the ability to learn about the reasons of Arçelik's involving in FDI activities. Second, I examined video footage documenting the company's past. Third, I reviewed the company's annual reports between 2005 and 2008 and Koç Holding's annual reports between 2001 and 2008.

My main argument in this study is that, in the decisions of firms' investing abroad not only economic factors such as the magnitude of profits, the low salaries, and geographical closeness are important. In addition to those, also social networks, previous relationships such as the business-business, government-business, business-personal relations established previously are also important.

1.2 CONTENT OF THE THESIS

The thesis consists of five chapters. In this chapter I introduce the research and my methodology. In the second chapter, I lay out the relevant literature within the frame of the study. The chapter maps out well known scholars' approaches to FDI. Following this, in order to explain the situations in which this literature may not be sufficient, I investigate studies that focus on network relations and the literature on historical institutionalism. In addition, I lay out how those different clusters of literatures relate to and complement each other.

The third chapter discusses the history of Turkish economy. In this chapter, I explain the evolution of Turkish economy and highlight how trade in Turkish economy started and how the Turkish traders emerged and started to engage in relations with foreign countries. This chapter aims to reveal how companies like Koç Holding evolved in time and the role of political and economic conditions in this process.

The fourth chapter explains the history, evolution and investments of Koç Holding and Arçelik. I started by explaining Koç Holding and examined its commercial relations and investment decisions by categorizing the chapters into three such as social, politic and economic reasons. Later similarly, I explained the development, commercial relations and foreign investment decisions of Arçelik

considering economic, social and political factors' role again. While giving examples for those categorizations I used my primary research and evaluated these with respect to the literature review.

Finally, in the fifth chapter, I list the focal questions of this thesis and present my key findings. In addition I evaluate the shortcomings of this thesis and lay out suggestions for further research.

1.3 METHODOLOGY

As noted above, this thesis will explore the underlying reasons of firms' engagement in FDI activities and especially investigates those reasons for Arçelik. Since this study explains the firms' FDI activities not only by rational economic theories but also by network relations, history, it is a thicker analysis. For that reason, I will benefit from multiple methods such as conducting interviews, examining Koç's and Arçelik's annual reports, examining biographies, watching documentaries about the establishment of the company. I have designed this method in consultation with previous studies done on topics close to this thesis and examined the studies specifically on how to do research among elites.

In this section, I first review the methods used in previous studies and relate them to my thesis. Then I explain the methods I used and how I organized them.

1.4 METHODOLOGY IN PREVIOUS STUDIES

Broadly, there seems to be two approaches to the study of TNCs. The first are studies that are based on interviews with corporate figures. Examples include the following: In "Business Networks and Transnational Corporations: A study of Hong Kong Firms" Yeung (1997) studies how transnational operations are accomplished with the

help of personal and business relationships. In his research, he contacted headquarters of Hong Kong Transnational Corporations (HKTNCs) and subsidiaries of HKTNCs from ASEAN countries and he collected a database through the interviews with top executives. Emin Akçaoğlu's (2005) study called "Türk Firmalarının Dış Yatırımları: Saikler ve Stratejiler" the firms engaged in FDI according to their reasons to go abroad. The author, in addition to a survey, utilizes various meetings with firms' representatives and bureaucrats. While identifying the interviewee, he uses the purposive sample method. In purposive sampling, the group of people in the sample is chosen to be a representative of the investigated situation and discretion is used to select representative units from the population (Introduction to Sampling Methods, 16). Since my study also examines Arçelik's internationalization process, I found it commensurate to interview with the executives of the company to learn more about their reasons to invest in other countries. In my study, also I used purposive sampling, since the people who I interviewed had to be specialists in Arçelik and had to be in the decision making mechanism to answer my questions related to the reasons that trigger Arçelik's investing abroad.

Numerous other studies used different types of methodology. Most of these studies used quantitative methods and I make use of these studies especially in terms of having an idea about the incorporation of the theory to the case study, their classification of investment types and deducting different questions to be used in the interviews. For example, Refik Çulpan and Emin Akçaoğlu's (2003) study called "An examination of Turkish Direct Investment in Central Eastern Europe (CEE) and Commonwealth of Independent States (CIS)" aims to identify the patterns of the Turkish Direct Investment (TDI) into 19 of the former centrally planned economies

during the period of 1995-2001. In the research, the quantitative data gathered such as the sectoral distribution of Turkish direct investments, Turkish direct investments in host regions, Turkish direct investments in CEE and CIS countries are interpreted and analyzed. This study's use of quantitative data pushed me to investigate data about outward foreign direct investment amounts of Turkey and its comparison with inward foreign direct investment of Turkey according to years. This helped me to make interpretations about the acceleration of Turkey's engagement in outward FDI. Nevertheless, my focus is on qualitative data I have gathered from interviews, reports and video footage.

1.5 INTERVIEWS AND ELITES

As indicated above, I have conducted interviews with Arçelik managers in order to have knowledge about the company's outward foreign direct investment activities. Thus, a second literature I consulted was studies on research with elite in general. In this part, I will highlight my choices regarding the interview types, interview techniques and the people I have interviewed.

In terms of the technique of interview to be conducted, I chose what Valenzuela and Shrivastava call general interview guide approach (Interview as a Method for Qualitative Research, 4)² In the general interview guide approach, the interviewer is more focused on the subject than conversational approaches but still allows a degree of freedom and adaptability in getting the information. The interviewer is intended to ensure that the same general areas of information are collected from each interviewee. Nevertheless, it is not a requirement that all interviewees respond to exactly the same set of questions. I have chosen general interview guide approach

² <http://www.public.asu.edu/~kroel/www500/Interview%20Fri.pdf> Consulted 11 November 2009

because I aimed to get information about the internationalization process of Arçelik and in some way my aim was to search if the theories explaining FDI activities of firms overlap with the FDI activities of Arçelik. Therefore I told my interviewees about my research subject and prepared my questions in this respect. Therefore the interviewees were more focused to the subject. In addition, the interviewees were aware that the same general areas of information were being collected from each interviewee since they knew with whom I was going to contact.

Another way to approach the issue of interviews is to think of the material being collected. In this sense, my interviews fit with exploration and hypothesis testing types, as named by Kvalve (1996 : 98). As Kvalve explains, an exploratory interview is open and has flexible structure. The interviewer introduces an issue to be uncovered or a complex problem to be solved. On the other hand, the hypotheses testing interviews tend to be more structured and the interview questions are designed to test hypotheses. The hypotheses could be tested by gathering empirical information or an investigation might be designed to test the implications of a theory to develop an empirically grounded theory through observations and interviews (Kvalve, 1996 : 98) . My research resembles both exploratory and hypothesis testing types. In the interview I ask questions to find out if the existing literature about FDI fits Arçelik's outward investment decisions and I try to find out the importance of other subjects such as history, social relationships in those decisions.

1.6 INTERVIEWING ELITES

The people whom I had interviews with are specialists in their area of concern that have very limited time. They can be also called elites. The literature on elite interviews draws attention to four factors: their limited accessibility, necessity of a

clear agenda, pre-interview work and conditions of sharing information. Hertz and Imber (1993) also express it is very difficult to penetrate in these groups' lives because they establish barriers that set them apart from the rest of the society. They have also a limited accessibility because of their rigorous time schedules.

Their status and limited time means the interviewer has to have a clear agenda, which means preparing the questions and arranging the time appropriate for the interviewee. In addition to those, also it is important to know as much as about the interviewee as one can before the interview (Thomas, 1993: 87, 93). This kind of a preparation is important in order to give the image of not being a stranger to the company. It also makes it less likely for them to answer questions with formal and prepared public relations responses. There are also some important issues which have to be considered during the interview too. For instance, in order not to let them have some hesitation for not being quoted directly, to record the interview into tape is preferable (Thomas: 1993, 89). During the interviews I took permission from them to record the conversation but had to take notes at the times when they did not want to be recorded. As Hunter (1993: 48) also suggests, elites are particularly interested in knowing about what other people the interviewer talked. I tried to turn this to an advantage by asking for their suggestions.

In my specific case, although it took a long time to arrange all the interviews because of the interviewees' rigorous time schedules, they were very helpful. Among the people whom I interviewed the first was Hasan Subaşı who is now a member of Arçelik's board of directors. He has a crucial importance for my research since he has been with Koç Holding since 1969 and specifically at Arçelik since 1970. For my questions especially related to the Arçelik's foreign activities in 1980s he had a valuable contribution to my work. In addition to Subaşı, I interviewed Levent

Çakıroğlu. He started his business life as a state auditor in the Ministry of Finance and joined the Koç Holding in 1998 as the coordinator of financial affairs. In 2002 he was appointed as the general manager of Koçtaş³ and then the general manager of Migros⁴ in 2007. Finally he was appointed as the general manager of Arçelik in 2008. Since he does not have a very long background related with Arçelik, I had the opportunity to talk about current investment plans and recent investment decisions of Arçelik. Lastly, I had an interview with Kamil Uğur Kayalı who was the general manager of Arctic⁵. He contributed to my study by sharing his experience while penetrating into Romanian market and his other experiences about penetrating into foreign markets. All in all, the aim of those interviews was to gather information about Arçelik from the first hand and to identify their foreign investment decisions by taking into account the knowledge gathered from them.

The questions that I asked throughout the interviews are composed of three clusters which overlap with the literature in my thesis. The first cluster of questions was directed to the interviewees to understand if the literature about FDI extends along Arçelik's investment inclination. The second cluster of questions was directed in order to understand the influence of social relations' importance while deciding where to invest. For instance, the questions were directed to reveal the importance of personal relationships or the business- government, business-business or personal-business relationships' effect on defining where to invest. Finally, the third cluster of questions was asked to highlight how political elites, institutional factors and

³ Koçtaş is a company bound to Koç Holding. It was first established in 1955 and served as a wholesale of construction material. Koçtaş took a decision to serve as a retailer in 1996 and opened its first branch as a retailer in İzmir.

⁴ Migros was founded as a joint venture of Switzerland Migros Cooperatives Association and Istanbul Municipality in 1954. It was providing the food and consumer goods from producer under the municipality control and initially offering this products to Istanbul citizens. In 1975, majority of the stakes of Migros have been transferred to Koç Holding. From this date, Migros started to increase the number of stores in İstanbul and scattered over Turkey.

⁵ Arctic is a white goods brand in Romania which Arçelik purchased in 2002

government relationships have effect on policy making altogether. While asking those questions, in most of them I asked for examples and stories from the interviewees to make the responses clearer and more understandable.

1.7 OTHER PRIMARY SOURCES

In addition to the interviews I held, I used some other resources for my research. Among those, there are biographies, annual reports, web sites of the state and private institutions that Arçelik engaged in business relations and newspaper accounts.

I used two biographies of Vehbi Koç (1983), one is written by himself and the other is edited by Can Dündar (2006) which also includes records of certain mails, agreements. In addition to Vehbi Koç's biography I also used Bernar Nahum's (1988) biography that became effective in Ford Motor Company's process in Turkey. Both of these people's biographies were crucial while explaining Koç Holding's establishment and development process. The stories they told in their biographies were effective to use in the analytical chapter of this thesis.

In addition, to explain both Koç Holding's and Arçelik's engagements in foreign markets and their development processes I used the annual reports of those companies. Koç Company's annual reports starting from 2001 until 2008 were the sources I used in addition to Arçelik's annual reports starting from 2005 to 2008. Two groups of those annual reports were effective to give knowledge about those companies' situations and give numbers, ranks about their positions. In addition to those annual reports also Arçelik's investor presentation which was prepared in 2007 was used in the research to reveal about Arçelik's market share and rank in the world.

In addition to the above mentioned sources, in order to get more information about the institutions Arçelik engaged in, the websites of those institutions were used. Those were including the websites of State Supply Office, Agrarian Equipment Association and Ereğli Iron and Steel Enterprise. Those sources were important to highlight those institutions' relationship with Arçelik and Koç Holding.

In addition to those, I also contacted with a company called VTR Film Directing Research Production that prepares documentaries and films about institutions firms. Since this company made a film like a documentary about Arçelik due to its 50th Anniversary, I had the chance to gather this film from the partner of the company and executive producer Nalân Sakızlı. Besides she presented me the book which was prepared for the same purpose but more comprehensive called Mamûlattan Markaya. Both of those sources were useful for my research because they included the memoirs of people who engaged in Arçelik's establishment and development process.

Lastly, I also benefited from newspaper pieces to gather information especially about Arçelik's purchasing brands in other companies. The newspapers I used were Hürriyet, Milliyet, Radikal, Zaman, Sabah between 2002-2004. In addition, I also benefited from the Economist and Forbes Magazines to highlight the company's situation and rank in the world and to give information about countries that Arçelik invested in.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

In this chapter, the literatures that compose the study are discussed. At a first glance the existing approaches to FDI are explained through the pathbreaking contributions to the literature by other scholars. Those FDI approaches assume that there are specific, purely economic reasons that induce economic actors to invest abroad. Therefore, while the scholars explain the companies' investing abroad, they mostly attribute it to firms' interest in profit maximization or income maximizing.

The second part of the chapter is composed of studies that focus on historical institutionalism, network relations between businesses, employees and other relevant parties which will fill the gaps left by the literature that explain FDI in solely economic terms. The literature about FDI explains the decisions of multinational companies in investing other countries by considering factors such as their need to invest in country X only for market seeking, efficiency seeking or by the influence of the push and pull factors. These do not include the roles of the social and political relationships. The studies about network relations and historical institutionalism theory touch upon those issues that FDI literature misses. The literature about FDI examines the activities of companies in other markets as if everything is explainable and predictable from before. They assume that market laws are fixed and everything is predictable. As Callon (1998) emphasized, market laws are not fixed, it is wrong to

talk about the laws of the market. Since time passes and different economic activities take place in different places, market conditions change too. For this reason specific market laws need to be studied for specific times and specific markets. Furthermore, there could be some situations in which it would be profitable to invest in a specific country because of special offers thanks to special ties. Although the overall market conditions are not profitable to invest, it could be profitable because of specific network and institutional relations.

Among the studies that explain the network relations, the actor network theory thinks of markets as social constructions which are embedded in social relations and which have everyday complications. On the other hand, there is a group of scholars who think that besides, markets' being social they also change "the social" and it is not sufficient to only say markets are social constructions. Those actor network theorists and science and technology scholars also believe that by changing the social, meanings of rationality and economic behavior also shifts. Another cluster of approaches that is relevant with the study is the historical institutionalism in which scholars explain how political elites, institutional factors and government relationships have effect on policy making altogether. While actor network theorists look at the formation of the networks, how they form and the underlying factors for their formation, the historical institutionalists examine how institutional factors, such as centralization of political elites or the relationships between branches of government, constrain policy making. After discussing each of these paradigms, I will explain how my work draws from them.

2.2 EXPLAINING FDI THROUGH DIVERSE SCHOLARS

As Dunning and Lundan (2008: 82) discussed, there wasn't an established theory of the Multinational Enterprise (MNE) or FDI before the 1960s. While scholars were explaining firm activities outside their national boundaries, they were trying to explain it through the theory of portfolio capital movements, with the help of empirical country specific factors that have an impact on the location of FDI.

As Dunning and Lundan argued, Bye was the person who first used the expression of "the multi-territorial firm" and used the case of the international oil industry to show that "real and financial size make firms able to grow by both interaction and extension, and by doing so, guarantee them a certain bargaining position" (Dunning and Lundan, 2008: 83). As, this study's main aim is to figure out the reasons that lie beneath Arçelik's expansion to other countries as a multi-territorial firm, it is necessary to examine the literature on FDI starting with the contributions of scholars that helped to develop this literature.

2.2.1 HYMER'S CONTRIBUTION TO LITERATURE ON FDI

Hymer contributed to the literature on FDI with his PhD thesis in which he explained his dissatisfaction with explanations of foreign activities of firms through portfolio transfers. According to these, capital is assumed to be transferred between independent buyers and sellers without any role for the MNE and there was not a separate theory for FDI. He identified three reasons for his dissatisfaction. The first reason was: once uncertainty and risk, volatile exchange rates and making transactions were incorporated into the classical portfolio theory, many of its predictions became invalidated. The reason for this was explained through some market imperfections altering the behavioral parameters of firms such as their

strategy in servicing foreign markets. Second, for Hymer FDI involved not only finance capital but also the transfer of a package of resources such as management skills and technology. Third, FDI did not involve a change in the ownership of resources or rights transferred whereas it involved indirect investment which meant that the organizational modality of transaction of the resources was different from portfolio investments (Dunning and Rugman, 1985: 228).

Hymer applied the industrial organizational approach to the theory of foreign production. According to him, the indigenous firms have some advantages when operating in their own countries. These advantages include being familiar with the consumer choices and the institutional and judicial structure. Therefore, while firms engage in FDI, they have to have some advantages in innovation, costs, finances or marketing in order to outweigh the disadvantages against indigenous firms in the country of production. Those disadvantages could be language barriers, discrimination against foreign firms or lack of knowledge about local business customs. The advantages that the firms have are assumed to be exclusive to the firms owning them (ownership advantages), and they imply the existence of structural market failure. FDI is more than transferring the capital to another country; it also includes the transfer of intangibles such as technology and skilled personnel. For Hymer, in order for a firm to operate in a foreign country with profit, the firm has to have ownership advantages and keep control over those advantages. Hymer also explained the reason why firms choose to use their ownership advantages through foreign direct investment in other words internalize instead of exporting or selling their license. For him it is the best way to increase the profitability to engage in FDI if there is a technologic advantage or an intangible factor because it would be difficult to price an advantage. FDI is advantageous for eliminating the costs of

preparing a license agreement and the cost of managing it (Dunning and Lundan, 2005: 85; Dunning and Rugman, 1985: 231-233).

2.2.2 OLIGOPOLISTIC COMPETITION THEORY

In addition to Hymer's role in explaining companies' international activities other than portfolio transfers, Knickerbocker (1973) enhanced the strategic competition theory in the industrial organization approach. According to Knickerbocker, companies monitor their competitors' investment decisions and consider their behavior while making investment decisions, resulting in a bandwagon effect. They adopt the rival company's behavior type. According to him, firms abstain from taking risks, but when it becomes necessary to take risks they consider the rival companies' investment decisions (Letto- Gillies, 1992: 129). This phenomenon is known as "oligopolistic reaction," "follow-the-leader behavior," or the "band- wagon effect." The behavior predicted by the theory of oligopolistic reaction results in multimarket contact. In the multimarket competition there are nonfinancial motivations to make head to head investments. This bandwagon effect may not necessarily imply that rivals compete strongly in terms of price and product in the new market. Knickerbocker found the extent of foreign investment to be related to the form of the mutual interdependence among the players.

2.2.3 THE INTERNALIZATION THEORY

In internalization theory, the question of "why does a multinational firm exist?" is tried to be answered. Internalization means the firms' incorporating some activities in its structure that were obtained from other firms previously. Reducing transaction costs is an important motivation for internalizing activities. Therefore, according to

Buckley and Casson, when a market is internalized between the national borders, an international firm is being formed.

Buckley and Casson categorized the times that the firms will choose to internalize their activities. According to them a firm chooses to internalize when coordination faults occur between different operations. In those cases firms choose to internalize the activities that are related with their own activities to prevent interruptions in their own activities. Second condition when the firm chooses to internalize can be seen when an intermediate good has to be used by a rival firm that could rule the market. In this situation the firm chooses to internalize the production of that intermediate good in order to maintain it at a cheaper price to compete. Thirdly, in a situation of a market that is controlled by two big firms, the market could be unstable. In order to remove this instability there are two ways. One of them is to look for harmony between two sides and the other is to maintain one of them to purchase the other one. Therefore they become one company and the market becomes internalized. Fourthly, when the firm that sells goods to another firm cannot manage to price the goods correctly, the firm can decide to purchase the other firm or can choose to become competitors with the other firm by engaging in the business and therefore the internationalization could be managed in the other sector. Lastly, a firm can internalize its activities in another country if that firm's commercial activities in another country is tried to be influenced negatively by taxes or some other tools (Buckley and Casson, 1976: 22).

2.2.4 THE PRODUCT CYCLE THEORY

The product cycle theory, which was formed by Vernon, explained the role of multinational firms in technology, international production, and trade in addition to its role in the spread of innovations and knowledge.

According to this theory, the production of an innovation first starts at the place where that good is first invented. Due to the high development level, this country owns advanced technological background and high income level. Although initially the fees are higher in this country because of the high technology's need for skilled workers, that does not pose a problem. Nevertheless, as the home country's market reaches the saturation level for that good, export starts to countries with similar markets. In a short time, the technology used in the production of that good becomes standard, competitors emerge in other countries, and the significance of the fees in addition to other costs related to the production place increase. Due to this situation, the firm which invented the innovation moves the factory to a country where production costs are lower. At a first glance, the export share of the country would seem to decrease due to the change in the location of the factory. However, according to Vernon, it would have probably decreased anyway due to losing the competitive advantage because of the diffusion of technology (Letto- Gilies, 1992: 141-154; Akçaoğlu, 2005: 20).

According to Vernon, not all the industries are moved to low wage countries. The ones that choose to invest there are those which do not need a sophisticated industrial environment. As he expressed in his study for the textile sector in the United States, producers of high style dresses are reluctant to move, however, the cotton sheetings and men's shirt plants went south. The electronics industry, the mass producers of tubes, resistors and standardized goods also moved to the South; however, research oriented productions remained closer to the home markets. (Vernon, 1966: 204; Akçaoğlu, 2005: 20).

All in all, the product cycle theory is a model that accounts for the market seeking production of firms. Its first starting point is related to the home country's

market reaching saturation and the starting of exports to similar countries. As Vernon accepted by the late 1970s, the accelerating geographical reach of MNEs coupled with an increasing convergence in the advanced markets of the world reduced the theory's general applicability. Additionally, it did not explain efficiency seeking in which MNEs seek to take advantage of cheap labor, resource based FDI where the aim is to gain access to natural resources in the host countries or strategic asset seeking FDI in which the already existing ownership advantages of the investing firms are protected. These are the critiques that Dunning and Lundan (2008, 86) cited. On the other hand, the product cycle was regarded as the first dynamic interpretation of the relationship between international trade and foreign production. It also introduced hypotheses of demand, technological advances, information and communication costs which became useful tools for the study of foreign production and exchange (Dunning and Lundan 2008, 86).

2.2.5 ECLECTIC PARADIGM

The eclectic paradigm introduced by Dunning offered a general framework in explaining the reasons underlying in multinational companies' engaging in FDI. According to Dunning the theories like internalization and product cycle theory explain only one aspect of the situation and cannot bring an explanation for the whole. Therefore, he developed a paradigm that brought together the other theories on this subject and formed the eclectic paradigm.

Dunning asserted that a company would start FDI activities if it meets three criteria. Those are ownership advantages (O), internalization incentives (I) and locational attractions (L), which are altogether defined as OLI. Ownership advantages refer to the advantages that are unique to a certain country's firms. Those

can be managerial or marketing skills, technology, a monopoly power or a trademark protected by a patent. For Dunning, the willingness of an entrepreneur to invest in another location depends on their possession of or being able to get certain assets not available- or not available in favorable terms- to another country's enterprises. Those assets are referred to as ownership-specific advantages since they are unique to the firms of a particular state or ownership (Dunning and Lundan, 2008: 96). Secondly, internalization advantages refer to the internalization of ownership advantages which is a more profitable process than transferring them to other firms. As a result, the firm could be more profitable than it would be by selling some of its activities to other firms. There are some other reasons for MNEs to choose internalisation advantages such as to ensure stability prices and reduce transaction or information costs. Finally, locational attractions refer to location specific advantages that a firm enjoys by using its ownership advantages in a foreign country. For instance, it is possible that a firm's ownership advantages could not bring an advantageous position in its home country as it would in another country. Therefore, by using its ownership advantages in other countries' markets, the firm could increase its comparative advantage (Akçaoğlu: 2005; 23).

Like Dunning, Rugman (2008) also has a familiar classification for the factors that induce FDI to be located in particular destinations. Similar to Dunning's ownership specific advantages, Rugman proposed the firm specific advantages that are "defined as a unique capability proprietary to the organization which may be built upon product or process technology marketing or distributional skills" (Rugman, 2008: 93). Those advantages can be managerial, marketing skills, certain technology, monopoly power or trademarks protected by patents. For instance, Arçelik produced the first A++ no frost refrigerator featuring minimum energy consumption in the

world as well as the kitchen built-in appliances that are resistant to stains and fingerprint marks. Those advantages are defined as Arçelik's firm specific or ownership advantages and would probably offer a competitive edge to Arçelik when entering other countries in the home appliances sector. In addition, Rugman introduced country specific advantages such as factors that are based on natural resource benefits, cultural factors or the labor force of the given country. The inclusion of natural resource benefits under country specific advantages is different from natural resource seeking FDI which will be defined below.

In natural resource seeking FDI, the aim is to gain access to natural resources in the host countries. On the other hand, in country specific advantages, natural resource benefits constitute one of the factors that induce the investment in the host country and, it is only one of the components for the firm to choose that country. For instance, access to cheap electricity is related to the country's having enough resources to produce electricity through such means as hydroelectric centrals, which require dams, or there can be other ways to produce electricity by solar, wind and natural gas energy. In a country where there is no difficulty in producing electricity, the price of electricity would be lower compared to countries that have some difficulties. Therefore, investors would choose to invest in countries where the price is lower. This factor would fall under the country specific advantages. Below, the electricity prices of some countries are listed. By examining this table, it is evident that throughout 20 countries, Turkey has the tenth most expensive electricity. Such a high price is an obstacle for Turkish firms to compete with their competitors while investing in Turkish territories.

Like the electricity prices, there can be some other country specific advantages like a country's tariff and non-tariff barriers to trade in addition to government

regulations or the quality of labor force. For instance, as Rugman (2008: 97) indicated, according to Debrah, Mc Govern and Budhwar, Malaysia and Indonesia have similar country specific advantages such as cheap but unskilled labor and natural resources. On the other hand, skilled labor, advanced technology, advanced physical infrastructure and advanced commercial structure constitute Singapore's country specific advantages. When the firms make decisions, they take into consideration the factors brought by the country and firm specific advantages such as their R&D, logistics, and marketing operations.

TABLE 2: International Comparison of Electricity Prices (March Quarter 2008)⁶ [NZ Cents per kWh (Including all taxes)⁷]

Country	Industry	Residential
Italy	32.26	35.54
Ireland	20.58	32.52
Slovak Republic	18.70	25.25
Hungary	17.99	27.88
Austria	17.79	29.60
Japan	17.42	26.80
Portugal	17.19	29.55
United Kingdom	16.23	28.62

⁶ Based on prices and exchange rates published by the International Energy Agency (Energy Prices and Taxes, 4th Quarter 2006). Australia, Demark, Germany, Japan and United Kindgom prices are based on older information.

⁷ Taxes which have to be paid by the user and are not refundable are included. Value added taxes (such as New Zealand's GST) are refundable to industrial users and are not included under the industry column. They are included under the residential columns

Czech Republic	16.36	20.75
Turkey	15.11	17.50
Denmark	14.44	44.57
Mexico	13.98	12.46
Germany	11.93	30.15
Poland	11.64	21.64
Finland	11.42	20.26
Korea	8.79	13.06
New Zealand	9.27	22.32
Australia	9.17	14.83
USA	7.93	13.95
France	7.46	21.93
Norway	8.46	19.82

(New Zealand Ministry of Economic Development) ⁸

Returning to Dunning, as he declared, the density of the firms' FDI is related to the conditions of the home country as well as the host country and the types of products that will be produced after the investment, and in addition to the administrative and organizational strategies of the firms. Scholars have identified four main types of foreign based MNE activities (Dunning, 2000: 164, 165). They are market seeking, resource seeking, efficiency seeking and strategic asset seeking FDI.

In market seeking FDI, the aim is to derive benefits from the host country's market or from the markets of countries that neighbor the host country. Most of the

⁸http://www.med.govt.nz/templates/MultipageDocumentTOC_____21846.aspx Consulted 6 March 2009

time, firms choose states with which they have had contacts before through imports. The reason for market seeking FDI could be to reduce transportation costs or to take precautions against taxes meant to constrain imports. For instance, Arçelik decided to invest in Russia in 2004, taking into account its growth strategies and in order to become one of the first five home appliances firms in Europe. This investment's value was determined to be 50 million euros with a capacity of manufacturing 850 thousand of laundry machines. Owing several brands, firms, and manufacturing facilities in Turkey and abroad Arçelik decided to invest in Russia after analyzing the market (Arcelik'ten Rusya'da Yatırım Kararı, 2004)⁹. Among the reasons behind Arçelik's choosing Russia were the size of the market, its development potential, competition conditions and geographical closeness. Russia's development potential was based on the country's transition from a socialist state to a free market economy. Therefore, this situation can be evaluated as an *opportunity factor*, and the investment is one of market seeking. However with market liberalization of many developing countries, their import regime enabled TNCs to choose exports and FDI. Therefore, it is possible to lose purely market seeking FDI.

Resource seeking FDI is evaluated as designed to gain access to natural resources in the host countries. Therefore, the MNEs aim to make use of the country's existing resources such as petroleum, natural gas, minerals. For instance Turkish Petroleum Corporation (Türk Petrollüğü Anonim Ortaklığı, TPAO) can be given as an example for resource seeking FDI. TPAO has made several attempts for new enterprises in the Middle East. Due to the vital importance of crude oil as a raw material for industrialization, the region is always on the agenda with its oil reserves.

⁹<http://www.arcelikas.com.tr/Cultures/trTR/MedyaIliskileri/KurumsalHaberlerBasinBultenleri/Haber11.htm?LANGUAGE=tr-TR&MENUID=3> Consulted 3May 2009.

Also, Syria, Iraq, Turkmenistan, Afghanistan and Africa are determined as locations for new enterprises. In addition, TPAO has been continuing to search and negotiate for business opportunities in other hydrocarbon rich regions such as the Russian Federation, the Ukraine, Algeria, Egypt, Indonesia, Sudan, West Africa and South America (*TPAO Annual Report, 2006*)¹⁰. Therefore their investments are resource seeking as they choose to invest in certain countries where natural resources exist (Nunnenkamp, 2001: 12). Resource seeking type of FDI has historically been crucial and remains a relevant source of FDI for various developing countries. However, the relative importance of resource seeking FDI has decreased significantly. The share of the primary sector in outward FDI stocks of major home countries was below five percent in the first half of the 1990s (UNCTAD var. issues 1998: 106).

The decline of resource-seeking FDI may at least partly explain FDI patterns in countries such as Saudi Arabia. The decline is not only because natural resources compose a decreasing share of world output. At the same time, FDI may no longer be preferred for natural resources. FDI was favored over trade in the past, when countries with resources lacked the large amounts of capital required for resource extraction or did not have the necessary technical skills. Now, they have enough capital and technical skills, and FDI tends to give way to joint ventures, non-equity arrangements with foreign investors, and arm's length trade relations in those countries (Nunnenkamp, 2001: 11).

In efficiency seeking FDI, MNEs seek to take advantage of cheap labor and shift their production to the states with low production costs. For instance, in an article published in Akşam newspaper textile firms started to shift their investments from Turkey to Egypt because Egypt presented opportunities such as low labor

¹⁰ http://www.tpao.gov.tr/v1.4/condocs/tpao_rapor_2006tr.pdf consulted 14 April 2009.

wages and tax reductions. The businessmen of the sector complain about the expensive costs and tax burden, in addition to exchange rate instability which causes problems for the exports. On the other hand, another incentive which shifts Turkish textile investments to Egypt is the opportunity to export to the United States without paying additional taxes. Casa textile's board chairman Aydın Sakbaşı said the company does not invest in eastern Anatolia because of the lack of qualified labor there. Workers also abandon their work at the company during harvest time as they are also farmers. Additionally in Egypt the total payment of a worker is \$70, cheaper than Turkey as the payment is dollar based, investors do not lose in terms of any instability in the US Dollar. In addition, Egypt gives land to the investors with a four year grace period and does not demand taxes for three years. Besides, Egypt and the EU have a free trade agreement, and the country has cheap electricity at 4 cents (Tekstilciler Mısır'a Yönelidi, 01.04.2006). Because of the above mentioned incentives Egypt offers, Turkish investors have shifted their investment there. The decision falls under the efficiency seeking type of investment.

Lastly, strategic asset seeking FDI is designed to protect or increase already existing ownership advantages of the investing firms and/ or to reduce their competitors' advantages (Dunning, 2000: 165,173). For instance, in an article titled "Dünya Şirketi Arçelik" published in the *Akşam Newspaper*, 4 September 2002, Arçelik bought some well known brands in different states such as Arctic in Romania, Elektra Bregenz and Tirolia in Austria, Leisure and Flavel in England and Blomberg in Germany. Brand developing and enhancing were among the reasons behind Arçelik's purchase of famous brands. This strategy helped increase Arçelik's market share. Therefore buying brands is a strategic asset seeking type of FDI, and Arçelik presents a good example of it.

All in all, Dunning's eclectic paradigm is relevant to the previously explained theories of FDI such as strategic competition, internalization, product cycle and Hymer's theory, as it describes the essential and common characteristics of the mainstream explanations. For this reason it may be regarded as an envelope for the aforementioned theories (Dunning, 2000: 163). According to the eclectic paradigm, it is not for instance only the possession of technology that gives an enterprise to foreign markets an edge over its competitors, but also the gains that follow from the internalizing the benefit obtained from the technology. Likewise, it is not only the surplus entrepreneurial resources that lead to FDI, but the ability of an enterprise to combine these resources with others. As Dunning asserted, one of the features of the paradigm is its assertion that the value of the whole OLI variables is greater than the sum of its parts (Lundan and Dunning, 2008). Therefore, the paradigm is important for enclosing the necessary complements for explaining the FDI of firms in economic terms in which the cost benefit analysis, profit maximization are considered. Yet, under those theories, it is considered that all of these motivations are stable and concrete, and that the reasons for MNE's engagement in FDI could be explained through companies' isolated capabilities. However MNE's acts could change according to the norms, rules and relations embedded in the society.

2.2.6 THE BEHAVIORAL THEORY

Among the theories which explain firms' FDI activities in economic terms, there is also a theory called the behavioral theory. It includes importance of relationships and ties in firms' internationalization.

The behavioral theory of Johanson and Vahlne (1977) also known as The Behavioral Theory of the Uppsala School, is also among the theories that attempts to

explain firms' internationalization. According to the model, as a result of organizational learning and the accumulation of experience, resource commitment to foreign markets increases. In addition, according to the model, firms invest in countries in which they have lower levels of "psychic distance" provided it is cost efficient to do so. Psychic distance can be defined as "the factors preventing or disturbing firms' learning about and understanding of a foreign environment" (Vahlne and Nordstorm, 1992:3 cited in Dunning and Lundan, 2008: 92). The psychic distance expresses the amount of similarity between the capital exporting country and the host country such as their political system, culture and language. Also, by assuming that there is a relationship between the countries' geographical distance and their cultural likeness, the geographical distance is regarded as similar to psychic distance. In this concept, in a typical internationalization process, a firm's activity in a foreign country starts with exports and continues with the opening of sales offices in neighboring states improving knowledge about the country during the processes (Johanson and Vahlne, 1977: 23-24). As Johanson and Vahlne (1977) expressed, the experience gained through psychic distance from the neighbor countries could be used for the other countries. The experience that the firm gathered at the starting phases of internationalization process would help advance the firms' organizational skills.

The theory is an evolutionary and behavioral model which relies on the system of decision making in which the process of internationalization is influenced by the decision makers' personal characteristics in terms of influencing or determining the process of internationalization. As Dunning and Lundan expressed, the model is built into a gradual learning process, and this would make the internationalization model more applicable to firms' initial internationalization and less relevant to investments

of established multinationals. In addition, as they have also discussed, the model is applicable to small and inexperienced firms whose abilities to learn via imitation and observation are limited. However, there is no reason to generalize the model only for small and inexperienced firms, because experienced firms could also consider the psychic distance while making investment decisions in other countries. Another limitation of the model, as Dunning and Lundan stated is that it limits its attention to explaining market and some efficiency seeking FDI. It is thus difficult for them to explain the growth of Chinese FDI in oil exploration in Angola or the relocation of routine office operations from the UK to India. Therefore it's not a general evolutionary theory as they said (David and Lundan, 2008: 93).

In this section, the theories that I highlighted explain MNCs' reasons for engaging in FDI activities in purely economic terms of cost benefit analysis. As highlighted above according to the theories, MNCs choose to invest abroad since it is cost efficient to do so. Among those theories, the behavioral theory is like a transition to explain the FDI activities in terms of social ties. Because according to the behavioral theory, the MNCs choose to invest in the countries where there is less psychic distance but supports this idea, since it is cost efficient to do so. Therefore, I find the behavioral theory like a reflection of both cost benefit analyses and social ties' importance since psychic distance is related with similarity of the countries language's and cultures.

2.3 HISTORICAL INSTITUTIONALISM

In addition to explaining the investment decisions of companies in terms of purely economic factors, social and political factors also play crucial roles in the investment

decisions of firms. In order to reveal that kind of a relationship, initially examining historical institutionalism best fits with that aim.

As John Campbell (1998: 379) identified, historical institutionalism was derived from the materialist views of Marx and the comparative history of Weber. For many years it was a perspective that assumed the material interests of political and economic actors motivated politics and these interests were institutionally determined. This situation also could be combined with the formation of networks too. Because such a situation could mobilize the people sharing certain mutual interests to come together as a result of the politics which was motivated by the interests of political and economic actors.

What historical institutionalists mean by institution is formal and informal rules and procedures which are embedded in law or states or other bureaucratic organizations. Gradually historical institutionalists discovered that like the other actors outside the state, politicians also struggled for political change in order to improve government, the economy and society in general rather than simply for the sake of personal gain (Quirk, 1990: 184). Therefore ideas, as well as self interests became important for those scholars. Scholars studied the effect of ideas in different areas. For example Hall (1992) explained, he focused on the ideas influence on macroeconomic policy, Haas (1992) focused on the ideas' influence on international relations and Rueschemeyer and Skocpol (1995) examined the ideas' influence on the development of social welfare policies in Europe and North America. As Hall (1992: 361-391) explained, the general idea of the literature was that, the power of ideas depends largely on how much support they receive from political parties, unions, the business community and influential political and intellectual elites and those actors' capability of influential access to critical policy making arenas. As

Ikenberry (1988: 219-243) explained, historical institutionalists focused on how institutional factors, such as centralization of political elites or the relationships between branches of government, constrain policy making. Therefore according to Campbell, it is not surprising that while historical institutionalists examine how ideas affect policy making, they first explore how institutions constrained the impact of ideas on policy making process. In addition to this, institutions can also constrain possible networks also. Since institutions enclose formal and informal rules, norms can be regarded as institutions also. Considering this, for example very close personal relationship of politicians with business networks may be constrained by the institutions since this could be misunderstood such as politicians' implementing special privileges for those groups.

As it is explained institutions have the ability to determine certain policies. This will be an example how ideas could change the tax policy of the country. For instance, when industrialists find the tax for the products too high, they could demand lower taxes in order to ensure low sale prices. While demanding the low taxes, as a cloak they could argue that families' net income would be damaged while buying the goods at high prices. However, instead of really worrying about damage to the family income their real reason to demand this tax reduction could be to maintain high amounts of sales. This could be one of the ways that Arçelik ensures low tax rates for the goods that are sold in countries outside Turkey. By showing the low price rate for the sake of the public, it could maintain low amounts of sale for their goods which could maintain high amounts of sale. In addition, the company could demand tax exemptions for their factories in host countries by legitimizing it through stressing the capacity of the factory to create jobs in the country. Such a situation could also lead the formation of networks too. For instance as a result of

such an event the other companies which are face to face with high amounts of taxes can come together forming a network to work for tax exemptions.

In addition to the ideas' or institutional factors' effect on policy making, historical institutionalists accepted that conflict among rival groups for scarce sources also has an important effect on politics. They looked for explanations for the distinctiveness of national political outcomes and for the inequalities that mark those outcomes. As a result "they found such explanations in the way the institutional organization of the polity and economy structures conflict so as to privilege some interests while demobilizing others"(Hall and Taylor, 1996: 937). As a result of those , "[m]any historical institutionalists to look more closely at the state, see no longer as a neutral broker among competing interests but as a complex of institutions capable of structuring the character and outcomes of group conflict" (Hall and Taylor,1996: 938). An example could be given to this situation. For example, a country that Arçelik invests could support its local brands by presenting some incentives for them that would lead the other foreign brands to compete hardly. In this situation Arçelik would have hard times to compete with the local brands and as a result the country privileges the interest of the local brands by giving incentives. In this situation as in the theory the state could no longer seen as a neutral broker. Such a situation could also lead the formation of a new network structure. For instance the company managers could find some authorized people from the government to maintain close relationships and to maintain easy access to the market.

The reason why historical institutionalists emphasize history is because they argue for social causation and path dependency. In other words, they do not agree that the same operative forces will generate the same results everywhere. Instead, they think that the effect of such forces will be mediated by the contextual features of

a given situation often inherited from the past (Hall and Taylor, 1996: 941). As Hall and Taylor emphasized, the most significant of those features are institutional in nature and institutions are seen persistent features that push historical development along a set of paths.

In addition, historical institutionalists also tried to explain how institutions produce such paths, how they structure the responses to new challenges. As Hall and Taylor explained, state capacities and policy legacies have an impact on policy choice. Sometimes past lines of policy condition prepare the approaching policy by encouraging societal forces to organize along some lines rather than other to adopt particular identities or to develop interests in policies that are costly to shift (Hall and Taylor, 1996: 941). In addition sometimes the political issues have an impact on the formation of the bourgeoisie also and therefore the origins of the bourgeoisie can be regarded as political. For instance the formation of TÜSİAD can be given as an example to this situation which will be explained in the third chapter in detail. TÜSİAD was established after the coup in 1971 and it used to be a reaction of businessmen towards the close economy of Turkey. Therefore this situation could be explained by historical institutionalism since change in the policy of the country for example the coup in 1971, affected the formation of TÜSİAD which could be regarded as bourgeoisie.

Many historical institutionalists divide the flow of historical events into periods of continuity broken by critical events like the times when substantial institutionalists change takes place by forming a new point that causes the start of a new path. Hall and Taylor also discussed the events that accelerate critical junctures. Those could be some economic crises and military conflict. In this concept, the times when Arçelik

came face to face with financial crisis and the company's strategies for the crises could be compared to see if they are path dependant.

2.4 COMPONENTS IN THE FORMATION OF NETWORKS

When firms decide to invest abroad, in addition to considering economic rationalities, they also consider the social ties. Those ties could include some family ties or friendships relations extending to several years. Globerman and Shapiro (2008: 229-271) discussed the structure of business groups that dominate the emerging and transition economies. Many of the corporations are family controlled. Thus there is a limited amount of professional managers and the rest are either family members or trusted associates. Because of this when TNCs attempt to invest abroad they choose to invest in countries where personal relationships with business and government leaders are strong.

Previously, research about international business and MNCs depended on Western Centric theories in which interpretations of transnational corporations overlooked the influence of history and social ties. In his study, Yeung (1997: 9) explained TNCs as a network structure while engaging in transnational operations through existing or new network relations. This contradicts economic theories of international production in which the TNC are regarded as only a transaction cost economizing institution.

As Yeung discussed, the economic factors are conditional and dependent on historical and geographical conditions because companies are not able to enjoy the same set of economic advantages everywhere, and network relations are a result of transnational operations irrespective of contingent economic relations. In addition to Yeung, Grabher (1993) placed importance on the influence of the social. He believed

that social influences are important for economic behavior, and he also agreed with Hodgson who argued that rules, norms, and institutions are important and play a crucial role in the decision making process. According to him, without those norms, rules and institutions, without the habits to reproduce them and without the conceptual framework, the world would be uncertain and chaotic. According to Hodgson, those norms, rules and institutions keep the economy away from an isolated approach. Hodgson focuses on everyday approaches that are the social routines, habits and beliefs.

In addition to social ties, history is also important for the structure of the networks as Hakansson and Johanson (1993:42 quoted from Yeung 1997: 4) discussed. According to them, history, that is the previous relationships between the components of networks lies under the structure of the networks. Networks' structure is formed by patterns and the character of the connections because cultural factors play an important role in networks, they are interactive, since they are in attraction between other networks. As history and culture are an important element in the transnationalization process of the TNCs, the TNCs have become embedded in ongoing networks. Like Yeung, Carruthers and Babb (2000: 63) discussed the importance of prior relationships in developing new MNC projects. According to Carruthers and Babb (2000: 63), prior relationships play an important role in developing new projects. They emphasize the common language and historical legacies to establish trust and argue that they would be important reasons to collaborate with each other. For Carruthers and Babb, path dependency, historical and cultural ties play a crucial role in doing business and forming networks.

Another important discussion about the networks' structure is the social order in and between networks. Networks are important since they tell us a lot about how

people make business decisions and they maintain social orders as long as they are durable. Therefore it's crucial to understand their structure when we are studying firms' decisions. Castells advanced the social network by expanding the network based perspective to the analysis of the entire social structure. According to him, this notion requires the reconceptualization of many social processes and institutions as expressions of networks. By this he means a move away from the concept of hierarchies and notion of centers. According to him the prevailing form of business organization is the network enterprise, and its system of means is constituted by the intersection of segments of autonomous system of goals (Castells, 2000: 696). For instance, an MNE from another country which wants to invest in Turkey via entering a partnership with Koç Holding could be an example. In such a situation, the reason for their partnership would be because of their intersecting goals and aims. When the opposite of this example is considered, it allows me to ask whether there are companies that Koç Holding became partners with only because of intersecting goals, or what the significance or role of intersecting goals is in Koç Holding's partnership relations.

Like Castells, Kendall (2006) also laid out the hierarchy concept but in a different approach. He does not explicitly mention his ideas as hierarchy but uses the concept of "dominating" in his study. However, in order to have the power of domination, there has to be a hierarchy concept. If there is not, then the commanded one would not feel the need to obey if there is no authority. For Kendall, networks are important in ensuring social order and maintaining mechanisms of domination. These also change in time and space. (Kendall, 2006: 70). This could be applied to Arçelik and Koç Holding's case. Arçelik has to obey the decisions made in the headquarters, since it has several branches in different countries. Therefore, the

social order is maintained by the holding's headquarters with the help of the networks.

Another point that Kendall (2006) emphasized is the durability of networks. According to him, it is difficult but possible to build networks that last for a long time, and the strength of the network comes from its flexibility. This flexibility is because of the presence of multiple connections rather than a single route. Therefore, having multiple connections makes the network stronger by maintaining flexibility. For instance, if an MNE wants to open a new branch in a different country, then it has to have some connections there in order to know about the investment conditions, the proper place to open a branch or gather other relevant information. If the company relies on one contact without having any other connections, the network will be harmed when a problem or lack of communication occurs. So, in order to have strong networks, there have to be connections from several sources, not only from one connection. As mentioned above, the durability of networks are tied to their flexibility.

This situation could also apply to Koç Holding as well. One wonders what kind of connections the company relies on when it decides to invest to a new country or whether they exchange ideas with previous partners. Surely, the importance of technology while maintaining those connections cannot be disregarded. MNEs can partner with any firm either in the same country or outside, but they must be in touch frequently. In such a situation, technology plays a role to strengthen the social ties. Technology is important in maintaining the durability and flexibility of networks. With the help of the tools advanced by technology like internet, fax, advanced communication tools and transportation vehicles, different network nodes can be in

touch with each other in different regions and can maintain the durability of their relationship.

Castells stressed the technological advances' importance to ensure that the networks are more flexible, adaptative, and more decentralized. Like Castells, David Knoke (1990: 206) also emphasized the importance of the technological advance. As electronic networks entered homes, schools and firms, people's computerized conferencing capabilities have increased. This lead to ease in communication, and it became possible and easier to make online data files for suppliers, students, patients and others. Thus there is now fast access to information. Latour also discussed the importance of technology in maintaining durability like Kendall's emphasis on the durability of networks. According to Latour, through communication systems, the actions of managers can be sustained. For instance, when we think of an MNE which has several branches spread over different regions of the world, the manager has to be in contact with the people in each of these different countries to implant his or herself in the network. Latour (1986: 276) explained his position in this issue as "the power of the manager may now be obtained by a long series of telephone calls record keeping walls, clothes and machines". According to Kendall, by using these materials, the telecommunication systems, the transportation vehicles and the technological advances as a whole, they become means for obtaining the relationship between the networks. According to Kendall (2006), networks are not only composed of technical advances, but they have to be understood as a process which include the human and nonhuman aspects together. The nonhuman components such as the technological materials would not have any meaning when the humans do not exist, because they are devices used for simplifying the maintenance of connections between humans. Like Kendall and Latour, Callon and Law (1997) also emphasized

the role of technology in networks by giving an example about a director of a British laboratory who is active and energetic, talking with subordinates, gathering information, visiting head office, traveling to London to exchange information, negotiating with other members of the laboratory before flying off to visit the European Community Directorates in Brussels. The authors then push the reader to consider what would happen if Andrew's fax machine and telephones are taken away, and the reports and messages that flow across his desk are blocked? Or what would happen if there were no longer any planes or trains to Brussels, if his email account were closed, and his personal computer taken away? The answer is that basically he would not be capable of enrolling, linking, calculating, and making decisions. Like the British Laboratory, Arçelik is also a network composed of several components such as headquarters spread over different regions in Turkey and different countries, its technologic equipment in manufacturing goods, its employees, professional managers and even the office equipment like computers, fax machines and telephones. If there is trouble in one of those components, the order of the system would be harmed. For instance, when we think of an Arçelik factory manufacturing televisions and exporting them to Europe, if any machine that is important in the production process is breaks down, the production and allocation system would be damaged. If the network of the company is not well established, it would take a long time to manage the problem. However through the help of an embedded network in the company and technological tools to maintain fast communication, the company could direct the production for Europe to another of its factories. This example also raises the question of the role the availability of access to technology plays in choosing investment locations.

As explained above, technology offers several advantages in maintaining the durability, flexibility in networks as well as their helping to reach other markets to establish network relations. Nonetheless, there can be some other situations that might be hard to penetrate into markets, despite the presence of advanced technologies. This could be a result of the type of market a country has. As Carruthers and Babb (2000) put it, some firms have difficulties in penetrating another country's market due to the country's domestic market structure. For instance, many Japanese corporations are organized into multiorganizational groupings and networks termed *keiretsu*. Member corporations are linked through loans, shareholdings, corporate directors and other informal ties. Since the member firms would prefer trading with each other rather than the outsiders, it is difficult for non-keiretsu member firms to enter the Japanese market. Therefore having various connections in the Japanese market would not necessarily be sufficient for outsiders to construct a strong network in the Japanese market. Instead, Japanese companies would require their partners to be a *keiretsu* member.

Overall, above the importance of history, social ties and technology in the formation of networks were explained as well as those networks' structure analysis in terms of flexibility and durability. Below, the network relationships will be highlighted according to different categorizations in TNC's business activities.

2.5 CATEGORIZATION OF THE NETWORK RELATIONSHIPS AND INSTITUTIONALISM

In the previous section, I explained some factors' effects in the formation of networks such as history, social ties and technology. In this part, I will categorize different types of network relationships such as business-personal relations,

government –business relations and business- business relations in order to highlight networks' roles on TNCs' structures, relations and activities.

2.5.1 BUSINESS- PERSONAL RELATIONS

As Yeung (1997) explained, business connections and personal relationships are important in terms of interfirm transactional governance structures. In order to explain his argument Yeung studied the social organization of Chinese businesses in order to explain the personal and business relationships in transnational operations. Here, Yeung emphasized the impact of ethnicity as Chinese business networks are socially and culturally specific. Redding (1990,1991) also emphasized the importance of trust in family and business networks in the Chinese business systems. As Redding indicated, while Chinese entrepreneurs invest abroad they have some specific issues they take into consideration. They are related to maintaining the control of the firm for long term family advantage, avoiding risks in order to protect family assets, making the key decisions in an inner circle, none or limited dependence on people who have managerial, technical, or marketing skills but are not family members (quoted from Yeung: 1997, 6) . When the founders or the members of the HKTNCs (Hong Kong Transnational Corporations) decide go abroad, they first approach people whom they trust or have known for a long period of time.

While a TNC decides to invest abroad, the intrafirm mechanism in the TNC operates as a control mechanism. However the trust mechanism again plays a huge role here. As in Yeung's (1997: 17) example of a professional employee who is asked to set up a subsidiary, if headquarters have little experience with him or her, the headquarters will keep tight control over the employee through auditing or a

report mechanism. Whereas the situation would be reversed for an employee whom they knew previously and with whom they had working experience.

Previously, the personal relationships mattered to a much more greater extent in business than they do today. For instance, Peng (2003) discussed the transformation process of this situation from personal relations to more formal relations. For instance, Peng (2003: 289) explained the phases of the situation in two parts. The first part consists of the informal, personal relationships like the ones in the pre-market societies. In this stage, the sanctions are informal and much more trust based. Then, this stage is transformed to a formal rule-based relationship with a third party with enforcement or police power. However, even in this stage of change from informal business relations into formal relations, it does not mean that informal relations disappear. As Peng argued, they take another form, and relations become more professional rather than being family based. For instance when a small enterprise which has just started to operate in a small town is considered, the relations could be informal or could be more personal relationship based. Those relationships could exist when money is borrowed from close relatives or friends. However when the enterprise widens and spreads, the amount of the money needed would be much more and at this time, money would be borrowed from banks, as credit which are subject to certain rules and legal sanctions if not paid back. Even at this stage, the informal relations' importance does not disappear and they could be helpful for instance to influence the decisions of entrepreneurs to invest in certain countries.

2.5.2 GOVERNMENT -BUSINESS RELATIONS

In addition to business-personal relations, also in government-personal relations, networks play an important role. Below the relationship between government and business and this relationship's influence on the companies will be highlighted.

In terms of government-business relations, as Yeung (1997) discussed the Hong Kong TNCs, political connections enable Hong Kong entrepreneurs and business firms to manage extrafirm networks and get through the local markets in Southeast Asia. Hong Kong TNCs are forced by Association of Southeast Asia Nations (ASEAN) countries' regulatory barriers and institutional opportunities. At the core of the regulatory barriers there are historical and social contexts showed toward foreign capital including overseas Chinese capital by ASEAN countries except Singapore. The close relationship between the government and the TNC also plays an important role in maintaining the extrafirm networks. As Yeung indicated in his study (1997; 16), HK-Electronics wanted to expand into the ASEAN region to produce cordless and cellular telephones and was looking for a place to set up its plant. They decided to set up in Malaysia because the son of the HK Electronic's founder and chair had good connections with one of the sons of the Malaysian prime minister. Therefore they thought that the prime minister's son could help them choose the site for the plant and help with the application approval. In the end, along with the local property developer, the prime minister's son took 30 per-cent equity of the Malaysian plant and became the first chair. This example shows how personal relations are important in terms of engaging business abroad and personal relations' effect on government-business relations. In this case, the personal relationships' effect in the business-government relations is noted. This shows how the MNC institution is influenced by the relationship.

Another classification of business-government relationships involves capital owners' shaping and dominating the regimes, states and governments in line with their benefits. For Knoke (1990) this comes from class consciousness and from capital's possession of ideological, economic, social resources to reward its supporters. Therefore, despite opposition from the working class, the capitalist class is seen as a ruling class and state policies favor its interests (Knoke, 1990: 152).

2.5.3 BUSINESS-BUSINESS RELATIONS

Just like business-personal relationships and business-government relationships, networks have influence in business-business relations too. In business, companies usually interact with each other and even sometimes copy their behaviors in order not to stay behind their rivals. This could be explained by isomorphism as DiMaggio and Powell expressed. In their article they asked the reasons of homogeneity of organizational forms and practices and they try to explain homogeneity. As they explained, when different organizations in the same line of business are established, later they become similar. In the article, they discussed the homogenization process and described it as isomorphism. Isomorphism can be defined as "a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions" (Powell and DiMaggio, 1983: 149). According to Meyer (1979) and Fennel (1980), as DiMaggio and Powell discussed, there is competitive and institutional isomorphism. Competitive assumes "a system rationality that emphasizes market competition, niche changes and fitness measures" (Powell and DiMaggio, 1983: 149,150). It is relevant to fields in which free and open competition exists. Such a competitive isomorphism may be applied in the adaptation process of innovations, which would lead to for instance the companies looking like

each other. Such a similarity shows the business- business relationship lead by the competitive isomorphism. For instance a company which wants to expand its revenues could start a campaign that let to sell its goods with long term payment installments. This could be in favor of the purchasers but since the other companies in the same sector would be damaged from the situation, also they feel like to adapt a similar campaign.

In addition to competitive isomorphism, there is institutional isomorphism. As an organizational field develops, social fitness also becomes important as well as economic fitness. As DiMaggio and Powell (1983: 151) explained “organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness”. According to DiMaggio and Powell, competitive isomorphism may apply to early adoption of innovation, but it does not show a fully adequate picture of the modern world of organizations. For this reason it is supplemented by an institutional view of isomorphism which is a useful tool for understanding the politics and ceremony that pervade modern organizational life. As Tuttle and Dilard (2006: 4, 5) explained, institutional isomorphism can grow out of competitive forces. In fields containing multiple agents engaging in open and free competition, for instance, niche markets, market competition and economic measures prevail. However, as one or more groups gain advantage through whatever means and begin to accumulate resources and power, the organizational field stratifies and institutional legitimacy rises to the fore. Market forces no longer dominate, as the level of competition diminishes. For the ones who are already in the fore, their modes of behavior become routine. As these routine behaviors become decoupled from competitive measures, they become associated with ceremonial and political influences. For example, if the company that I gave example in the

competitive isomorphism tries to be different from other competitors since all the other companies provide sales by long term payment installments, the company could choose to gain institutional legitimacy. Therefore the company can gain special certificates that show their goods' high quality, durability or some other advantages.

According to DiMaggio and Powell, institutional isomorphic change occurs in three mechanisms. Those are mimetic, coercive and normative. According to mimetic isomorphism, organizations which are engaged in similar activities and share common values and organizational structures imitate each other to minimize uncertainty. The modeled organization may be unaware of this modeling or may have no desire to be copied. Models also can be diffused unintentionally, indirectly through employee transfer or for example by organizations such as consulting firms or industry trade associations. Mimetic isomorphism could be applied to Arçelik's investment decisions. For instance, when Arçelik decides to invest in a specific country, there can be several reasons for choosing to invest there. For example, the reason could be not to fall behind because all other global durable goods producers have chosen the same location given the incentives proposed by the host country. Therefore, it would be regarded as mimetic isomorphism.

On the other hand, coercive and normative isomorphism are related to the power which Babb (2001) put as, "the power of external organizations with resources in the former and the power of certified experts, in the latter" (Babb, 2001: 18). As Babb put it, if organizations conform to the standards of powerful external actors because of resource dependence, coercive isomorphism occurs. According to DiMaggio and Powell, coercive isomorphism results from formal and informal pressures that are directed on organizations by other organizations. Those pressures may be felt as persuasions or by force. For example, manufacturers adopt new

pollution control technologies to conform to environmental regulations, in order to meet tax law requirements nonprofits maintain accountants. This could be applied to Arçelik also. Since environment friendly goods are respected in the word, Arçelik produces its goods considering this. In line with European Commission directives on electrical and electronic household appliances, Arçelik began using energy labels indicating the low energy consumption of its products long before these labels became mandatory in Turkey. In addition Arçelik was also the first household appliances producer to produce refrigerators without ozone-depleting CFC (Chloro-Fluoro-Carbon) gases before 2006, which was the deadline set for Turkey in the Montreal Protocol. By this way, Arçelik became similar with the other durable goods' producers which pay attention producing environment friendly goods. Therefore it is an example for coercive isomorphism. In addition to coercive isomorphism, normative isomorphism occurs when organizations are staffed by professionals. As DiMaggio and Powell discussed, while various kinds of professionals within an organization may differ from one another, they exhibit similarity to their professional counterparts in other organizations. According to them, filtering of personnel is an important mechanism for encouraging normative isomorphism. When organizations in the same industry hire individuals through the recruitment of fast-track staff from a narrow range of training institutions or through common promotion practices, the staff has similar specialties. Therefore, this results a normative type of isomorphism. Babb (2001: 18) cited university administrators as an example to normative isomorphism. According to her, universities converge because of the professionals that staff them and she gives the example of the trend at U.S universities to enter into partnerships led by academic administrators with management degrees.

As I tried to highlight in this section, in the formation of business-business relations, isomorphism plays an important role. When the businesses in the same sector interact with each other they homogenize and this lead the companies to look similar for different reasons as exemplified above.

2.6 CONCLUSION

To examine companies' foreign direct investment of firms from Turkey to other countries I formulated my literature in a triangular frame. First of all, because firms' consider economic motivations to invest abroad, approaches such as market seeking, resource seeking, efficiency seeking and strategic asset seeking FDI were introduced. Secondly, apart from considering the economic rationalities, the historical institutionalism literature is highlighted to reveal the importance of history, ideas and norms in the formation of policies or networks. Finally, in the study the importance of social ties were stressed and the importance of history, social ties and technology in the formation of networks were explained as well as those networks' structure analysis in terms of hierarchy and durability. Then, I categorized the relationship types TNCs are influenced by as business-government, personal-government and business- business. All in all, I argue that when firms decide to invest abroad, they not only consider the rational economic theories but also institution and government decisions, as well as the effects of networks and close relationships.

CHAPTER 3

HISTORICAL BACKGROUND

3.1 INTRODUCTION

Many scholars have previously investigated Turkey's inward foreign direct investment but there are not many studies enclosing the outward move of Turkish FDI despite the significant amount of Turkish investors' inclination in this context (Table 3). Since this study's main aim is to focus on the outward movement of Turkish FDI, in this chapter, my main aim is to focus on the phases that opened up the Turkish economy to international markets. While focusing on this context I will introduce the Turkish bourgeoisie starting from the Ottoman Empire and explain the Turkish bourgeoisie's transformation through the founding of the Turkish Republic and I will answer the question of "who actually constitutes the Turkish bourgeoisie?" and "How did they react to certain political events in their economic activities?" First of all, this analysis will be helpful in explaining how trade shifted from Non-Muslims to Muslims in the Ottoman Empire and how the premier Turkish Muslim businessmen emerged and how their economic activities were affected by the politic and economic processes in time.

TABLE 3: Turkey's Outward and Inward FDI (1980-2006)

YEARS	1980	1990	2000	2002	2003	2004	2005	2006
OUTWARD FDI (\$ MILLIONS)	0	-16	870	143	480	780	1064	924
INWARD FDI MILLIONS)	18	684	982	1082	1702	2785	10031	20185

(UNCTAD Statistics, 2008)

Building upon this general history, I will later specifically focus on Koç Group's internationalization process as an example of an important outward foreign direct investment contributor to Turkey. I focused on Koç Group among the other important groups that have also significant contributions to Turkey's outward investment because first of all, Koç Holding's establishment dates back to the early years of the Republic, therefore it is possible to examine the Turkish economy's orientation toward other markets by considering Koç Group's steps. For sure, there are some other companies in Turkey established by the other people in the bourgeoisie and still surviving such as Sabancı Holding and Eczacıbaşı, Sönmez, Vakko and so on. Among those, the reason why I chose Koç Holding is, its persistent and rising rank in the Fortune Magazine' Global 500 list in 2008 (Table 4). In addition to this also, according to the inquiry of monthly magazine Forbes which was held in the May volume of 2008, and calculated the companies market value, total assets, net sales and net profits as equally weighting, Koç Holding is among the top 100 firms in Turkey taking place as the number 1 and showing an improvement compared to the previous years which was number 3. According to this survey, Sabancı Holding is taking place in the 5th rank both in 2007 and 2008 while Eczacıbaşı's rank is 51 in 2007 and 31 in 2008. Therefore taking all those aforementioned reasons into consideration, I chose Koç Holding as an important case study for understanding mechanisms of outward FDI.

TABLE 4: Koç Holding's Revenues and Rank in Global 500 Inquiry

YEARS	2005	2006	2007	2008
REVENUES (\$MILLIONS)	15,578.8	18,083.7	34,389.8	39,392
RANK IN GLOBAL 500	389	358	190	186

(And the world's biggest companies are..., 2009)¹¹

¹¹ <http://money.cnn.com/magazines/fortune/global500> Consulted 10 January 2009

Throughout this chapter I will examine changes in the Turkish economy by dividing it into periods starting with the Ottoman Empire and I will discuss the economic activities in addition to the formation of the bourgeoisie. Then, I will start explaining the economic activities in the early years of the Republic until today. For this thesis, I found it necessary to go back to Ottoman Empire's history to reveal the political relations' effect in the formation of the bourgeoisie. In addition, by going back to Ottoman Empire history, I had the chance to reveal how the bourgeoisie evolved and how significant businessmen emerged. By this way, it will be possible for the readers to have an idea about the way how Koç emerged as a significant businessman.

3.2 TRADE AND BUSINESS IN THE OTTOMAN EMPIRE

The Ottoman Empire's commercial relations with Europe started in the 16th century, and the expansion of trade increased by the signing of the Free Trade Treaties with each European power. Until World War I, Ottoman trade and agricultural commodity exports continued to expand although there was a loss of population and territory throughout the century. According to the Ottoman Empire's statistics, the total exports of the Empire increased from 4.7 million pounds in 1840 to 28.4 million pounds in 1913, while the imports increased from 5.2 million pounds in 1840 to 39.4 million pounds in 1913. In addition, the share of agricultural production in 1889 was 18.4 per cent and 17.8 per cent in 1899 which increased to 22.3 per cent in 1920 and 26.5 per cent in 1913. In addition, when the composition of the agricultural exports for the years between 1878-1913 is examined, there was not a single crop's domination throughout the exports and the eight most important commodities were; tobacco, wheat, barley, raisins, figs, raw silk, raw wool and opium (Keyder,1993;

Pamuk in İslamoğlu-İnan ed., 1987; 179-182). Aforementioned numbers are crucial in terms of identifying the importance of agriculture and its commercialization in the Empire and it is evident that orientation of Ottoman Empire's economy was mostly depended on agriculture. These figures also show the very early establishment of international economic relations in the empire.

The first step of Ottoman Empire's integration with European Capitalism dates back to a treaty signed between England and the Ottoman Empire in 1838. Under this treaty, the English merchants had the right to buy and export goods without paying any taxes except a 12% of the good's value. Over the time, similar treaties were signed with other European countries turning the Empire into a free trade area. The trade volume increased due to England and France's expansionist trade politics, the increase in industrialization in the West and the availability of cheap transportation by steam ship. Under those conditions, the trade volume of the Empire increased by 3.5 percent yearly (Keyder, 2003: 44). From those arrangements, we can understand that the increase in the trade volume of the Ottoman Empire was a result of the other countries' efforts such as maintaining the conditions in the empire in favor of their own advantages by paying limited taxes or by the help of their expansionist politics.

Above, I tried to give a general idea about the Empire's orientation to trade and now I will deal with the question of "Who were the people in charge of economic activities in the Empire?" In the 19th century, the commercial relations and trade were conducted entirely by non-Muslims in the Empire. The underlying reasons for non-Muslims' holding the trade in their hands extend to the Capitulations. The capitulations were giving unilateral privileges and rights to Christian nationals residing or trading in the Empire. By the integration of the Empire to the European inter-state systems, the Ottoman Empire accepted bilateral treaties which were meant

for the Ottomans to trade in Europe with the equal rights of the Christians that trade in the Empire. However some people from certain nationalities gained special privileges such as not being bound by the Ottoman Acts. This made the local residents of the Empire powerless among the foreigners. In addition, the privilege given to the ambassador to administer the trade disputes and legal problems within their nations were expanded. That kind of a privilege leads the ambassadors to favor their fellow patriots. The number of emigrants increased, and they settled in the seaboard cities which were more eligible for trade and benefited from the privileges.

Over the time, trade with the West increased, and the Europeans demanded institutional adjustments to coordinate trade. As Keyder (2003: 33) discussed, for them, it was important to maintain the legal structure for the contracts, and according to them they had two alternatives to manage this. One of them was to separate the administration of society, with one part remaining outside the jurisdiction of the Ottoman Acts. The second alternative was to change the legal institutional structure. They insisted on imposing both of these changes. Their insistence increased by the *Tanzimat* and the Empire had to accept foreigner's right to own property. As a result of the expansion of trade the people establishing relationships with the local traders and European markets were the Christians and Levantine of the Empire. The European firms that opened branches in the seaboard cities had non-Muslims as employees and some of them obtained foreign passports as a result. As that kind of a commercial system improved in the Empire, the Muslim merchants were left out of the action and as a result of non-Muslims proximity to Christians, in terms of their religion and language similarities the capitalists kept in contact with the producers through non-Muslims. By the 19th century, most of the non-Muslims emerged as a

comprador class maintaining the relationship between the foreign capital and the villagers (Keyder, 2003: 33-37).

As a result, initially in the 19th century trade was in the hands of the non-Muslims in the Empire due to the special privileges given to them compared to the Muslims in the Empire. Although the conditions were tried to be made same for the Muslims trading in Europe, still some special privileges remained in favor of the non-Muslims in the Empire. Although international trade volume of the Empire increased because of the foreign traders' proximity to non-Muslims in terms of religion and language, Muslim traders were not progressing. At the end, this resulted non-Muslims to emerge as the bourgeoisie class.

The non-Muslim comprador class grew and became richer by benefiting from the immunity they had, especially in the cities of Salonika, İzmir and İstanbul. The banks and the business concerns maintained their connection with the inner parts. This connection was maintained by the merchants, agents, dealers and money brokers. The division of labor was restructured in society which lead to the disappearance of the traditional bourgeoisie and the formation of a new bourgeoisie class consisting of Christians involved in foreign trade. As a result, Muslim traders had second class status, while the non-Muslims' institutional guarantee was maintained by the monopoly power given to them by the Sultan.

Other than trade and exports, foreign direct investment was also an important element in integrating the Ottoman Empire into the World Economy. There were large amount of the inward foreign direct investment in railroads and harbors which also met trade capital's needs by easing transportation. In 1914, half of the total investments belonged to France and 25 percent was belonged to Germany. Also investments' 86 percent was belonged to railroads, 5 percent was belonged to harbors

and 8 percent was belonged to the municipal services like providing street railway and electricity. Also foreign capital was used in the administration of those services in the cities that the new emerging bourgeoisie lived, such as Istanbul, İzmir and Salonika.

All in all, the previous section above reveals a number of important characteristics in the last decades of the Empire such as the trade and traders in the Empire, FDI activities and those activities' overall rate of integration according to countries. At this point, there is one important development that has to be taken into consideration. That is the formation of Young Turks and their transformation to Committee of Union and Progress (CUP).

3.3 THE FORMATION OF CUP AND EMERGENCE OF TURKISH MUSLIM BOURGEOISIE

In this section the formation of Young Turks and CUP will be introduced in addition to their efforts in forming a national bourgeoisie. Later gradually the formation of the Turkish Muslim bourgeoisie will be explained in accordance with the political events and their effect in the formation of the Turkish Muslim Bourgeoisie.

In the last decades of the Ottoman Empire, there were series of developments that increased dissatisfaction in the country. Among those developments, there was the famine occurred in the country after the financial crises in 1874, followed by the bankruptcy of the country. In addition to this, by the 1878 Berlin Treaty, the Empire gave Russians the right to protect the rights of the Armenians in the Empire, which was considered by Young Turks as a danger for the integrity of the Empire. In addition, England did not support the territorial integrity of the Empire, and foreigners sought more privileges from the Empire. The Empire was having

difficulties in terms of survival, and a group of people from the bureaucracy emerged emphasizing Islam as a unifying element (Mardin, 1962). The Young Turks emerged among those who reacted to these events, and then they formed the CUP whose stated aim was to save the Empire and its territorial integrity.

The Christians were expecting CUP to expand the Christian minorities' rights and they were seen as champions of freedom and progress. After 1908 when CUP was able to re-open the parliament, they initiated a series of reforms. However these did not fulfill the expectations of Christian minorities, because CUP's attempts aimed to establish the state's authority again. CUP's first important move was to remove the Capitulation unilaterally which allowed the government to freely apply a new trade regime and ended the privileged positions of the foreign firms. The CUP also aimed to form a national bourgeoisie, which necessitated support for Muslim entrepreneurs. Among the Young Turk intellectuals, Yusuf Akçura, who came from Tsarist Russia and observed the capitalist transformation of Russia, stated that: "If Turks can not manage to form a bourgeoisie class among themselves, there is little chance for the society to live composed of only villagers and civil servants" (quoted from Niyazi Berkes in Feroz Ahmad, 1999: 59) He identified the bourgeoisie class as the essence of the state and regarded the formation of the bourgeoisie as the guarantee of the state. The government tried to create favorable conditions for Muslim entrepreneurs by introducing the "language reform" which forbid French and English name plates and requiring that the commercial exchange of letters be written in Turkish with the formal accounting proceedings. Outside the big cities, formation of Muslim businessmen continued. Yet in 1915, only 42 of the factories belonged to Turkish Muslims among 264 in total and 22 of them were owned by the government, and 28 of them were corporate firms (Table 5).

TABLE 5: Dispersal of Industries in the Ottoman Empire in 1915

Type of industry	Number of Factories	Government	Corporate Firms	Turkish Islam	Non-Muslim
Food.	75	1	8	8	58
Land	17	1	5	3	8
Leather	13	1	1	2	9
Tree	24	-	-	4	20
Textile	73	18	10	9	34
Stationary	51	1		15	35
Chemistry	11	-	4	1	7
Total	264	22	28	42	172

(Toprak,1982)

The emergence of Muslim businessman occurred in World War I, but they did not have an important influence compared to the Armenians and Greeks. During the War in 1915, Armenians were deported from Turkey. Those who survived ended up in Syria, Russian Armenia and some other countries. They had been allowed to take with them only their movable property, while they were forced to sell- no doubt at low prices-their urban holdings and their more fertile lands were immediately seized by Turkish landlords and Turkish tribes. During and after the War of Independence, Anatolia's Greek population ran away towards the areas under the occupation of Greece and this led mass of migration through İzmir and after Greeks left İzmir, approximately 1 million of Ottoman Greeks emigrated to Greece. At the end of the war, Turkish and Greek governments agreed upon and conducted forced exchange of population. 1.2 millions of Greeks were sent to Greece. These millions who were dead or forced to leave had comprised the pre-war bourgeoisie (Keyder, 2003: 71-112). There are many stories in which Muslim entrepreneurs bought out the non-Muslim properties and businesses as a result of this political upheaval and violence

(Buğra, 2007: 114-125). Such examples show how the Muslim businessmen were supported against the non-Muslims and how the non-Muslim businessmen were tried to be held away from business which caused them to leave Turkey at the end because of similar policies.

In 1913, an act called “Teşvik-i Sanayii Kanunu” (Act for Encouraging Industry) was brought into force in order to reinforce the industrialization by making the industrialists free of certain taxes. The discarded tax was including the customs implemented on the imported goods which were to be used in local goods’ production. In addition, CUP was supporting private entrepreneurship and some members of the CUP took part in the business life. According to Ziya Toprak the first step for Anatolia’s industrialization was achieved with CUP’s contributions efforts in supporting the industrialization (Toprak, 1982: 203).

Until now, I explained the structure of the business in the Ottoman Empire by examining the shift of trade from non-Muslims to Muslims. As explained above, at the beginning of the 19th century trade was in the hands of the non-Muslims in the Empire due to the special privileges given to them compared to the Muslims in the Empire. Later with the Young Turks’ emergence and their formation of CUP, a policy for forming a national bourgeoisie was developed which led the nationalization of the business life. Later policies for this aim continued as explained above and the nationalization of the business was accomplished with remaining a very few amount of non-Muslims in the business life. All in all, this section developed the following arguments: Initially, in the formation of the non-Muslim bourgeoisie political events and some special privileges and connections were effective. Later, as explained above, some set of political events and decisions about non-Muslim population’s exchange and being obliged to leave Turkey eradicated

their dominance in the business and made the emergence and domination of Muslim businessmen.

3.4 ECONOMIC CONDITIONS BETWEEN THE ESTABLISHMENT OF THE REPUBLIC AND THE WWII

Before the Turkish Republic was declared, the state's efforts for nationalization of the economy were accomplished. In accordance with this, the government implied policies as explained above and as a result the government managed to shift the dominance of non-Muslims in business to Muslims. The policy of the government was in favor of absolute economic sovereignty and against capitulations. In order to maintain the economic sovereignty, industrialization was regarded as a solution. Below the economic conditions at the beginning of the Republic and the industrialization efforts will be explained.

In the year 1923 when the Republic was founded, the Turkish economy had a huge amount of foreign debt, and the government was trying to attract direct investment to the country in order to cultivate the Turkish capitalists' skills. In fact, approximately one third of the firms established between 1920 and 1930 had foreign partners (Ahmad, 1999: 118). After the Republic was established, the government's role to support businessmen continued in fields such as providing subsidies and inputs. At the beginning, the private sector was getting its employees from the state and even state provided the unsuccessful and bankrupted businessmen to pull into the business environment again (Çokgezen, 1998:7). In addition, the establishment of Turkey's İş Bank in 1924 also proved the government's role for supporting the business life in Turkey. The aim of the bank was to become a national commercial institution for competing with the non- Muslim capitalists and foreign banks.

(Ahmad, 1999: 118; Buğra, 2007: 258). The bank was established by Atatürk and later Celal Bayar took the task of organizing the institution. The bank started its operation as an agent between the business groups and government in favor of special interest groups and served as a lobby via the firms that executed different economic activities (Ahmad, 1999: 118). At the beginning of the bank's establishment years, İş Bank directed its investments to the activities that the country needed the most such as affiliates, investment and management. The priority was given to sectors that covered the basic needs which could be met by domestic resources. In the meanwhile, the bank had an important role for the nationalization of enterprises that were operated by foreigners and organized some agricultural goods' export operations. Establishing national firms related with sugar, glass, textiles, coal, cotton and tobacco exports were among the bank's leading initiatives (Türkiye İş Bankası Müzesi, 2009). As exemplified, the aims and the operations of the bank were supporting the government's policies in terms of creating a national bourgeoisie.

In 1927, the act for encouraging industrialization (Teşvik- Sanayi Kanunu) was enacted. The act was offering incentives to national capitalists for behaving like a national class and to earn honestly. Many businessmen became rich with those incentives. One example is Selahattin Adil, of those entrepreneurs who benefited from the Teşvik-i Sanayii in 1929. Adil met with two Armenians who had small factories in which imported inputs were fit together for producing electric cables and he decided to open a factory to manufacture electric cables with domestic facilities. His factory became successful, and in this success, the role of winning the military's tender for a very cheap price was important. Although there was another foreign firm bidding for the tender, Selahaddin Adil Pasha got the job because he was Turkish

(Buğra, 2007). This story is important to reveal that the policy support for the formation of national entrepreneurs exceeded the legal frame of the act because state institutions favored the domestic entrepreneurs even when foreign firms' offers were better.

The government wanted to promote private fortunes and gave the right of cooperating with state monopolies to some special firms. As a result some businessmen earned huge amounts of fortune. By communicating with government officials, businessmen could get information about upcoming policy changes in advance. Therefore, they were informed of the new tariffs on imports in 1929 in advance and so they imported goods before the act was enacted, leading to a huge trade imbalance and a devaluation of the Lira. This process could be good for the businessmen but it was harmful for national economy. The cost of public debt increased and the government had to stop payments to the foreign creditors and it became harder to borrow and attract foreign investment. These examples are important in order to reveal the connections between politics and economy. These are also proving that we cannot talk about purely economic decisions without political connections' influence.

In addition to the domestic developments' effect on state policies, international developments were also influential in official economic policies. For instance in 1929, the Great Depression caused the government to revise the liberal economic model: the government decided for an interventionist economic model. The government took decisions to secure foreign trade and took it under its control (Ahmad, 1999: 119). The trade capital was in crisis following the initial years after the 1929 depression (Keyder, 2003: 140-142). Between 1930 and 1932, the industrialization's growth rate was calculated as 14.8 percent, but the amount of

imports decreased from 256 million liras to 101 million liras in 1932. This was the period when a positive trade balance was achieved for the first time since the founding of the Republic (Boratav, 1981: 170). The state still tried to offer incentives and encourage the private sector by aiding them to enter industries which they could not afford to through their own means. The state's aim was to industrialize the Anatolian urban centers of Turkey by opening factories. This plan was followed by opening a textile factory in Kayseri in which the machines were provided by the Soviet Union and the United States. The engineers established the factory, operated it and educated the Turks before transferring it. However, such a strategy was not profitable for the private sector, because the revenue gathered from the investment was low and slow. The dire situation pushed economy in a more statist direction and the state accepted the First Five Year Development Plan, anticipating building 15 factories in which the state committed the 12's establishment. With this plan, the state was expecting to stop spending money on expensive imported goods and mostly focusing on the glass, textiles and paper industries. Among the people investing in Istanbul, there were also Greeks and Jews who converted to Islam. They used their experiences in Salonika and the income that they gathered during the 1924 population exchange. (Keyder, 2003: 157).

According to Vehbi Koç, state owned enterprises were the engines of state's industrialization process and private sector became successful with those enterprises' role (quoted from Cumhuriyet 11th October 1965 in Belge, 2002: 358). Although etatism was stressed during those times, the private sector was also in progress. In 1934, a group of Turks established a pen factory in Istanbul. Until then, pens were imported and through this new entrepreneurship, all the raw materials were domestic except for the imported ink which constituted 10 percent of the total cost. The pens

were manufactured for 20 percent cheaper compared to its import price. The manufacturers demanded protective tariffs from the government, and foreign competition was curbed. (Ahmad, 1999: 123). The first development plan ended in 1938, and by then several big state institutions like Sümerbank, which produced shoes and clothes, and Etibank which was a mining company had been established. Although the second plan was not executed due to the war, its goals of operating the mines, establishing mining industry and energy power stations were realized in a short time, leading to the heyday of industrialization.

In this part, the economic policies of the state were explained in accordance with the domestic political events' effects. In addition, the influence of international economic events on the domestic policies was also explained. Overall, when the period between the establishment of the republic and the World War II is considered, the policies of the government were aiming to strengthen the national bourgeoisie and maintaining the national industrialization of the country. In order to support those aims, the government brought into force acts inducing industrialization, backed up establishment of İş Bank and opening factories. All in all, the state's efforts and support went on backing up the nationalization of the economy in this term.

3.5 THE ECONOMY AFTER WWII

Although Turkey stayed neutral during the WWII, the country experienced the difficulties of the war economy. As a result of the military mobilization, nearly one million people were conscripted and this situation affected the production and consumption negatively. In addition, because of the war, an important amount of country resources were spent on defense expenditures and decrease in agricultural production was reported because of limited labor force due to the conscription. Also

the state increased its money circulation following the increasing expenditures during the war. In this period, the export prices increased more than import prices and the trade rates turned in favor of country.

In the light of the aforementioned conditions during the war, new agricultural policies were tried to be formed in order to improve the agriculture and the state took cautions in order to maintain food supplies for soldiers and big cities. Since then, the government applied a more interventionist policy and started to discuss about formation of an act which gave the right of intervening in economy. The act called “*Milli Korunma Kanunu*” (National Defense Act) came into force in 1940 and it was enclosing nearly all the sectors like agriculture, mining, industry, trade. The act gave the government the right to control the production, exchange and consumption of goods. In addition, the act gave the government right to reserve necessary goods for national defense and organize agricultural, commercial and industrial activities in accordance with national defense (Şener, 2004: 81). In addition, there were discussions about state’s nationalizing exports and imports. However this was never realized because of opposition. State audited and even limited some of the trade activities. Nevertheless, there was quite widespread opposition to these policies. Auditing was not successful in prohibiting the decreases in production and increasing the exports (Buğra, 2007: 165). Both small and the big farmers hid their goods in order not to torn them over to the government. In effect, local power relations were crucial in determining how much the state could extract from the villages. The people who were given the authority to collect the share of the state’s goods were wealthy villagers, squires, village headmen. As a result, the people who were harmed most from this system became the small villagers. At the end, these wealthy people sold the goods that they hid to traders and formed a black market (Pamuk, 1988:

103). Since the individuals the individuals started to accumulate capital from the black market, the commercial and agricultural bourgeoisie accumulated wealth by profiteering and speculation. It was these activities that contributed to the bourgeoisie's growing strength and increasing ability to play an active role in economy and politics (Coşar, 1999: 78).

In 1942, the amount of the goods that would be granted to the state was fixed to an amount of twenty five percent of production and this system was known as "twenty five percent system".¹² The "twenty five per cent" decision brought increase in prices and caused increase in the money circulation. As a result of these, the inflation, the amounts of the goods in stocks increased and the black market spread. When the "twenty five percent system" did not meet the need of the state, because the state could not gather the amount of the cereals from the people and every year the amount decreased (Şener, 2004: 83).

When the "twenty five per cent system" could not meet with the expectations, the state looked for new solutions and brought the "wealth levy" into force. This tax was implemented in 1942 on the people whose wealth increased during the war time such as big villagers, traders and estate owners. It did not stand out only as an economic application but also it stood out for political and cultural applications. It was among the state's forming national economic policy and the huge amounts of money were collected from the non-Muslims in the state. The payment period of the tax was limited in one month. If the people could not pay the taxes, their commodities were expropriated and sold. Even if, still they were not eligible for them to pay their debts, they were sent to working camps. In the explicit declaration on 11th November 1942, the aim of Wealth Levy was stated as: to make dutiable the

¹² With this system, it was decided for the state to buy the 25 per cent of the goods which the producers produced till 50 tons and buy the 35 per cent of the goods which the producers produced till 100 tones and some other proportions were adjusted above those amounts.

speculative incomes that were gained in WWII and to lessen the amount of money in the market. However two days before the prime minister Şükrü Saraçoğlu presented the Act to his colleagues as a revolutionary Act and declared that: “We are face to face with an opportunity to gather our economic freedom. We will eliminate the foreigners that control our market and give the Turkish market to the hands of Turks” (Aktar, 2008: 148).

There were three types of tax payers. Muslims paid the least, people who converted to Islam paid the double amount Muslims paid and the non-Muslims paid ten times as much as what the Muslims paid. As a result, the most precious real assets were sold by Jews, Armenians and Greeks. Among those commodities there were big business houses, shops, apartments. As Aktar (2008: 144) discussed, this was the second time the non-Muslim bourgeoisie was harmed since the population exchange. Although the tax gave opportunities for the etatist bourgeoisie for buying the commodities of the non-Muslim entrepreneurs, this harmed the trust of entrepreneurs toward the state. 67,7 % of real assets that were sold in order to pay the wealth levy was bought by Muslim Turks. Those real estates were among the most precious ones. The official and semi-official institutions like national banks, national insurance firms also purchased the most precious real estates that were sold.

As a result of the wealth levy's implementation, the non-Muslims in commercial bourgeoisie of Istanbul were harmed and the big businessmen from the minority class did not exist any more. Because of that kind of discrimination, the non-Muslim Commercial businessmen were not eager to invest in industry anymore. Many non-Muslim families who were no longer felt secure, migrated to Europe, Israel and US (Buğra, 1994; Ahmad, 1999; Keyder, 2003, Aktar, 2008).

The new emerging bourgeoisie disproportionately gained in this process. However in their memories several insisted on the harm. For example, Kadir Has recounts in his memoir how he was victimized when the government haphazardly assigned the head of a rivaling family as a partner to the National Textile Factory and how his father had to dig out all his hidden gold to pay their taxes (Has, 2003: 81,82).

Another example comes from Vehbi Koç, who also shares his memories about the wealth levy in his biography. As he points out, civil service chiefs in the regions raced to collect the highest amount of taxes. Although the two factories' total cost was 48,000 the amount of tax determined was 40,000 Liras. The total cost of the wealth levy he paid was 600,000 Liras (Koç, 1983: 65). Although these numbers were big, the amount of money the non-Muslims paid were much higher.

In addition to the wealth levy, Land Reform Draft was also created to decrease the influence of the post-war rich and land owners on politics. The draft came into effect with heated debate. The reform was criticized for causing a decrease in production and for violating constitutional protections of commodity rights. The opponents for this act were Celal Bayar, Refik Koraltan, Fuat Köprülü and Adnan Menderes who later established the Democratic Party in 7 January 1946 (Ahmad, 1999). Before the multi party system in 1944, the regime was criticized because of its limitations to further liberalization and in August 1944 the government closed opponent newspapers and later let its printing again. Those attempts were proofs for the restrictions of opponents in Turkish political life. President İnönü declared the fundamental transformation from single party system to multi party system in Turkish political life on 19 May 1945. Before he declared this transformation Turkey

had been invited to San Francisco Conference for being the founder member of the United Nations (Oral, 2000)¹³.

This declaration and membership were signals of the side that the Turkish government was going to take during the Cold War. As a result, aid started flowing in. The US president Truman sent a message to American Congress, and the latter decided to give a total amount of 400 million dollars to Greece and Turkey. Among the significant reasons of USA's deciding to give the aid to Turkey was curbing the influence of USSR. In addition to the Truman Doctrine, Turkey received aid as a result of Marshall Plan, which targeted the European post-war economy. By giving aid to European countries, the USA intended to secure its foreign policy against the USSR. As a result Turkey strengthened its relations with the United States (Oran, 2004; Armaoğlu, n.d, Sözüöz, 1992).

A World Bank report by a group of American experts under the leadership of Marx Thornburg wrote that Turkey had to support private entrepreneurs and induce foreign capital if it wanted to receive American aid and attract American capital. Both the Thornburg report and the country report criticized the statist strategy. In 1950, for the first time another party was elected to the government in the second multi party elections, and Democrat Party's economic orientation was in accordance with both by this international context and the specific characteristics of its founders (Öniş and Şenses, 2007: 263). During the rule of the Democrat Party, priorities were given to business and farming groups, and this led private enterprise to flourish due to economic liberalism and credit facilities. However, the salaried people were under the burden of the tax system, while there were high amounts of tax evasion in commerce and industry. The Democrats also denied workers' right to strike and the

¹³ <http://www.ileri2000.org/24/oral24.htm> Consulted on 25 November 2009.

right of collective bargaining. In terms of the agriculture, policies were in favor of the economically dominant groups (Özbudun, 1966: 19).

The 1950s played an important role in the formation of today's bourgeoisie by following the people who migrated from the villages to cities. Those people can especially be observed in the Çukurova region of Turkey. The region's value increased after the Armenians purchased land favorable to growing cotton in the beginning of the 20th century. After the Armenians were forcefully deported, the Muslim Turks took control over the land. The lands were evitable to earn high amounts of fortunes by one harvest. Due to the seasonal need for workers in cotton agriculture, high amounts of fortunes were earned by only one harvest. Among the big land owners, the successful ones entered the textiles, thread and cotton gin industry (Keyder, 2003: 191-192). Among those entrepreneurs, there was Hacı Ömer Sabancı who started what we know today as Sabancı Companies. His story includes factory purchases from non-Muslims and expansion during DP's emphasis on private enterprise. For instance, the government supported entrepreneurship by Turkish Industrialization Development Bank's credits, of which the new bourgeoisie availed themselves.

Another condition that affected entrepreneurs was the limited availability of foreign currency. Relevntly, Koç's first experiment in manufacturing cars was the result of limited foreign currency: It lead the family to build Otosan Factory to install Ford vehicles (Buğra, 1994; 121-133). As it is evident from the examples, the economic conditions of the country used to be influential in the emergence of new entrepreneurs.

Between 1950 and 1953, Turkey experienced a 13% growth by exporting raw materials and food products to meet Europe's demand for food after the war. As a

result of the economic boom that Europe experienced after the Korea War, Turkey experienced a growth by exporting those goods. Unfortunately, by 1954, the economy stagnated with a decrease in growth by 9.5 %. This stagnation happened as a result of unplanned investments; the funding of imports increased and in order to maintain the funding foreign exchange reserves were used. For this reason, foreign trade rates changed negatively and prices increased immediately which caused stagnation in the economy. In the middle of the 1950s, Turkey became unable to buy capital goods and spare parts. This caused agriculture machines to work insufficiently. As a result of those conditions, the government stopped adopting liberal politics and had to pass the National Protection Act in 1956 which allowed the government to regulate the economy by allocating goods and services (Ahmad, 1999; 141-142).

3.6 POLITICS AND THE ECONOMY IN THE 1960s

Due to increasing inflation and political instability there was increasing confrontations and security issues in the cities which made the military restless in the middle of 1950s. As Feroz Ahmad stated, the Democrats were neglecting the troops and the money needed for the military reforms were not high on the priority lists of the government. Instead, DP spent money on building roads, supporting the cement industry and other such areas. The military organized a coup on 27 May 1960, closed down DP and established the National Union Committee (NUC), made up of high ranking officers. The aim of the coup was declared as eradicating the antagonism between the Democrat Party followers and Republican People's Party followers.¹⁴

¹⁴ This regime introduced a variety of structural changes in political life; the Democratic Party was closed, and the members of parliament were tried, culminating in the execution of Adnan Menderes, Hasan Polatkan, and Fatin Rüştü Zorlu. Constitutional courts were established to control if the acts were in accordance with the constitution. Also freedom of thought, freedom of expression, freedom of

After the coup, the Turkish military emerged as a business actor through the establishment of the Armed Forces Trust and Pension Fund (Ordu Yardımlaşma Kurumu, OYAK). OYAK was established after the military coup in 1961, aiming to provide economic benefits for the military officers. Over time, OYAK turned into a conglomerate consisting of several holdings such as supermarket chains, tourism and insurance companies. Although OYAK was like a conglomerate it enjoyed several privileges. For instance, it continues to have same rights and privileges as a state property according to Article 37 of the OYAK Law; and under Article 35, it is exempt from all taxes. In addition its members pay compulsory fees from their monthly salaries including taxes. Some of the firms with which OYAK was a partner in Turkey were Renault, Tukaş, Erdemir, Mardin, Ünye Bolu, Adana Cement Factories (Ahmad, 1999: 157; Demir, 2005: 669-674).

According to OYAK's articles of incorporation, the national defense minister could appoint three people out of the military forces for the General Assembly. He chose Bülent Yazıcı, Kazım Taşkent and Vehbi Koç. They prepared some recommendations for OYAK however they were accused by some members of making those recommendations to benefit their own interests (Koç, 1983: 107-108). As it is clear from this story, the role of military expanded and even it became related with business too. Also, cooperation with businessmen such as Vehbi Koç was maintained in OYAK and their recommendations were also taken into consideration.

The Junta Regime was trying to find a solution for the ongoing economic problems left from the DP government. The State Planning Institution was formed, and its main role was to control the economy's operation. Import substitution industrialization (ISI) model was adopted in 1963. The ISI regime included controls

publication and freedom of publication were covered in the constitution. Those circumstances were reflecting the basis of the political atmosphere after 27 May 1960(Ahmad, 1999; Özbudun, 1966).

on international trade, rationing in foreign exchange and credit markets in addition to overvalued exchange rates. During the era, the entrepreneurs relied on the subsidies provided and on the state bureaucracy (Demir, 2005: 669). The Turkish industry started to manufacture the goods which were imported previously. It was in this period that Koç decided to produce the first Turkish car. All in all with adopting the ISI regime, the Turkish industry which was importing goods previously started to be protected with customs barriers and subsidies while producing its own goods. Therefore the Turkish industry which was unable to produce simple products evolved and started to produce consumer goods (Bolat, 2009)¹⁵.

The industrialization of the economy led two new groups to emerge: the workers' class and the industrial bourgeoisie. The latter became effective in the decision making mechanism of the government. After the revolution in May 1960, an era in which the relationship between the politicians and the businessmen got stronger started. In this respect, the demands of the businessmen were transmitted to the politicians personally instead of transmitting them via the chambers and this brought on businessmen's position in the society to be stronger. After May 1960, the businessmen demanded their position to be clarified in the new system and the businessmen played active roles in the negotiations with the government even if they did not have any representative right. Among those businessmen there used to be Vehbi Koç and according to the newspaper Cumhuriyet on 1 February 1962, İnönü asked Koç to learn what kind of measures had to be taken for the businessmen to remove their problems and Koç wanted the political reliability to be maintained. From this story, it could be seen that the businessmen including Vehbi Koç had an importance in terms of their ideas in the policy making process of the government.

¹⁵ http://www.kobifinans.com.tr/tr/bilgi_merkezi/02080102/13313 Consulted on 25 October 2009.

In 1965, the Junta regime ended after Justice Party, which incorporated many members of the former DP, won the elections. As the new Prime Minister Süleyman Demirel declared in 1965, their goal was to become the architect of a modern capitalist state and society. In fact large modern capitalist businesses were established in Anatolia by entrepreneurs who would later become among the top 500 richest people in Turkey but the small merchants could not survive in this competition. Although Demirel won the elections in 1969, the Justice Party's votes decreased by 6,4% (Buğra, 2007; Ahmad, 1999).

3.7 POLITICS AND ECONOMY IN 1970-1980

1960s were a period of growing political activism on the part of various social groups. In response to what they saw as anarchical and chaotic atmosphere, the military organized another coup on 12 March 1971. After the coup in 1971, the establishment of the Turkish Industrialists and Businessmen's Association (TÜSİAD) was accomplished. Twelve leading Turkish industrials played an active role in the foundation of TÜSİAD including Vehbi Koç who also used to be the chairman of the association. The main aim of the founder businessmen were to own a strong status in a stable economic environment (Buğra, 2007: 336; Öniş and Türem, 2002: 442). Öniş and Türem divided the evolution of TÜSİAD into three stages. The first corresponds to the 1970s, when the businessmen suffered from import-substitution model of industrialization. Leading industrialists who used to benefit from the protectionism and large internal market of the import-substitution industrialization model came face to face with its negative side, such as chronic shortages of foreign exchange and macroeconomic instability. As a result of Turkey's suffering from severe economic and political crisis in the late 1970s,

TUSIAD's presence felt publicly as a key political actor through its widely advertised criticisms. The other two phases of TÜSİAD's evolution corresponds to the 1980s and 1990s. The role of TÜSİAD in those phases will be explained below.

In 1973 People's Republic Party (CHP) won the elections installing Ecevit as the president and a coalition was formed between National Salvation Party (MSP) whose president was Erbakan. Both of the parties were against large capital and its increasing hegemony on society. Nevertheless MSP was the party of small entrepreneurs who were demanding protection against the big entrepreneurs. They did not totally reject capitalism but they demanded that the state regulate the large industries and capitalist system in favor of the small entrepreneurs. However, the CHP did not agree. In those years, there was instability in politics and resignations were observed in the coalitions, followed by crises. After Ecevit resigned because of not getting along with Erbakan, Demirel established a coalition composed of four right parties. As Rahmi Koç pointed out, starting from the 1960s, it was difficult to establish single party or strong governments composed of center right and left parties (quoted from Milliyet 26 January 1982 in Belge, 2002: 366). The powerful industrialists supported the formation of coalitions in the center of the political spectrum. Vehbi Koç demanded explicitly from Ecevit that he end his coalition with Erbakan and form a new one with the Justice Party and again Koç demanded the formation of the coalition of the CHP and Justice Party. Even in the 1980s the industrialists demanded a coalition between the True Path Party (DYP) and Motherland Party (ANAP). They were in favor of economic stability and economic reforms enacted after the coup (Bugra, 2007: 94; Belge, 2002: 1983). All in all, the powerful industrialists were in favor of the governments in which they were able to

carry on their business easily, without any problems. Therefore they were supporting the governments that were in favor of industrialists' development.

In 1970s, remittances became an important element in Turkish economy. The workers that started to go Germany began to send foreign exchanges to Turkey starting from 1965. In 1964, the amount of the remittance composed an amount of %2 of the export revenues and in 1970-71 the amount of the remittances shifted to an amount of 50% per cent of exports and in 1973, this increased to 90% of the exports. In 1973, remittances met the 154% of the foreign trade deficit but after 1973 an economically problematic era started. First of all, as a result of oil crises, the money that Turkey used for oil increased four times of its previous amount and continuously remittances decreased. The amount of the remittances' meeting the trade deficit decreased to 24 per cent in 1977. Due to the oil bill of the country the remittances also used up in a year. Secondly, the 1974 Cyprus military action's economic burden affected the Turkish economy negatively and additionally, the USA also stopped giving the military aid and started an arms embargo. Therefore the Turkish economy was hit hard as a result of the decrease in the remittances and the oil shock. As a result, the increase in manufacturing industry's production decreased to 2,1 % which was 10,2 % in 1973. In addition to those aforementioned international affects that harmed Turkish economy, there were also some internal reasons too. As it was explained previously, private entrepreneurship was supported by the Democratic Party in the second half of the 1950s and it started to produce to meet internal needs. When this system started to produce more planned and in big amounts, the bourgeoisie started to maintain profits. Since the internal market was protected, the producers did not struggle for improving the quality and did not try to export their goods. As a result those entrepreneurs spent foreign exchanges but they did not able

to earn their own foreign exchanges by exporting. Those entrepreneurs' survival was maintained by ISI and the state subsidies. Since the entrepreneurs were not exporting, they spent the unearned foreign exchanges and this led Turkey to have economic struggles (Oran, 2004: 663, 664).

In order to remove the aforementioned economic problems, Ecevit sought the help of the IMF and started to adapt politics to encourage exports. The IMF's main requirements were currency devaluation and increase the exports and decrease the internal demand. After the Iran Revolution, US support increased due to Turkey's strategic importance and economic conditions started to improve. Demirel replaced Ecevit as Prime Minister, he assigned Turgut Özal as chief economic advisor and followed IMF's recommendations (Ahmad, 1999: 208-211; Coşar, 2004: 78).

3.8 THE ECONOMY AND POLITICS IN THE 1980s

Özal adapted economic measures on 24 January, 1980 which were stricter than IMF's demands and which aimed to depend on exports to a larger extent in the economy. In the 1970s the political atmosphere was unstable; there was an economic stagnation as well as high inflation and unemployment. There was escalating violence between rightists and leftists in urban centers. There was yet another military coup on 12 September, 1980. The businessmen were happy with the coup as Rahmi Koç pointed out before 12 September, it took a long time to pass legislation however the military junta was capable of working faster. There was even the misconception that the military administration could fix the economy easily (Rahmi Koç quoted in Murat Belge 26 January, 1982 Milliyet).

After the coup, the junta consulted Özal on the economy program, and he became responsible for the economy. Özal decided to open the Turkish economy to

the world markets and remove its dependence on ISI and the domestic market. Industry was especially encouraged to open up to foreign markets. Özal applied two main strategies to open up to foreign markets. First, he narrowed the internal demand of the country by increasing the prices. Secondly, Özal encouraged exports and for this reason Turkish goods in the foreign markets were cheapened by devaluating its currency and export of the country increased. Yet, there were some important developments that had to be considered. First of all, imports were increasing more rapidly than the exports. Therefore foreign trade deficit was increasing. Secondly, as Oran (2004: 17) explained, Turkey's strategy for opening up to foreign markets was managed as a result of IMF's help, and IMF helped Turkey because if Turkey would be successful, it would prove itself to the whole underdeveloped countries.

Returning back to TÜSİAD's evolution, as mentioned the second phase of the association corresponds to the 1980s. In this phase, as explained Turkey departed from the inward-oriented industrialization model of the 1970s towards a more open, export-oriented model of accumulation. This transformation occurred under a military government in 1980-1983. TÜSİAD was content with the stable macroeconomic and political environment created under military rule but it was also quite apprehensive about the possibility of continued military rule. Because a period of military rule could isolate Turkey from the European Community and international community which could result costly consequences. After Turkey returned to democracy in November 1983, TÜSİAD made itself felt through vocal criticism of the rise in budget deficits and inflation towards the end of the decade. A conflict of interest also emerged during this particular phase between exporters and TÜSİAD, which embodied a significant group of inward-oriented industrialists (Öniş and Türem, 2002: 443).

After 1985, more liberal elections were held and Özal's Motherland Party came to power. Salaries were narrowed in order to provide an excess for exports and decrease consumption. The most crucial change was in exports. It increased from 4.7 billion dollars in 1981 to 12.9 billion dollars in 1990. Therefore, new opportunities became available for businessmen due to incentives to export, but those incentives also led to corruption like fictitious exports. The political economy of the 1980s favored big entrepreneurs such as Koç and Sabancı. They were able to compete with foreign rivals, since they were stronger compared to the small entrepreneurs. The government supported foreign market research and entrepreneurs traveled around the world with Özal to expand their activities through official trips. They traveled to countries with markets favorable to Turkish goods like China, the USSR. In July 1980, interest rates reached 80 per cent and posed a significant problem for borrowing money. However, the owners of the holdings acquired banks in order to borrow money from the bank without paying commission fees (Ahmad, 1999: 242). Mainly the general outlook of the economy in the 1980s involved promoting exports and the liberalization of foreign trade. Exports increased during the 1980s and the import regime also liberalized after customs duties were reduced in 1989. Also, the reasons underlying the formation of foreign trade firms were to increase the competitiveness of Turkish exports. In the 1980s Eczacıbaşı established a foreign trade firm to benefit from the incentives on exports. However those incentives were only given to exporters if they met a certain limit. Therefore large firms like Eczacıbaşı, Koç and Sabancı established those types of firms (Buğra, 2007: 130-131).

3.9 THE ECONOMY AFTER 1990

The year 1991 had a special factor affecting the country's economy. The Gulf Crises breaking out in the second half of 1990 had negative effects on the economy. After the crises, the crude oil prices increased which pushed up the prices of commodities and services and slowed down the production towards the end of 1990. At the beginning of 1991 with the Gulf War, the situation worsened and as a result of the Gulf War the market was disturbed, causing the demand, hence the production to decline. At the beginning of 1991 the price increases climbed up as well as the interest rates of credits, and exports went through a period of stagnation.

When the country's export movements are examined, in the first eleven months of 1991 Turkish exports destined for Middle East Countries increased by 12.2% and Turkish exports to Eastern European and Socialist Countries continued to expand in 1991 and its share in Turkey's exports rose to 9.3% , up from 8.7% of 1990. Exports of Turkey were among the best aspects of economic performance at the beginning of 1990s. Despite the negative effects of the Gulf Crisis and Gulf war, exports expanded by 7.6% in terms of Dollars at the end of the eleven-month period in 1991. When the destinations of exports are examined, OECD countries accounted for 65.1% of total exports. In the same period of 1990, the relevant figure was 68.1%. The share of Middle East countries went up from 19.4% in 1990 to 20.2% in 1991. The share of Eastern European countries also went up from 8.7% to 9.3%. Also, in 1991, with 25.3% Germany accounted for the biggest share in Turkey's exports, the second and third biggest share in exports were taken up by Italy and the USA with 7.4% and 6.3% respectively (Akgüç and Özötün, 1992). All in all, Turkey's export increased when compared to the year 1990. Later in 1992, Turkey experienced a less problematic economic term and in the İzmir Economy Congress the participants were

agreed on the goal of Turkey moving to becoming one of the most developed 15 cities. In order to achieve this goal, it was decided for the state to apply less interventionist economic policies and the importance of free market economy was stressed. Later in 1993, Turkey experienced a growth rate of 8.2% which exceeded the target of the country. In addition the people's average per capita income also increased to 3.004 \$ in 1993 from 2.708 \$ in 1992. However, the foreign trade deficit of the country increased and the import of the country rose due to the rise in demand of Turkey's local market. Turkish Lira gained value between 1987 and 1993 but lost its value because of the economic crises in 1994. The foreign exchange rate which was kept low induced the short term capital movements and therefore investments stayed in the second plan. On the other hand, foreign sales rates lowered and imports increased and devaluation occurred in high amounts in 1994. Although foreign trade deficit was ameliorated because of the devaluation, the Turkish Lira's gaining value continued till 2001 (Kepenek and Yentürk, 2008). As a result of the crisis in 1995, cautions were taken and those cautions were named as 5 April Decisions. According to those decisions, Turkish Lira was devalued; the control over the foreign exchange rates was released and the prices of State Economic Enterprises' goods were increased. Regression started in the production of industry goods and this situation continued at the beginning of 1995. With the beginning of the second quarter in 1995, uncertainty decreased and by the awakening of the demand in the country, increase in the industry goods' production was observed. As a result of Turkey's signing the Customs Union Agreement, the cost of imported goods decreased ("Türkiye Ekonomisindeki Gelişmeler", 1996)¹⁶. Because of the high demand in the local market of the country and the low growth rate of OECD countries, the growth

¹⁶ <http://www.tcmb.gov.tr/research/yillik/96turkce/yrapor2.html> Consulted 12 May 2009.

of export rate slowed down. Turkey's signing the Customs Union did not become effective at the beginning, the income gained from the exports was limited and the reason for this limited increase in export incomes was also because of the shuttle trade made to the old USSR countries which was not recorded.

The rapid growth observed in Turkish Economy continued until April 1998 and this rapid growth ended as a result of some factors which would contribute to the capital flow out of Turkey. As Selçuk and Ardiç (2006: 16) discussed, these can be listed as the economic crisis that started in the Russian Federation and the decrease in the global demand due to the economic crisis in Southeast Asia in 1997. They also include the difficulty in financing the excess capacity that is formed due to investments made after Turkey signed the Customs Union Agreement with Europe because of decrease in demand both in and out of the country. Due to the decrease in the demand both the increasing rate of export and import decreased. Thus, export's coverage ratio increased and the foreign trade deficit's increasing ratio decreased. When the effect of the devaluation in Southeast Asia is examined, it is seen that the export of Turkey to these countries decreased and the imports from those countries increased but overall any negative change was not observed and in fact, Turkey's export to Organization for Economic Co-operation and Development (OECD) countries increase 5,6 % in the first eleven months of 1998.

The second important factor that affected Turkey's foreign trade negatively was the financial crisis happened in Russia in 1998. As Selçuk and Ardiç (2006: 10-16) laid out, in 1997, Russia was the second state that Turkey imported goods after Germany. But exports to Russia decreased 35.3 percent between January and November 1998. In addition, the financial crisis in Russia negatively affected the shuttle trade. In 1998, hot money exited out of Turkey and the interest rates

increased. As a result of the capital that fled Turkey the growth rate decreased. As a result of those, in 1999 Turkey approached IMF for agreement and diminished the burden of financial crisis. In the December of 1999, Turkey signed a Standby Agreement with IMF. The initial phase of the program was successful in reducing the interest rates and slowing down inflation which in turn led to increased consumption of consumer durables. However the overvaluation of the exchange rate and lower real interest rates led to increased imports of consumption goods as well as intermediate goods. Increased world oil prices and the depreciation of the euro against the US dollar were the developments in the international markets that had adverse effects on the trade balance.

After examining the economic processes in 1990s, to examine the businessmen's influence in this period, I turn back to TUSIAD again. As I highlighted in the previous two sections, TUSIAD's development can be divided in three periods with 1990s' composing the last period. TÜSİAD's approach during 1970s and 1980s were motivated by economic considerations, however in the 1990s, the TÜSİAD's evolution marked a departure from those phases. In 1990s, TÜSİAD turned its activities to an explicit agenda for democratization, proposed several legal and constitutional reform proposals. On the other hand it also continued its interests in economic issues too. It went on to display interest in issues such as state finances, the implementation of the customs union agreement. In the change of the institutions' policy, there was the role of external environment such as Soviet Union's collapse, spread of democracy, increasing emphasis on democracy and human rights of the European Union as a precondition for full membership. Those influenced the perception of business leaders and lead TUSIAD to lean on those issues. In addition, TÜSİAD sought to check the power of the state and render it more transparent and

accountable. Also the businessmen's relations with internationally competitive firms had increased and therefore predictable economic and legal environment were also essential for the businessmen. All those issues were the reasons of TÜSİAD's engaging in democratization processes as well as economic issues (Öniş and Türem, 2002: 444).

The 1990s witnessed the rise of another group of private sector which was based on small-scale, family enterprises in certain towns such as Denizli, Gaziantep and Şanlıurfa and those groups were receiving little or no subsidy from the state. Because of their success, they were labeled as the 'Anatolian Tigers' and they were seen as part of the expanding 'flexible production system'. In those firms, the people who work are unskilled and they work for low pays and they are unorganized. According to a survey held by Köse and Öncü (1998) among the employers 46 per cent were having primary schooling with only 15 per cent having a college degree. Also as they reported hierarchical family rule is the main managerial system in these enterprises, with only 14 per cent having managers on wages and salaries (Sakallıoğlu and Yeldan, 2000: 499). Those industrialists came together and formed Independent Association of Industrialists and Businessmen (MÜSİAD) in 1990. MÜSİAD grew rapidly to include 3000 member companies, and became the representative of small and medium sized firms from various regions. After the establishment of MÜSİAD two distinct groups of business associations (TÜSİAD and MÜSİAD), according to their economic activities, ideological orientations, lifestyles emerged in Turkey. MÜSİAD was an anti-Western and Islamist oriented business association and it developed close links with the Islamist Welfare Party (RP) and became influential during the mid 1990s. Its influence reached a peak

during the short-lived coalition government in which the Welfare Party and the True Path Party (DYP) participated as the dominant and the minor partners, respectively.

MÜSIAD's fortunes were damaged following the collapse of the coalition government in July 1997 and the subsequent prohibition of the Welfare Party in January 1998. The military also influenced this process and exercised a powerful influence. Following the so-called February 28 process, the activities of business establishments with close links to MÜSIAD came under the increasing scrutiny of state agencies, and this resulted a relative decline in membership toward the end of the 1990s (Öniş and Türem: 2002: 448).

MÜSIAD demanded larger government incentives and financial resources to small and medium sized enterprises on the economic perspective and in terms of the political perspective it pushed for the enlargement of religious freedoms and challenged the character of the Turkish state. Unlike TÜSIAD, it was not concerned with the issues relating to civil and individual rights and had a strong antiwestern rhetoric unlike TÜSIAD.

Resuming the thread of my discourse from the economic issues of Turkey, in the year 2000 in terms of the fiscal side the IMF's program which was explained previously failed to achieve its goals which led the IMF and the World Bank to postpone the delivering of funds in the second half of 2000. In the meantime, the inefficiencies and increased risk in the banking sector resulted in increased interest rates and reduced confidence in the financial markets. The slow pace of government in undertaking the necessary steps to solve the financial problems of state owned banks and to implement other reforms, the lack of consensus and action in terms of privatization, the record levels of the current privatization, the record levels of the current account deficit due to appreciation and negative domestic real interest rates,

the deterioration of relation between Turkey and the European Union and political instability are among the factors that contributed in this reduced confidence. In addition, the history of unsuccessful stabilization programs made it more difficult for the authorities to build up credibility, and the inability to deal with the fundamental problems of the economy resulted in an erosion of credibility (Selçuk and Ardiç, 2006: 17)

In November 2000 a short lived crisis occurred and in two days the overnight interest rates increased while the international investors started to get out. In order not to give up the parity, the Central Bank used its reserves to meet the increased demand for foreign currency. Later the central Bank announced that such an action would not be repeated but this only increased the interest rates. In December 2000, the IMF supplied extra funds which provided temporary relief. The reserves of the Central Bank returned its pre-crisis level as a result of the short term capital inflow to the economy for a while. Nevertheless, there were still concerns about the developments in the economy. In the end, the adverse political developments of February 2001 triggered another crisis and led the Central Bank to finally abandon the parity (Selçuk and Ardiç, 2006: 17).

This crisis, on February 19, 2001, was triggered by domestic political issues and led to an 18% drop in the stock market and the loss of approximately one- third of the total official reserves of the Central Bank in one day (USD 7.5 billion). When the Central Bank refused to provide Turkish Lira liquidity to the two state banks that were not able to meet their obligations of other banks the following day, the banks were forced to give up USD 6 billion foreign exchange buying contracts with the Central Bank. The daily average overnight interest rates shot up to (simple annual) 2000 percent on February 20, and 4000 percent on February 21. The government

could not resist and dropped its exchange rate controls early February 22 and the TRY/USD exchange rate went up 40% in one week. Monthly inflation was 10% and 14% in March and April of 2001 respectively. The government prepared a new letter of intent to the IMF, emphasizing a major overhaul in the banking system and a promise of further acceleration of structural reforms outlined in the earlier letters of intent. On May 15, 2001, the IMF approved this revision of Turkey's three year Stand-By arrangement by USD 8 billion with an understanding that the country moved into a floating exchange rate regime, and would stick to that policy. As a result of the crisis, The Central Bank tried to reestablish the confidence and contain volatility in financial markets and pursued an implicit inflation targeting policy in a free floating exchange rate system (Selçuk and Ardiç, 2006: 18-19).

The IMF involved with the macro management of the Turkish economy both prior and after the crisis, and provided financial assistance of \$20.4 billions, net, between 1999 and 2003. Following the crisis, Turkey raised the interest rates and maintained an overvalued exchange rate. The government followed a contractionary fiscal policy, and promised to satisfy the IMF demands: reduce subsidies to agriculture, privatize, and reduce public sector in economic activity. The post-crisis economic and political adjustments were overseen by the newly founded *Justice and Development Party* (AKP) which came to power enjoying absolute majority in the parliament in the November 2002 elections. Although AKP maintained the pro-Islamic political agenda, the party distanced itself from the previous "national view" of the Turkish Islamic movement. The party's aim became friendly towards the West, ready to business with the global finance capital and willing auctioning of the strategic public assets to the trans-nationals (Yeldan, 2006). In economic terms, the AKP government committed to the IMF program and this helped the process of

economic recovery from the deep economic crisis that Turkey experienced in 2000 and 2001. As a result, inflation rates fell to their lowest level since the early 1970s. Furthermore, the government aimed the EU membership and associated reform agenda, both on the economic and democratization fronts. This helped to inspire confidence among domestic and foreign investors (Öniş, 2004: 2).

In the AKP's electoral support, small and medium-sized business units, falling under the umbrella of a major nation-wide business association played a crucial role. Indeed, the active support of the MÜSİAD was an important factor in the rise of the Welfare Party in the mid-1990s. The support of small and medium sized enterprises continued in the rise of the JDP as well.

TÜSİAD was satisfied with the AKP government's performance especially in terms of improvement in the macroeconomic performance of the Turkish economy and for the commitment to fiscal discipline as a key ingredient of stability. Also TÜSİAD was satisfied with AKP's promoting EU membership. Although MÜSİAD played an important role in the electoral support of AKP, the association had a critical attitude towards government's economic performance. MÜSİAD was happy with the achievements in terms of fiscal stability, control of inflation and recovery of the economy after the crisis but the association was not satisfied with the government's dependence on short-term capital inflows and large account deficit (Öniş, 2004: 20).

AKP government reached consensus with the IMF in 2004 and the new stand-by agreement was formed. The program officially declared a bundle of policies that aimed at checking increases in both domestic and external debt and channeling the country again to the path of "stable" growth (Yeldan, 2006). However MÜSİAD believed that it would be more appropriate for Turkey to adopt an independent way

of stabilization and reform when the agreement with the Fund ended in February 2005. However, TÜSİAD's view was different and for them IMF was necessary for the crisis-free development of the Turkish economy. MÜSİAD was critical of the government's approaches and believed that the AKP government put emphasis on financial sector stability at the expense of the development of the real economy. For example the government's putting tight set of regulations imposed on bank lending by an autonomous regulatory agency such as Banking Regulation and Supervision Agency (BRSA) was that kind of an example.

The underlying reasons behind the distinct difference in these two organizations can be explained in terms of big and small-medium size businesses' finding themselves in different structural locations in terms of their positioning with respect to the globalization process. For the big businesses, stability matters but for the small businesses continued growth and competitiveness necessitates access to both bank finance and state resources. On the other hand, some big businesses have their own banks or they have the enough reputations to borrow without problems (Öniş, 2004: 23). Therefore it is normal for those two different groups of businesses to give different reactions to those policies since their expectations differ.

Among those two different kinds of business associations, as explained in the previous sections, the founder of the Koç Holding, Vehbi Koç was also among the founding members of the association. He used to be the chairman of high advisory council between 1971 and 1979. Later, Rahmi Koç between 1990 and 1994 became the chairman of high advisory council and now Mustafa Koç continues in this position since 2005. This is important to show how Koç Holding's views are in harmony with the associations' views. There used to be and there are times when the government's policies are harshly criticized by the TÜSİAD members.

For instance that kind of a criticism to the government could be seen in the last global financial crisis of 2008-2009. Before explaining the criticism, it would be better to talk about the crises and its effects first of all. The financial crises occurred when investors lost their confidence in value of securitized mortgages in the United States and resulted in a liquidity crisis. The crisis deepened in September 2008 as stock markets worldwide crashed. Turkey was also affected from the crisis. The export markets and local markets shrank and the sectors that experienced high amounts of production and spread in the local market and export degrees became inactive. When Turkey's export rate in the first two months of 2009 is compared with 2008, an amount of 10 billion \$ decrease is observed. In 25th February 2009, the amount of regression was explained as 31.1 %. The expectation for the end of the year was declared between 93-95 billion dollars. The most important reason for the decrease in Turkey's export amount was lack of demand in the European Union market. Last year 55% of Turkey's export was composed of the European Union market and according to the data for the first two month of this year's data the amount decreased to 48%. Especially the regression in Germany and England caused problems for exporters. With this financial crisis Turkish exporters came across with another problem which is the lack of cash and problems in finding credit. 60% of Turkey's export is bound to exports which means every 100 TL cost of export is composed of 60 TL imported raw materials and other inputs. This situation formed a problem for exporters in terms of cash when they had to order goods to respond immediate demands (Aydın, 2009)¹⁷.

The chairman of high advisory council Mustafa Koç criticized the government. He accused the government for denying the crisis and not taking

¹⁷ http://www.capital.com.tr/haber.aspx?HBR_KOD=5226 Consulted on 31 August 2009

cautions for maintaining the markets' confidence. He also criticized the government for delaying agreement with the IMF. In addition, the current president of the board of directors of TÜSİAD, Arzuhan Yalçındağ criticized the government in terms of the relations with the European Union and declared that they were not happy with the relations in the last three years (TÜSİAD: Küresel kriz Türkiye'yi teğet mi geçti, yerle bir mi etti?, 2009)¹⁸.

Returning back to the Turkey's economic issues starting from 1990s, as I have explained above there used to be several economic crises in 1994, 1997, 1998, 2000, 2001 and 2009. Also it would be appropriate to highlight how those crises affected Arçelik, since those crises are influential in the company's internationalization process. For instance after the crises in 1994, the company opened its production plant in Tunisia. In addition, Arçelik bought the Romanian Arctic brand in 2002 after the 2001 economic crises and additionally the company decided to make investments to Russia in 2004 and in China in 2007. From the investments of the company it can be grasped that in order to reduce the effects of market volatility, the company chose to diversify their markets.

In this section I analyzed the Turkish economy starting from 1990 till today by highlighting the important economic events and their effects on the economy. In addition the different two groups of bourgeoisie namely the businessmen forming TÜSİAD and MÜSİAD and their attitude towards the policies are explained. As explained above during this period, the Turkish economy witnessed several economic crises in 1994, 1997, 1998, 2000, 2001 and 2009. Among those crises some were resulted from Turkey's economic and political conditions and some were

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<http://www.radikal.com.tr/Radikal.aspx?aType=RadikalHaberDetay&ArticleID=918274&Date=23.01.2009&CategoryID=101> Consulted on 29 December 2009

caused as a result of the international economic crisis's effect. As a result of those crises, the growth in the Turkish economy eroded and foreign trade, export percentages were also negatively affected as exemplified above.

3.10 CONCLUSION

In this chapter, I aimed to examine the formation of Turkish bourgeoisie, the transformation of the class and the struggles, the incentives they met in their businesses respectively. At the same, while explaining those I also highlighted Koç Holding's attitude toward the economic and politic processes.

First of all, I highlighted the period when Turkish bourgeoisie formed and I examined the trade and business in the Ottoman Empire. Later, I explained the shift of the bourgeoisie from non-Muslims to Muslims and introduced the state's policies for this transformation process. Later on I explained the state's efforts in supporting business life by establishing special institutions or putting special acts into force. Some of those acts were both strengthening the newly emerging national business environment and some were harming the non-Muslim business groups while strengthening the Muslim like the wealth levy. As I highlighted, 1950s played an important role in the formation of today's bourgeoisie as a result of the Muslim Turks' taking the control over the lands and factories which were left by forcefully migrated Armenians.

After the formation of the Muslim Turkish bourgeoisie was accomplished, this time the class started to become effective and influenced the policies. As explained in the previous sections, after military's grasping the power in 1960, İnönü attempted to take recommendations of Koç about the formation of policies in 1962. After military's grasping the power second time in 1971 and elections were resulted, Koç

showed his influence explicitly declaring his wishes for the formation of coalitions. In addition to those, after military grasped the power for the third time, Rahmi Koç was among the businessmen who supported the coupe since the junta was capable of working faster for passing legislations. As it is evident, after the state maintained the Muslim Turkish bourgeoisie's formation, they started to declare their wishes about the policies and even influence them.

Another important thing that I tried to express in this chapter was Turkish economy's opening to other markets. As highlighted, Turkish economy followed a more export oriented strategy especially by the Özal era. Koç and other businessmen like Sabancı were favored by the political economy of 1980s since they were strong enough to compete with foreign rivals compared to small entrepreneurs. With the Özal era, Turkey's economy became more export oriented and more in contact with the other countries' market.

In addition to those, I also explained the formation of two different business associations namely the TÜSİAD and MÜSİAD. I highlighted how they form different bourgeoisie classes considering their economic and political views.

During this chapter, I also stressed an era in which several economic crises were observed and I highlighted those crises' effects in Turkey's economy. When Turkey's economy is examined, starting from 1990, the effect of Gulf Crisis could be observed with its negative effect due to the increases in the crude oil prices and the other goods' prices increase bounded with this situation. After the Gulf War, Turkey's economy witnessed an era in which series of financial crises observed in 1994, 1997, 1998. Those crises affected the foreign trade of Turkey negatively and with the crisis that Turkey experienced in 2001 a new crisis emerged and Turkey adopted a growth strategy that depended on export. This caused Turkey's economy

to adopt more export oriented strategy whereas with the last crisis in 2009, the export rate of the country decreased and the business environment was affected negatively because of the crises.

CHAPTER 4

KOÇ HOLDING, ARÇELİK AND THE INTERNATIONALIZATION PROCESS

4.1 INTRODUCTION

In this chapter I examine the history and development of Koç Holding and separate its development according to determining factors such as political, social and economic. All those sections that explain the political, social and economic reasons' effect on the company's development enclose outstanding periods in the company's history such as Koç Holding's early history, relations with foreign companies, the company's modernization and the important developments in the company's recent history. Later in the second part I examine Arçelik and separate the company's development in the same line with the Koç Holding. I examine the establishment, development, internationalization process of the company by categorizing them according to economic, political and social factors' influence and evaluate their importance in the firms' investment decisions and development.

4.2 POLITICAL FACTORS IN THE EVOLUTION OF KOÇ HOLDING

Since the environment (minorities' holding the commerce) in which Vehbi Koç started to engage in business is a result of the previously policies (previously given

privileges) I found it appropriate to initially examine Vehbi Koç's engaging in business under the effect of political conditions.

The story of Vehbi Koç is a source for reflecting the conditions in which a new generation of businessmen emerged in Turkey. Vehbi Koç was born and raised in Ankara, a city of 30,000 in which the most prosperous families were members of non-Turkish minorities like Jews, Greeks and Armenians. As it is clear from Koç's memoirs at that time Turks were not known as big entrepreneurs while the non-Muslim minorities were holding the commerce in their hands.

In 1917, Vehbi Koç persuaded his father to establish a small grocery store in Ankara with a 120 TL investment (Koç, 1983: 15). After the establishment of the grocery store, he went on to observe the types of businesses minorities were in and wanted to get involved in the stout leather business (Dündar, 2006: 40). He agreed with a non-Muslim sales manager named Mr. Kosti and learned this business from him. Although he was successful in this business, he was looking for new job opportunities and therefore decided to engage in the hardware business in which, Jewish businessmen were active in those years. He did not have any experience in that business either and agreed with a non-Muslim salesman named Hiya Emalki who was experienced in the hardware business.

The story that I have counted so far is important in reflecting Turkey's business environment at the time. As explained in the second chapter, in Turkey most business was executed by non-Muslims, and the traders consisted of members of non-Muslim minority groups. Although the emergence of the Muslim businessmen occurred around WWI, they didn't have an important influence compared to the Armenians and Greeks. For instance, in 1915, among 264 factories, only 42 belonged to Turkish Muslims, 22 belonged to the government, 28 belonged to corporate firms and 172

factories were belonged to non-Muslim businessmen (Toprak, 1982). From Vehbi Koç's story, it can be grasped that he was aware of the minorities' dominance in commerce and was in touch with them in the businesses that he wanted to specialize in as they were experts in particular business types. Therefore, Koç's engaging in business with the non-Muslims is a result of the business environment and the dominance of the non-Muslims in the business environment is a result of previously policies that gave special privileges to non-Muslims as explained in the previous chapter. After the establishment of the Republic of Turkey in 1923, Vehbi Koç became one of the Turks that challenged the trading power of Turkey's Greek, Armenian and Jewish minorities. The special incentives, policies for supporting Turkish national bourgeoisie prepared the way for Koç to do this. For this reason, again Koç's emerging as a challenger to the non-Muslims' trading power is again a result of the state's policies that support the emergence of Turkish national bourgeoisie. Therefore, it is clear that in the early history of Koç's engaging in business the political conditions play an important role.

Another significant period in which political conditions were effective in Koç Holding was along with its relations with foreign companies. During World War II, Turkey was a neutral power until the end of the War. In those years, Turkey's economy was growing but in the 1940s the government started to discuss an act that would give incentives to the government to intervene in the economy as a precaution for probable problems caused by the war. Those discussions were related to the nationalization of exports and imports; however, the foreign trade relations could not nationalized due to opposition, but the state limited some of those relations (Buğra, 2007: 165). Because of those government interventions, Koç experienced a significant disruption in its international trading business. As it is clear, Koç

Holding's experiencing disruption in its international trade relations was a result of the government's taking precautions because of problems that war could cause. Therefore under the government's taking caution and the Koç Holding's being affected from this process lies the political conditions' role. As a result of a political decision the government limited some of the foreign trade relations and international trading business of the company was disrupted. Similarly, another political factor played a role in Koç Holding was in 1943, when the war was continuing. Koç predicted that the war would end with a US victory. As a result trade would be free, and the opportunity to engage in business with US firms would be easier given a damaged Europe after the war. Therefore, Koç decided to secure some firms' dealerships and managed to purchase some other US firms' dealerships such as General Electric, U.S. Rubber, Olivre, Burroughs and York. Also again under the decision of Koç's securing the American brands again laid the political conditions since Koç predicted a damaged Europe because of the war and chose to buy US brands instead of the Europeans.

In addition to aforementioned situations, Koç Holding had hard times due to the European Union's Customs Agreement. Vehbi Koç was a proponent of free trade and Turkey's membership in the European Union Committee. Even the European Union's 1995 customs agreement, which aimed to prevent high customs among the member countries, provided a protection for the company with its "sensitive sectors" exemptions. With Koç's intensive lobbying, one of those exempt sectors was used automobiles which could have caused trouble for the company's Tofaş brand. Later, the protectionist policies of Turkey on the economy eroded and there was pressure on the country's automakers. In 1996, a Turkish parliament measure allowed Turks working abroad to purchase imported cars free of duties. Although Koç supported the

free trade and although the company was under protection with “sensitive sectors” act, as a result of a change in act Koç Holding had hard times. Therefore in this situation the political factors became influential in the Koç Holding’s having difficulties.

In this part I highlighted the importance of political conditions in the history of Koç Holding and those aforementioned ones are the conspicuous examples of the political conditions’ effect in the history of Koç Holding.

4.3 THE ROLE OF SOCIAL NETWORKS IN THE HISTORY OF KOÇ HOLDING

In addition to political factors’ role in the establishment, and development of the company also social factors have some significant roles. In this part, I will highlight the role of social factors starting from the very beginning and lay out the significant ones continuously.

As explained previously, Koç engaged in several businesses before he emerged as a significant businessman. At the time of his involving in hardware business, he used to sell building materials like cement and tabs. At one point he brought Marseille style tiles to his shop. During a strong storm in Ankara, people took refuge started to hide in the shop and a Turkish Assembly’s bureau manager was among them. He saw the tiles in the shop and decided to buy the needed tiles for the repair of the Assembly’s roof from Koç, leading Koç to later trade tiles and earn high profits (Koç, 1983: 42). In the meanwhile, Koç started to engage in the construction business and was involved in the construction of electricity and lift installation of the Ankara called Ankara Numune Hospital in 1932. In addition, Koç’s engagement in the construction business is also important in revealing the coincidences’ importance

in business. If the bureau manager of the Turkish Assembly had not hid in Koç's shop, he would not have seen the tiles and would not choose to buy the tiles from him, later inducing Koç to engage in the construction business. In this event, the social relations' importance can be seen easily by Koç's maintaining a friendship bound with the assembly bureau manager. As a result of this relationship Koç had the opportunity to involve in repairing of the assembly's roof and this opened the gates of Koç's involving in construction business. Therefore the role of social relations in Koç's initial steps to engage in business has a crucial role.

Apart from the social relations' role in the very early years of Koç's involving in business, there used to be times that social relations had effect in the company's maintaining relations with foreign companies. In 1943, he met with an engineer who wanted to go to the U.S. and work for the Koç Group and Koç decided to employ him to create connections with U.S. firms. He managed to obtain connections with U.S. firms like General Electric, U.S. Rubber, Olivre, Burroughs and York and purchased their dealerships. With those dealerships, the Koç Company maintained its first contacts with reputable multinational corporations. Therefore as a result of the connections that the employed engineer maintained with the U.S. firms, Koç group purchased the U.S firms' dealerships. In this situation, established relationships played an important role in Koç Groups' purchasing brands and this shows the importance of social relations in the Koç Group's connections with the foreign firms. In 1945, the general manager of Koç Company Fazıl Öziş decided to visit the U.S. in order to participate in the meeting of the International Chamber of Commerce, and after this trip, Koç decided in 1945 to establish a firm in New York called "Ram Commercial Corporation". Since Öziş's visit to the International Chamber of Commerce was as a result of the Koç Group's purchasing U.S. brands, therefore in

Koç's deciding to establish a firm in New York lies the company's previously having connections with the U.S. firms. For this reason, in the decision of the company's establishing a firm in New York the effect of social relations could be observed. However later when Koç later realized that the expected profit could not be made, he closed the firm in 1954.

Also there used to be times social relations were effective in company's development especially in the modernization period of the company. After Vehbi Koç decided to gather together the different firms that he established under Koç Holding, he had to observe other counterparts' structure like firms from the U.S or Europe. As a result of the observations, the managers of the company were also chosen among people who were educated at Western European and American universities and business schools. Therefore, those managers brought to the company the latest managerial skills and strategies. This situation can be evaluated as a business- business type of relationship since the organizational structures of different firms are examined. This strategy of Koç Holding can be evaluated as normative isomorphism also. As discussed in the previous chapter, normative isomorphism occurs when organizations are staffed by professionals. As highlighted previously, DiMaggio and Powell discuss that, while different kinds of professionals take place within an organization, they can show similarity in their professional counterparts. As they have discussed when organizations in the same industry hire individuals through the recruitment of fast-track staff from a narrow range of training institutions or through common promotion practices, the staff has similar specialties. Therefore, holding's decision makers' choosing the managers of the company among people who were educated at Western European and American universities and business schools, is an example to normative isomorphism.

Aforementioned cases lay out the importance of social relations' in the Koç Group's emergence, development and relations with the foreign firms. As it is exemplified, those established social relations initially had an important role for the company's engaging in construction business and achieving reputation. Later, also in the company's getting the dealerships of U.S firms and establishing a firm in the U.S. the role of previously established relationships had a crucial role. Apart from those, also in the company's shaping its inner structure, the role of relations with the similar firms can be observed.

4.4 THE ROLE OF ECONOMIC FACTORS IN THE KOÇ HOLDİNG'S HISTORY

Above the role of social and political conditions in the company history is highlighted. In this section I will lay out the economic factors' effect in the company history which has a significant role in every period of the company.

Koç decided to engage in automobile industry in 1928 since he realized that involving in this business would be profitable and believed in the future success of the company. At that time cars were rare in the country. After WWI, during İstanbul's occupation Americans were selling automobiles and trucks of Ford, Chevrolet, Studebaker brands in Sirkeci Port under the name of a corporation called American Foreign Trade. After the Independence War, Turkey's commercial relations expanded and this was reflected to the automobile industry too (Nahum, 1988: 23-25). In those years Vehbi Koç's father bought a car and rented it to a taxi driver. In a short time the driver repaid a substantial part of the purchasing price and he became the owner of the car. Vehbi Koç realized that the automobile was very popular in those years and the demand for it was very high. At that time, Ankara's

Ford dealership was bounded to İstanbul and Ford officials were looking for a separate distributor for Ankara. They spoke to Koç and said they wanted to give the Ford distributorship for Ankara and would select him, if he cooperated with someone familiar with the business, rent a garage and set up an independent store. As he fulfilled the conditions, their agreement was completed in 1928. Koç became the local agent for the Ford Motor Company and worked to expand the agents throughout the country. As it is clear from this short story, under Koç's engaging in automobile industry the foreseen profitable earning played an important role. Therefore economic factors pushed Koç to engage in automobile industry.

In addition to the Ford Motor Company, Koç entered into a partnership with Standard Oil Company in 1928. Similarly, in Koç's engaging in business with that company again the profitable earnings played a significant role. According to the memoirs of Vehbi Koç, there was not much consumption of oil in the 1920s and all the needed oil was imported and sold in tin plate boxes. Grocers obtained the oil from two companies called Standard Oil Company and Neft Sendikat. Koç wanted to have a dealership of Standard Oil Company, but the dealerships in Ankara were already taken. As a result Koç looked for a dealership of an oil company which was not in Ankara yet and agreed with Steaua Romana Company and brought this company's oil to Ankara. He started to sell high volumes of oil and attracted the attention of Standard Oil Company and Neft Sendikat. Those companies regarded him as their rivals, and Standard Oil Company proposed that he sell their oil after purchasing it from their dealership. At first, Koç did not accept this offer, since he wanted a separate dealership of the company. But he later accepted because of the company's reputable brand and because of the probability of taking the dealership. Later, the manager of Standard Oil, Mr. Wiley reported that the only dealership of

the company was given to Vehbi Koç. At the end, Koç managed to reach his goal by becoming the only dealer of the company in Ankara (Dündar, 2006: 39). Therefore, in the Koç's engaging in economic activities with foreign companies, economic factors laid as push factors. When the company realized the profitable earnings in the automobile industry and oil company dealership relations were established. Therefore economic factors pushed the company to engage in those different businesses.

In addition to those, in the emergence of the Beko brand also economic factors played a significant role. In the 1950s when Turkey had started to industrialize, Vehbi Koç was in search of a new business to gain foreign currency, since Turkey was short of foreign currency. Similarly, the emergence of the Beko brand dated back to those years. It was established as a result of Koç's partnership with Bejerano a businessman who was experienced in tomato paste and canned food business. The name of the company was chosen as Beko, which was a combination of the first two letters of Koç and Bejerano, and it was established in 1954. As it is clear, the emergence of the Beko Company resulted from Koç's search for a new business to gain foreign currency. For this reason in the establishment of the company economic factors played a significant role. But since there was a huge tax burden in commerce and industry (Özbudun, 1966: 19) in those years, the company could not start its operations. Then, when an opportunity emerged for the dealership of General Electric bulbs, the name of the canned food company was changed to Beko Ticaret A.Ş. Vehbi Koç thus became the first person to establish a dealership system in Anatolia and began to deliver Arçelik products under the Beko dealership. After Arçelik transferred its Arçelik dealership rights to Atılım in 1977, Beko Ticaret began to operate in the field of household durables under the brand name of Beko in

1983. Later, when the Koç Holding Durable Consumer Group started to engage in overseas activities in the 1990s, Beko was chosen as the export brand (Beko Tarihçe)¹⁹. Similarly as in the emergence of the Beko brand, also in the Beko's serving as a dealership of General Electric bulbs laid its inability to involve in canned food business as a result of huge tax burden in commerce and industry. Therefore economic conditions played a significant role. Later, as result of an opportunity as highlighted, Beko diversified as explained.

As the number of the companies that Koç owned increased Vehbi Koç wanted to gather those different firms under a new organization. By doing so, the management, control of the companies would be easier to follow fiscally. As Koç discussed (1983: 95,96) he had some difficulties in the separate administration of those companies, and in order to strengthen their connection and ensure that they were administrated by modern administrative principles, he established the Koç Holding in 1963. According to the memoirs of Vehbi Koç, he had examined several big companies before he decided to establish the holding. As he had noticed, several multinational companies like Ford and Siemens started as family companies but when they enlarged and needed capital, they transformed into incorporated businesses and their shares were sold in international exchange markets. Before he established the holding he had exchanged ideas with the executives of other multinational corporations in Europe and the U.S and the holding's structure was examined by an expert called Dr. Treuenfels. According to the memories of Vehbi Koç, the Koç family decided to transfer the shares of the other Koç companies to the new holding and to give shares to his business colleagues also (Koç, 1983: 96). Therefore the holding became a public incorporated company. The Koç family came

¹⁹ <http://www.beko.com/TR/TR/tarihce.htm> Consulted 20 June 2009.

across with an obstacle to implement this structure. That was the corporate tax. Under tax law when a company had a partnership with another company, two of them had to pay separate taxes. In 1961, the problem with the corporate tax was solved when the double tax obligation was abolished and in December 1963, the family established the holding. In 1966, the first public stock offering of the company was executed. As a result the companies' capitalization increased. As discussed above the idea of bringing together the firms was a result of the increasing number of the firms Koç owned and simplifying its administration and control fiscally. Therefore economic factors were significant in this decision. However, although economic factors played the leading role, also the business- business relations were effective in terms of exchanging ideas with the executives of other multinational corporations in Europe and the U.S in the organization of the holding. In addition, also in the establishment of the holding there used to be some obstacles as expressed because of the tax law in force and the establishment of the holding was accomplished after the problem was solved. Therefore in the establishment process of the holding, although not playing the key role, some political figures were also effective.

In addition to Koç Holding's establishment also in the decision of Otosan's manufacturing automobile, economic factors became important. In 1966, Koç subsidiary Otosan began to manufacture an automobile under the name of Anadolu which was the first automobile manufactured entirely in Turkey. According to the memories of Vehbi Koç he believed in the development of the automobile industry in Turkey since the Ereğli Iron and Steel factory was established in 1965 and would produce the raw material for car production. Koç visited the automobile factories and agreed with FIAT Company. The company was established in 1968, and the factory

opened in 1971. The name of the car that was manufactured was called Murat (Dündar, 2006: 102). In the decision of manufacturing automobile Vehbi Koç's expectations about the development of the automobile industry and the advantage of producing the raw material in Turkey became effective. Therefore this decision also could be evaluated under the influence of economic factors.

Apart from economic conditions' effect on the above mentioned activities of Koç, also in decision of the Koç's establishing a steel alloy plant called Asil Çelik in Bursa, economic factors became influential. Among the strategies of Koç Holding, there used to be ceasing being a net importer. When the companies that import goods purchase material, they usually pay back in the foreign country's currency and companies that have not accumulated enough foreign currency are forced to gather it from commercial or government banks. When the foreign currency reserves are depleted, they are obliged to sell the local currency. This situation depresses the value of the local currency and makes it even harder to import foreign goods. Koç was in the same category as explained, and it imported more than it exported and never accumulated foreign currency. As explained in the company history (Koç Holding A.S.)²⁰, the Koç Group had some problems with foreign currencies, and Koç companies were forced to drain foreign exchange from government accounts. Koç then began to look for products that could be substitutes for the imported goods. In order to produce component parts for Koç group's manufacturing operations, Koç helped establish a steel alloy plant at Bursa called Asil Çelik. As explained in the first chapter of this thesis, the economy in the 1970s was unstable as a result of manufacturing sector's dependence on imports and the foreign exchange regime. With the help of this plant, the company tried to win over the sympathies of the

²⁰ <http://www.fundinguniverse.com/company-histories/Koccedil;-Holding-AS-Company-History.html> Consulted 10 November 2009.

military and politicians who believed it was necessity for Turkey to develop its industrial infrastructure. Although attempts were made to reduce the company's import dependency, the company remained a net importer. The Turkish economy deteriorated and the government foreign exchange reserves were depleted. Koç was able to generate only 10 percent of its foreign exchange needs and was forced to suspend import payments and scale down its operations. Because of the crisis, Rahmi Koç, Vehbi Koç's son, set up a new company agency called "Ram Dış Ticaret" in order to promote exports and internally generate foreign exchange. Koç also won control over Garanti Bank, which was Turkey's fifth largest bank in order to perform international transactions for the Koç Group. In the worst years of Turkey's economic crises in 1977 and 1978, the Koç companies experienced growth and Koç doubled its efforts to promote exports. Yet later Turkey's economic crisis affected Koç directly, and by 1979 the company had stopped growing and 5000 workers were laid off (Koç Holding A.Ş).

From the aforementioned activities of Koç Holding, it can be seen that Koç Holding tried to produce solutions in order to cope with the lack of foreign exchange by producing goods that could substitute for the products that they produced. In addition, the company managers also worked to promote exports and cope with the effects of economic growth by establishing a separate firm. Therefore, in the aforementioned activities of Koç Holding, economic factors played significant role. When the development of Koç Holding in 1980s is examined, the effect of economic changes' can be observed on Koç Holding's structure. However since the economic changes are as a result of the change in government, political issues' effect can not be disregarded also in those economic changes and they are all bounded in each other. On September 11 1980, the Turkish armed forces under General Kenan Evren

seized control of the government and imposed martial law. The military government applied a stabilization policy and therefore restrictions were placed on foreign exchange payments and Koç had to change its business strategies as a result. Some divisions of the group, which were operating at 30 per cent of capacity, had to scale down and some of them even had to be closed down completely. The Asil Çelik steel plant was also affected by this situation; it was later closed and nationalized by the military government. Keeping control over the Turkish economy in order to maintain the return of civilian government, the military government authorized a general election. The leader of the Motherland Party, Turgut Özal, came to power in 1983 and the protectionist trade restrictions were lifted. In accordance with this policy change, foreign companies were permitted to export products directly to Turkey in 1985. Because of this, Koç Holding had to compete with foreign goods that entered into Turkey such as refrigerators, canned goods, office supplies and automobiles imported from Japan and the Soviet Union. Koç Company protested the sudden implementation of a liberal policy by stressing that the change could have the effect of eliminating domestic investment incentives. While at the beginning this situation challenged Koç Holding, later it adapted its goods and was able to compete with the imported goods in Turkey. In this process, maintaining Koç Holding's association with Western corporations became important (Koç Holding A.S.). In this situation, Koç Holding's being obliged to compete with foreign goods was as a result of its maintaining survival. But since the economic policies changed as a result of the government change the political conditions' effect can not be disregarded.

When the Koç Holding's development in 21st century is examined, change in the Koç Holding's strategy is observed. The managers announced their strategy to expand their investment types in several sectors such as retail, construction, health

and finance. In the decision of the company's expanding its investment type laid the company's strategy to expand its branches in several sectors and increase its market share. Although Turkey had experienced a severe economic crisis in 2001 and Koç Holding declared its strategy to maintain its money liquidity (*Koç Holding Annual Report*, 2001), the company made a development by partnering with Norway's Statoil to launch a joint venture in gas marketing. This was also among the company's historical sectors in which it had engaged in its early history. The Norwegian state oil and gas company which used to be a part owner of gas reserves in Azerbaijan advocated gas pipeline that would go from Azerbaijan to Turkey to tap into the Turkish market more effectively. Therefore according to the decisions taken by the Koç Holding management to engage in gas marketing is as a result of the company's considering its economic gains. In addition, although the reasons of company's engaging in oil business are triggered by economic reasons, also it is important in terms of this engagement's reflecting the path dependency. This was explained under historical institutionalists in the literature chapter. As it was emphasized, historical institutionalists believe that sometimes past lines of policy condition prepare the approaching policy by encouraging societal forces to organize along some lines rather than other to adopt particular identities or to develop interests in policies that are costly to shift (Hall and Taylor, 1996: 941).

In Koç Holding's engaging in relationship with the foreign firms also the effect of economic factors can be observed. For instance, in 2002, Koç Holding made efforts to maintain their revenue source from foreign investments due to the stagnation in the Turkish economy. In accordance with this situation, especially Arçelik, the household appliances brand of the Koç group, purchased several brands in Europe. In addition, the energy group of the company purchased a 50% share of

Opet fuel company (*Koç Holding Annual Report, 2002*). In 2003, with Rahmi Koç's passing on the chairmanship of the board of directors at Koç Holding to his son Mustafa Koç, the company continued to seek to increase international revenue in order to decrease its exposure to domestic market fluctuations. For instance, the automotive exports of the company increased by 97%, compared to the previous year and reached \$2 billion. As the company declared in its annual report, activities to capture the opportunities in developing neighboring markets played an important role, like exporting to Iraq and continuing the expansion of its retail chain operations in the Balkans and the Commonwealth of Independent States (*Koç Holding Annual Report, 2003*). In this type of investment also since the company searched for capturing the opportunities in developing neighboring companies and chose to engage in relations with the foreign companies due to domestic market fluctuations, the pushing factors could be evaluated as economic reasons.

In 2004, the Koç Company maintained its strategies to continue foreign investments, declared its plan to make Koç Group one of the leading companies in Europe, and disclosed its strategic plan to generate at least 50% of revenues from international businesses. In order to reduce the effects of market volatility, the company chose to diversify their markets rather than their business lines. Since the company was a market leader there was a limited domestic growth potential which also compelled the company to focus on new markets to achieve economic growth. In 2004, more than one third of the Group's revenue was earned from international business transaction and the total international revenues of the company had risen five times in four years, climbing from \$1.4 billion in 2000 to \$ 7.5 billion in 2004. In addition, during the same period the export revenues had increased from \$900 million to \$ 5.7 billion, which amounted to a yearly 58% increase annually, and the

total share of Koç companies' exports in Turkey's \$63 billion export volume reached 9%, up from 3.3% in 2000. Those numbers are important for revealing Koç Holding's increasing engagement in foreign markets starting with exports and later the opening of plants in foreign companies. In the same year, the company entered into the Chinese market by establishing the radiator factory Demirdöküm and declared that although China was a competitor in local and international markets for low cost manufacturing, it was also an important market due to its population (*Koç Holding Annual Report*, 2004). Those activities of the company in 2004 also reveal the company strategy that economic reasons such as the volatility in the domestic factors triggered the company's engaging in economic activities with foreign firms. In addition as mentioned, in the holding's decision about establishing a radiator factory laid the low cost manufacturing and population which could be categorized as efficiency seeking type and market seeking type of investment respectively.

Also in 2005, the company's diversification and increasing its market share went on. The company entrenched its position in three different sectors through acquisitions. The first of them was the purchase of Yapı Kredi Bank which commanded business lines in credit cards and small- and medium- sized enterprise (SME) banking. The company's establishing a bank simplified the borrowing operations of the company and served that aim. Secondly, the company purchased the super market chain Tansaş and increased Migros's market share. In addition the company's successful bid for the Turkish Petroleum Refineries Corporation made the Koç Group among the important players of the energy sector with Turkey's LPG distributor Aygaz and its fuel retailer Opet. In all of those activities of the company the aim was to increase its market share, diversifying the sectors engaged in and to

simplify the company's economic activities such as borrowing by establishing a bank.

Although Arçelik as the household durables brand of the company will be examined in detail below, since it is a company of the holding I find it appropriate to mention about its activities in this section also. In line with the firm's international growth strategy, Arçelik started manufacturing in the Russian Market and in 2006 Arçelik had a 5.5% share in the Russian laundry machine market with the Beko brand. Another step for Arçelik in terms of internationalization was its exporting strategy to China with laundry machines and dishwashers. Therefore, a sales and marketing company was established in Shanghai, followed by sales in four chain stores and 46 sales points. In addition to Russia and China, Arçelik also continued its presence in Romania with the Arctic brand since 2002. In 2006, the amount of Arctic's share in the Romanian market was 30%. As it is clear from the above mentioned characteristics of Koç Holding in 2006, the outward investment strategy of the company continued to increase every year (*Koç Holding Annual Report, 2006*). The company's international growth strategy went on in 2007 as well. Arçelik started production in China and became the first Turkish company to invest in household appliances in China. As it is clear from Koç Holding's activities in 2007 the company continued its strategy and Arçelik was among Koç Holding brands which were playing an innovative role by becoming the first Turkish company to invest in China (*Koç Holding Annual Report, 2007*).

When the general strategy of the holding is considered, Arçelik's diversifying its investment places can be labeled as a result of economic necessities when its strategy to stay away from the domestic market's volatility is considered. The related reasons will be explained in detail in the next part.

In 2008, the Koç Company prepared an alternative business program based on possible macroeconomic changes because of the economic crises and its concerns that occurred in mid- 2007. Koç Holding pursued its strategic plan to divest from İzocam, Demirdöküm, BOS, Ramenka, Demrad, Oltafl, Migros and Koç Allianz at a time when asset prices had reached their peak. Due to these sales, the company provided funds to finance ongoing expenses as well as new investments (*Koç Holding Annual Report, 2008*). Therefore since the Koç Holding's divest from those brands is as a result of economic crises and funds were provided for investments, the company's strategy to sell those brands can be evaluated under economic necessities.

In this part, I tried to categorize the underlying reasons of Koç Holding's significant investment, purchasing activities and important decisions by separating them in terms of the social, political and economic reasons. Among those categorizations economic factors' influence was very influential in the decisions of the company such as purchasing different brands or investing in other countries. However there used to be some situations in which the company changed its policies considering its survival or profits but their reason to change their strategies depended on the changed economic policies. Therefore although the significant reasons were economic factors there used to be underlying political factors also. In addition although not playing the leading role, there use to be times when social relations were influential in the historical development of the company such as maintaining the engagement of the firm in different sectors and simplifying the company's relations in other countries.

4.5 ARÇELİK: ON THE WAY TO BECOMING A BRAND

My main aim in this section is to categorize Arçelik's activities from the beginning according to the political, social and economic factors' effect on those activities like in the previous section.

Before categorizing the company's development according to those factors, I will first of all talk about the establishment of the company in order to explain how the idea of establishing a household durables company evolved. Later on, I will start my categorization with discussing the economic factors' effect in the company's taking certain decisions in terms of investments, trading with other companies, shaping its structure and I will explain those factors effect in historical order. After talking about the economic factors' effect, I will explain the influence of social relations such as s friendship or established networks and political factors on the company's activities and decisions taken as I mentioned like investment decisions, trading decisions, and relations with the other counterparts or about the inward structure of the company. Also while doing those categorizations I benefited from personal memoirs of the managers, annual reports and newspaper pieces.

4.5.1 Early History

Arçelik was established thanks to the efforts of Lütfü Doruk and Vehbi Koç. Lütfü Doruk, who went to technical school in Germany was engaged in building contractors when he came to Turkey. He had been producing filing cabinets and metallic commodity for archives since 1929. Vehbi Koç was an active entrepreneur especially in construction, when Doruk and Koç first met. They came across in the first years of the Turkish Republic. Lütfü Doruk produced goods under the name of the Erel brand, and he obtained supplies that he needed for the production of bureau

and hospital commodities from Koç Ticaret's Galata branch. They talked about becoming partners and establishing a factory together, however the conditions were not right because of World War II. Koç and Doruk first signed an agreement on October 8th, 1953 to produce metallic goods following a conflict between Lütfü Doruk and Erel factory's other partners. In January 1954, they bought the land for the factory on the shores of the Golden Horn in Söğütözü. The reason why they decided to establish the factory in Söğütözü was because of the hardship in obtaining electricity. The electric cable that they maintained was only reached from Silahtarağa Power House to Söğütözü. Therefore, they had to establish the factory in Söğütözü. Since their technical support was not sufficient Koç and Doruk agreed to partner with company Pohlschröder of Germany. However, as a result of bottlenecks in foreign trade problems in the transfer of goods, the firm broke away from Pohlschröder. Then, Koç wanted to work with Gispel for technical support, but they could not reach an agreement. Finally after the unsuccessful attempts at securing technical support, Doruk and Koç signed an agreement with Burla Biraderler. The company imported office equipments and machines to Turkey (*Mamülatın Markaya*, 2001; *50. Yıl Kurum Tarihi Filmi*, 2005).

After getting permission form the Ministry of Commerce, Erel Çelik Eşya A.Ş was established with seven partners. The partners were Vehbi Koç, Koç Ticaret T.A.Ş, Eli Burla ve Ortakları Komandit Şirketi, Lütfü Doruk, Hulki Alisbah, Nüzhet Tekül and Behçet Osmanoğlu. The total capital of the firm was 1,500,000 Turkish liras. After the firm was established and its credit demand as foreign exchange was accepted by Türkiye Sınai Kalkınma Bank, Lütfü Doruk placed an order for the factory's first machines. Over time, Erel Çelik Eşya A.Ş grew and the need for capital development and a local market increased. As a result of this demand the

partners decided to partner with State Supply Office (DMO). DMO is a corporation that makes purchases to meet the needs of public association and institution with the principle of maintaining the highest standards and quality (Devlet Malzeme Ofisi)²¹. The importance of partnering with DMO was that it gave the partners a guaranteed market. At the end of the negotiations, DMO agreed to become partners, and on 26 May 1956, DMO became a partner with a 15% share. As a result of this partnership, Erel Çelik was guaranteed a market for its goods and DMO had the opportunity to supply metal tables, file cabinets, and other goods to public offices as a producer. It was also important in maintaining the foreign exchange saving since these goods were produced from a local factory. This partnership also has significance as an example of a state partnership with a private firm.

In the second period of 1956, the factory started to manufacture with diminished capacity and closed the year with a deficit. As a result of an 85,000 TL deficit from the previous year due to the building of the factory, and losses as a result of imperfect manufacture, the total deficit of Erel Çelik reached 255,000 TL. According to the memoirs of Mustafa Berker, who used to work as an engineer with Erel Çelik between 1957 and 1977, the production of the firm was based on orders and there was not a standard daily production quantity. In 1957, the company grew, diversified in terms of products and started to produce at full capacity. In addition to the production of metal goods, gas heater and metal construction elements were also produced (*Mamûlattan Markaya*, 2001: 31,32) during this period, Lütfü Doruk's old partner Edip Ossa filed a claim in court to get the Erel brand, although they had orally agreed previously that the Erel brand would be kept by Lütfü Doruk. The partners of the company thought that law suit would take a long time, so they

²¹ <http://www.dmo.gov.tr/Statik/AnaSayfa.aspx> Consulted 2 May 2009

decided not to deal with this process and they changed the name of the company at the shareholders' general meeting on 18 March, 1957 to Arçelik A.Ş.

In this section, I examined the history of Arçelik starting from its emergence as Erel Çelik until becoming Arçelik. From this point, I will explain the activities of the company such as its investments, relations with other companies by categorizing them according to economic social and political determining factors.

4.5.2 THE ROLE OF ECONOMIC FACTORS IN ARÇELİK'S DEVELOPMENT AND IN RELATIONS WITH FOREIGN MARKETS

In this section, I will explain the underlying economic factors' effect on Arçelik's significant activities such as important paces for the development of the company, export relations, investments and similar activities.

Starting with the company's industrialization, Arçelik's first steps to industrialize by producing the laundry machine overlap with the beginning of industrialization in Turkey. This was a time of economic distress in the country: market prices were increasing and foreign trade was shrinking. Turkish imports reached 397 m TL in 1957, down from 556 in 1952, and exports made up 345 m TL, down from 396 m in 1953. Although economic conditions were not encouraging, the company did not stop investing and continued to produce other goods; developed its production capacity; and shifted its production from metal goods to "goods that contained an engine" in themselves. Arçelik produced its first good that had an engine in 1959, and it was a laundry machine. As Mustafa Berker has explained, the parts used in the production of the washing machine such as gears, switches, metal sheets were imported and only bolts and screws were obtained from the local market. In those years, the industry in Turkey had not yet developed. Aydın Boysan, the

architect of the factories in Sütlüce, Çayırova, Eskişehir and Bolu, shares his memoirs about those periods as time when even window glasses were imported from Bulgaria, lavatory stones were imported from Spain, and sanitary goods were also imported from other countries (*50. Yıl Kurum Tarih Filmi*, 2005). As Pamuk explains, in the documentary prepared for the fiftieth year of Arçelik, in the 1950s the country's economy was dependent on agriculture, and Turkey was exporting agricultural goods. As a result of the decrease in agricultural production, and due to the decrease in the prices of agricultural goods all over the world, the exports of the country were damaged. By 1955s, a common opinion emerged among the politicians, bureaucrats and the Army that Turkey's economy should lean on industry. They all agreed that the development of the country would be maintained by a planned program for industrialization also (*50. Yıl Kurum Tarih Filmi*, 2005). This was the period when Arçelik started to produce laundry machine and the economic conditions that Turkey was in triggered the company to produce it. In addition, again the economic conditions such as Turkey's being incapable of exporting goods other than agricultural ones triggered the politicians to agree on the necessity of Turkey's industrialization. All in all, the company's producing laundry machine was triggered by economic factors.

Also, Arçelik managers decided to concentrate on production of consumer durables as a result of DMO's giving up purchasing goods from Arçelik. Under this decision also economic factors laid. There were three reasons for stopping the production for DMO according to Kayakan. The first reason was that the production was maintained in order to find the necessary foreign exchange. Second, production quantity was low, increasing the cost of production. Finally DMO had to obtain the goods from the firm that was selling it for the lowest price. For those reasons,

although DMO was a partner with Arçelik, it started to obtain the goods from the market. Because of this situation, the management thought that Arçelik had to engage in a type of production in which the other firms in the market cannot penetrate. DMO's giving up purchasing goods from Arçelik triggered the decision for concentrating on the production of consumer durables. As a result of this decision, Arçelik started to consider producing refrigerators and agreed with Amcor Limited Firm in Israel. According to the agreement, Arçelik's obtaining technical support from another firm and Amcor's offering technical support to another firm in Turkey were forbidden. By 15 January 1960, this agreement was approved by the Ministry of Finance and Arçelik started to produce refrigerators with Amcor's technical support and support for obtaining goods. Finally, Arçelik produced its first refrigerator on 26 July, 1960. According to the memoirs of Alpay Ressamoğlu, who used to be member of the board of directors representing DMO, owning a refrigerator was a sign of being wealthy in those days. Örsçelik Balkan, who used to be responsible for the service trainings starting in 1965, defines refrigerators as a symbol of social status and says that they were precious commodities at home which only the parents could touch (*Mamülattan Markaya*, 2001: 58). As it can be understood from the aforementioned reasons, DMO's giving up purchasing goods from Arçelik triggered Arçelik to obtain technical support from another firm Amcor in order to concentrate on the production of consumer goods. And under DMO's giving up the production for Arçelik laid economic factors. Therefore Arçelik's having a relationship with Amcor can be related to economic factors also.

Another situation that economic factors triggered Arçelik was the company's taking precautions in order to protect against probable fluctuations in consumer durable goods. Therefore, the company management became interested in the

production of some other goods like scooters, three-wheelers and reapers since their raw material was metal sheet. Arçelik agreed with the Italian firm Innocenti in order to produce three-wheelers and scooters in 1963. The production of reapers started after two years as a result of the license agreement with Epple-Bauxbaum Werke AG firm from Austria (*Mamülattan Markaya*, 2001: 107). At this point the decision to diversify the product line was a precautionary measure against possible distress of specialization in consumer durable. The general manager of Arçelik between 1965 and 1968 recounted that the company engaged in goods other than consumer durables as an attempt to reaching their target growth rate, as the market was not large enough to fulfill their expectations only with the production of durable goods. For instance, their capacity for producing refrigerators was forty thousand; however, this was a huge target for Turkey. Therefore, they fulfilled their expectations by producing products such as scooters, three-wheelers or reapers. However, Arçelik had difficulties about servicing those goods because it was not like a refrigerator or a washing machine service. When the reaper broke down, service staff had to deal with the problem in rural areas, and it was hard to reach those areas. Therefore, Arçelik chose to agree with Agrarian Equipment Association of Turkey (TZDK) and passed the sale and service of the reapers to TZDK (*Mamülattan Markaya*, 2001: 107,108). TZDK is a government institute that was established in 1944 to maintain agricultural necessities like engines and fertilizers for the villagers (Türkiye Zirai Donatım A.Ş.)²² Later, the management decided that producing reapers was not profitable. As a result, eventually the company focused on the production of durable goods. As it is clear, in the company decided to diversify its products because of economic distresses such as their aim to reach their target growth rate, as the market was not

²² http://www.oib.gov.tr/portfoy/zirai_donatim.htm Consulted 1 May 2009.

large enough to fulfill their expectations only with the production of durable goods. Also later in giving up this decision laid the economic distresses.

In addition to those, in the establishment of Atılım which was formed as marketing firm, economic reasons became an important factor. Initially marketing of the company was maintained by the dealers and in addition to them two marketing firms were structured. They were Burla and Beko, which equally shared the marketing of Arçelik's goods. Burla was marketing products other than Arçelik products, and this situation produced some problems. In addition, Beko's capacity was not sufficient to market all of Arçelik's products. The production of Arçelik was increased day by day, and Arçelik needed a separate organization that would focus only on the marketing of its goods due. As a result, Atılım was established, and Arçelik transferred its dealership rights to Atılım in 1977. Therefore economic factors such as high volume of Arçelik's production triggered the need for a separate organization for marketing. As Atılım A.Ş.'s first general manager Ünal Çilingir explained, Atılım's task was to deliver the good, receive the payment, carry the risk of both delivering and receiving the payment (*Mamûlattan Markaya*, 2001: 387-390). In addition, Atılım was responsible for training the dealers. Atılım was composed of four different firms that were; Atılım in İstanbul, Gelişim in Ankara, Hamle in İzmir and Egemen in Adana.

In addition to those, in Arçelik managers' decision to establish a new factory was related with the economic necessities also. As Ünsal Anıl, who used to be the general manager at Arçelik in 1980, explained Arçelik was developing day by day but in order to ensure continued growth, importing of compressors for refrigerators and engines for laundry machines were necessary. The company was having difficulties importing them, since Turkey was short of foreign exchange. As a result,

the managers in Arçelik decided to establish a new factory in İstanbul to produce those products. They partnered with General Electric with a 51% share, İş Bank and Yapı Kredi Bank with a 12% share and kept a 37% share for Arçelik in this factory. The factory, namely General Electric Industry's capacity was limited compared to the firm's developing capacity. Since General Electric was one of the share holders of the firm, the State Planning Organization and other organizations regulating foreign investments did not allow the capacity of the factory to increase. (*Mamülattan Markaya*, 2001: 225-231).

Also, in Arçelik's engaging with foreign companies in terms of export was also related with economic factors. Arçelik first decided to export goods when demand in the local market was satisfied. The foreign exchanges earned through exports allowed Arçelik to finance its imports, since Turkey was short of foreign exchange in the 1960s. Arçelik managers decided to export goods, but since the mostly imported raw materials were heavily taxed, the exports were not profitable. The market that the goods were planned to be exported to was not large enough to ensure profitable earnings from the trade. Therefore state officials decided to remove import taxes from exported goods, but it was a long and detailed process to determine the amount of taxes that would be cut. In this situation Arçelik's engaging with exports were as a result of the local market's reaching its saturation and therefore it can be categorized as a market seeking type of activity. In addition, first of all the company managers considered the neighboring countries for export activities including Iran. When negotiations with Iran were unsuccessful negotiations with Pakistan started. Initially Arçelik attempted to penetrate the Pakistan market by testing a sales goal of 100 refrigerators. However the attempt was unsuccessful because the socioeconomic group who was able to buy them expected the refrigerators to have locks so that their

servants would not steal food. In addition to Iran and Pakistan, Arçelik managers also tried to penetrate into the Bulgarian market with refrigerators, but the Bulgarian people did not have the economic power to buy them at that time. This attempt failed as well. In this situation also, Arçelik's inability to penetrate into the Bulgarian market with the refrigerators is related with the citizens' not having economic power to buy the refrigerators. Also when Arçelik's strategy in engaging export relations initially with the geographically close countries are evaluated according to Dunning's Eclectic Paradigm, it can be categorized as the company's benefiting from the locational benefits.

In addition to the aforementioned activities of Arçelik that are triggered by economic factors, Arçelik's opening a separate export department was a result of economic factors. This was because of increased intensity of activities. In 1988, the company also started to produce equipments and became an original equipment manufacturer for Sears Roebuck for distribution in the Caribbean and Latin America under the name of Kenmore (Root and Quelch, 2007: 8). This development reveals that Arçelik, which used to be a company that imported most of the raw materials from other countries to produce products through assembly, reached the capacity to produce equipment for other brands. Therefore the company's becoming an original equipment manufacturer for Sears Roebuck is triggered by economic factors.

The company's development period continued in the 1990s as well. The dishwashers produced in Çayırova were demanded in high numbers, and the company managers decided to increase the amount to 200,000 dishwashers and then to 300,000 in 1992. But the capacity of Çayırova was not enough to manufacture that many dishwashers so the managers decided to open a new branch for Arçelik according to the administrative manager of Arçelik. At the end of the research

process, four places emerged: Adapazarı, Manisa, Tekirdağ and Ankara. A space large enough to meet Arçelik's expectations was found in Ankara; therefore the factory was established in Ankara. Therefore Arçelik's opening a new plant in Ankara is an attempt for satisfying the demand of customers which could be evaluated as the company's aim to earn more profits with the sales.

Under company's importing technologies from other countries laid economic worries also. In the 1990s, the company increased investment in research and development investments in order to stop importing technologies from other countries and became more competitive among its European rivals. In 1996, when the Customs Union was accepted, customs duties were decreased to zero for foreigners and Arçelik was subject to competition with other brands in Turkey. According to the memories of Mehmet Ali Berkman, who used to be Arçelik's general manager in 1994, the Research and Development investments were especially useful during this period. Arçelik's models were redesigned and started to be produced only by Arçelik's own technology. In this way, Arçelik had the opportunity to compete with its rivals using its original technology and bring the goods up to date according to the rival brands' goods. As a result of this Arçelik's being more competitive among its rivals was maintained.

Also, as a result of Turkey's facing with a serious devaluation of its currency after 1994 Arçelik managers decided to make some strategy changes to guard against the devaluation. Therefore, the managers decided to open an industrial plant outside Turkey and agreed on Tunisia. This plant was Arçelik's first production plant abroad and was built in 1998 (*Mamûlattan Markaya*, 2001: 290-320). Arçelik's decision to open its first production plant in a foreign country was due to economic problems. Likewise, Arçelik's investing in Europe is also related with economic factors' effect.

Arçelik penetrated into the European market more than any other regions' market. When the distribution of sales income in 2008 is examined, Europe has 38% share in the total sales of Arçelik goods, other countries have a 12% share, while Turkey has 50% share (*Arçelik Annual Report, 2008*). Subaşı explained Arçelik's interest in the European market by a small amount of shares' taken in the European market to corresponding to a high volume of sales and profits in Europe than in the other regions. Previously Arçelik used to have a market share of forty percent in the Middle East and North Africa but this used to correspond to a small amount per unit. When in the 1990s, the company shifted its interest to Europe, a market share of one or two per cent meant high volumes of sales for the company. In addition to wishing to maintain high sales volume and profits from Europe, Arçelik had some additional reasons for investing in Europe. Since several well known brands competed in the European market, Arçelik had the opportunity to compare itself with other competitors in Europe in terms of quality, price, and technical resources. In addition, according to Subaşı, transportation was an advantage while exporting into the Europe markets. Since the transporters that brought goods to Turkey did not want to turn back to Europe with empty containers, they provided cheap transportation from Turkey to Europe (interview with Hasan Subaşı on 14 April, 2009). Considering the benefits that Arçelik aimed to gain when invested in Europe, the investment decision can be evaluated as a result of company's considering economic factors.

In addition to the export activities of Arçelik, the company's opening production plants in certain countries is as a result of economic factors also. As mentioned previously Arçelik's initial activities with Tunisia started in 1970 with the state bidding and then evolved into a production plant in 1998, which included purchasing, production, marketing and servicing facilities. According to Kayalı, the

reason why Arçelik managers decided to invest in Tunisia was to get rid of high customs taxes since Tunisia was a member of the Arab Maghreb Union (AMU) in which Algeria, Libya, Morocco and Mauritania are also members.²³ In addition, Tunisia has also attracted investors, since the European Union and Tunisia Free Trade Agreement came into force in 1998 (Yatırımlar, 2002)²⁴. Along with those situations, Arçelik ranked first in terms of its revenue and second in terms of market share in Tunisia in 2000 (Arçelik Tunus'ta Büyüyor, 2000)²⁵. But in 2004, the factory was sold to a local Tunisian firm because the investment was not performing well enough to meet the goals of the company. When Arçelik's decision to invest in Tunisia is examined, the importance of country specific advantages is observed since the investment decision of the company was influenced with the specific advantages that the country had. Arçelik's another type of investing in foreign countries involved purchasing brands. According to Arçelik's general manager Nedim Esgin, Arçelik's main aim was to carry its growth strategy out of the country. Brandt was found appropriate for this aim, since Arçelik would be the third biggest firm in the durable goods sector if it managed to buy the firm in the bidding. Brandt was the fourth largest durable goods producer in Europe and had factories in Poland, Israel, Spain, and France. This presence would enable Arçelik to have production plants in Europe (Arçelik Brandt'la Büyüyecek, 2001)²⁶. Among the firms that wanted to purchase Brandt, there were also the American Whirlpool, the Italian Candy and the Israeli Elco. Arçelik did not succeed in buying Brandt, because Elco's proposal was better

²³ The aim of the AMU was the free circulation of goods and services in member states and the framing of the relationship and regional trade with the European Union (www.dtm.gov.tr)

²⁴ <http://www.musavirlikler.gov.tr/upload/TN/yatirimlar.doc> consulted 30 May 2009.

²⁵ <http://arsiv.ntvmsnbc.com/news/44745.asp> Consulted 16 May 2009.

²⁶ <http://arsiv.ntvmsnbc.com/news/127528.asp> Consulted 16 May 2009.

and got the bid (Arçelik- Beko Brandt'i Alamadı, 2002)²⁷. In the decision of Arçelik to purchase Brandt laid economic factors, because if the company managed to purchase Brandt, the market shares of the company would have increased. Also, under the company's not being able to buy the brand laid economic factors also, because the company could not propose a better proposal.

Arçelik managers did not give up in their efforts to buy brands and in 2002, worked to buy Blomberg which was a Brandt company. Other than Arçelik, there were two Italian firms that competed to purchase Blomberg, but this time Arçelik managed to buy the brand. Esgin said that their purchasing Blomberg was aimed at increasing revenues and their market share in Europe, since Blomberg already had market shares in Germany, Belgium, United Kingdom and Netherlands. He also added that in addition to the Blomberg brand, Beko goods would also be produced in the factories of Blomberg (Blomberg Artık Arçelik'in, 2002)²⁸. From this investment of Arçelik, it is apparent that Arçelik bought the Blomberg brand because of Blomberg's widespread market share and because it wanted to make Arçelik into a well known brand. Therefore, Arçelik would benefit from the advantages of the brand such as its reputation and its production facilities while also producing the Beko brand. Those advantages could be categorized as Arçelik's obtaining the Blomberg's firm specific advantages. Another brand that Arçelik purchased in 2002 was again a Brandt company called Elektra Bregenz. The goal was similar: to increase revenues and the market share of the company in Europe. Elektra Bregenz was a well known brand in Austria, with 88% brand awareness in Austria and a 5.3% market share in Austria. By purchasing Elektra Bregenz, Arçelik became the owner of Tirolia, which was a brand of Arçelik that was mostly known in Austria in the

²⁷ <http://webarsiv.hurriyet.com.tr/2002/01/14/75217.asp> Consulted 16 May 2009

²⁸ <http://www.radikal.com.tr/haber.php?haberno=34728> Consulted 16 May 2009

Tirol region. As Esgin stated, they aimed to increase the market share of Elektra Bregenz to 10% and planned to start sales to neighboring countries (Arçelik İki Yeni Şirket Satın Aldı, 2002)²⁹. Based on Arçelik's purchase of the Elektra Bregenz brand, it is also clear that like in Blomberg, Arçelik aimed to benefit from the market share and reputation of the company which again constituted the firm specific advantages of the company.

After purchasing Blomberg, Elektra Bregenz, and Tirolia, Arçelik also purchased the English brand Leisure and increased the number of its brands in Europe to four. Leisure was a famous brand in the United Kingdom, well known for ovens that targeted the middle and upper income groups. As it was already mentioned, Arçelik had already penetrated into the UK market with its Beko brand, but by purchasing Leisure, it had the opportunity to expand its share in U.K. household durable goods market (Arçelik 4 Ayda 4 Avrupa Markasını Satın Aldı, 2002)³⁰. By buying the Leisure brand, Arçelik again benefited from the brand's strength and aimed to reach to the middle and high income segment through the brand's existing customers. Also, when Arçelik's purchase of the brand is evaluated, the company specific advantages stood out again as in the other cases. Therefore, it is possible to conclude that Arçelik did not purchase Blomberg, Elektra Bregenz, Tirolia and Leisure because they were English, German or Australian brand, respectively but because of the advantages of those brands since Arçelik aimed to expand throughout Europe. As it can be understood from the triggering reasons of Arçelik's purchasing those brands, they are economic origins.

In addition also in Arçelik's decision to move its production plants to new areas laid economic reasons. After Arçelik purchased those brands in Europe, the company

²⁹ <http://arsiv.ntvmsnbc.com/news/151059.asp> Consulted 16 May 2009.

³⁰ <http://arsiv.zaman.com.tr/2002/07/16/ekonomi/h5.htm> Consulted 18 May 2009.

started to move Elektra Bregenz's and Blomberg's production plants to Romania and Turkey in 2004. According to statements from Arçelik Company, in order to step up to the competitive market conditions of European enterprises, the company finished its restructuring work. Therefore, in the frame of restructuring studies, Arçelik decided to move Elektra Bregenz's oven and cooker production plant to Bolu and Blomberg's water heater production plant to Arçelik's Romania Arctic production plant which will be explained below. Along with this situation, the built-in ovens of Elektra Bregenz started to be produced in Bolu and continued to be sold in Europe (Arçelik Taşınıyor, 2003)³¹. The general manager of Arçelik declared that production in Europe cost a lot, and therefore they decided to move their production plants. He added that Blomberg's washing machine facility, which produced goods in Germany, would move its facility to Çayırova in Turkey (Avrupa'da Üretim Zor Taşınıyoruz, 2004)³². From the moving facility of Blomberg and Elektra Bregenz from Europe, it would be understood that Arçelik decided to move those facilities to Turkey, where production would be less costly than in Europe constituting the country specific advantage of Turkey. By moving its production facility to Turkey, Arçelik also managed to move those brands' ownership specific advantages such as those brands' managerial and marketing skills and their trademark to Turkey. Since the firm's ownership specific advantages could not bring an advantageous position in Europe like they would in Turkey, Arçelik decided to use those ownership specific advantages in Turkey to increase its comparative advantages of the firm.

After Arçelik purchased German, English and Austrian brands, the company purchased the well known Romanian brand Arctic in 2002. It first started to sell the Arctic freezer and later planned to expand its sales to other products of the brand.

³¹ <http://www.radikal.com.tr/haber.php?haberno=79707> consulted 16 May 2009

³² <http://arsiv.sabah.com.tr/2004/05/10/eko115.html> consulted 17 May 2009

The general manager of Arçelik Nedim Esgin evaluated Arçelik's purchasing the Arctic brand as an opportunity for Arçelik to become a reputable global brand since Arctic provided a new market share, competitive production costs and additional capacity opportunities.

In addition, Esgin stated that Arçelik targeted the East European market and expressed that Arctic provided logistical cost advantage for those markets. Furthermore, Arctic exported 55% of its goods to East European countries and was a leader by a 45% share in the domestic market with its 96% brand awareness (Arçelik Romanya'da, 2002)³³. In 2005, Arctic developed a new special product for Romania called chest freezer and along with this production Arctic became the strongest local brand in 2005 with 96% brand awareness. In 2005, Arçelik's exports to European countries reached 65%, and in 2006 this number reached 70%. The amount was maintained in 2007 (*Arçelik Annual Report, 2005; Arçelik Annual Report, 2006; Arçelik Annual Report, 2007*). Later in 2008, the brand awareness of the company reached 99% (*Arçelik Annual Report, 2008*). Based on those numbers, it is clear that after Arçelik purchased Arctic, the growth of the company continued.

According to Uğur Kayalı (interview with Uğur Kayalı on 16 April, 2009), who used to be the general manager of Arctic in Romania, the reason why Arçelik chose to purchase Arctic was also based on Romania's being a European Union (EU) country and thus having the advantage of penetrating into the European market without customs taxes. In addition, when compared to the other European Union countries, salaries of the workers were lower in Romania and this became one of the attracting specialties of Romania for Arçelik's investment. So, Arçelik's investment decision in Romania was affected by Arctic's ownership specific advantages. For

³³ <http://www.radikal.com.tr/haber.php?haberno=48701> consulted 16 May 2009.

Dunning and Lundan (2008: 96), the willingness of an entrepreneur to invest in a new location depends on their possession of or ability to obtain certain assets not available or not available in favorable terms in another country. In light of this definition also, Arçelik's investment in Romania allowed the company to reach other EU member countries without customs. It also offered penetration opportunities to the East European market, in addition to logistical cost advantages and lower wages. Those advantages came from Arctic's being a firm in Romania which Dunning defined as ownership specific advantages.

Since Arçelik's main aim was to increase its market share in Europe and gain half of its revenues from foreign markets, it decided to invest in Russia in 2004, and in June 2005, the factory started to be built. According to Rahmi Koç, after purchasing Arctic in Romania and establishing a production plant in Russia, Arçelik reached its goal of getting half of its sales from Europe. According to Bülent Bulgurlu, Koç Holding's chairman of durable goods, they initially decided to invest in Russia only to produce laundry machines. But later they decided to produce refrigerators and establish another factory to produce televisions because of the convenient conditions for investment (Arçelik Rusya'da Fabrika Açtı, 2006)³⁴. As Arçelik's general manager Aka Gündüz Özdemir has said, the reason why they chose to invest in Russia was because of the market's size, its development potential, geographical closeness and low penetration percentage by other brands (*Arçelik Annual Report*, 2005). In the opening ceremony of the production plant in Russia, Rahmi Koç said that Russia's economic stability attracted Arçelik to choose the country for investment (Arçelik Rusya'da Fabrika Açtı, 2006)³⁵.

³⁴ <http://www.milliyet.com.tr/2006/10/13/son/soneko17.asp> Consulted 15 May 2009

³⁵ <http://arsiv.sabah.com.tr/2006/10/13/eko96.html> Consulted on 15 May 2009

When explanations of Özdemir are evaluated in terms of their reasons to invest in Russia, first of all, as he expressed the market size of the country attracted Arçelik to invest in Russia. If the market size of Russia is examined, it could be seen that in 2004 when Arçelik decided to invest in Russia, the country ranked third in terms of the market size among the countries that *Economist Magazine* classified as emerging markets (Market Potential Index for Emerging Markets, 2004)³⁶, while China ranked first, India the second and Turkey the ninth among 24 countries. Therefore, it could be argued that Arçelik considered the country specific advantages while deciding to invest in Russia, since it decided to build a factory in the country based on its market size.

Another benchmark that Arçelik managers regarded while deciding to invest in Russia was its market development potential. Accordingly when the market growth rate is examined the country ranked fifteenth among 24 countries in 2005, while it was twenty first in 2003, showing a remarkable development in 2 years. In addition, since the people's personal income in large cities exceeded the growth rate of the overall economy a growing number of Russians had sufficient disposable income that would help the increase in durable goods' sales (Bwa Wimax Russia Market Analysis Forecasts 2006-2010)³⁷.

Another benchmark that Aka Gündüz Özdemir pointed out for choosing to invest in Russia was Russia's geographical closeness to Turkey and to the countries that Arçelik targeted in order to increase its market capacity such as the CIS, Ukraine and Eastern Europe. Russia's geographical closeness to Turkey was also important in terms of low transportation costs for the goods transported between the two countries. In addition to those advantages Russia offered, it had a low penetration

³⁶ <http://globaledge.msu.edu/ResourceDesk/mpi/index.asp?year=2004> Consulted 30 May 2009

³⁷ <http://www.reportbuyer.com> Consulted 30 May 2009.

percentage by other durable goods brand. The reason why Russia remained to have low penetration rate by other companies could be evaluated as Russia's being a socialist state previously and therefore having a low penetration rate but also having potential to be developed.

In sum, Arçelik's decision for investing in Russia could be evaluated as a market seeking type of investment, since Arçelik's main aim was to maintain half of its sales from foreign countries. In addition, while making this decision, the country specific advantages such as its geographical closeness, development potential, market size, and low penetration advantage played a role as explained above.

In line with Arçelik managers' aim to be a world wide known brand that maintained half of its sales from foreign countries, China was among the countries that Arçelik engaged in for investment. Before making a direct investment, the decision makers of the company decided to establish a sales and marketing firm in order to watch the market and penetrated into the market by exporting washing machines and dishwashers in March 2006, according to the general manager Gündüz Aka Özdemir (*Arçelik Annual Report: 2006*). Along with Arçelik's increasing market share in China, the company managers decided to invest there since it was the fastest developing economy and the biggest durable goods production market in the world. Therefore, the company purchased a washing machine factory in the Changzhou region of China called "Changzhou Casa-Shinco" and started production in December 2007. The aim of Arçelik's investment in China was to access the markets of North America and the Asia Pacific Region which were hard to penetrate from Turkey. China had a logistic advantage in addition to low production costs. Arçelik managers discovered that the front-loading washing machine was an appropriate product with low penetration rates in this region and decided to continue

to export dishwashers from Turkey to China (*Arçelik Annual Report, 2007*; Arçelik Çin’de Çamaşır Makinesi Üretecek, 2007³⁸). As the current general manager of Arçelik, Levent Çakıroğlu had also stated, apart from Arçelik’s aim to reach the Asia Pacific and North America regions, it also aimed to develop the supplier industry needed for the production of goods in China (interview with Levent Çakıroğlu on 9 May, 2009).

To conclude, when Arçelik’s investment in China is evaluated, it could be seen that Arçelik’s investment in China was, like its previous investments in Romania and Russia, mainly because of increasing its market share in accordance with its aim to make half of its sales in foreign countries and become among the most preferred top ten brands in durable goods. Along with this aim as identified above, China’s having an easier transportation access to the North America and Asia Pacific Region, Arçelik’s aim to access those regions were accomplished by investing in China. Since Arçelik did not build a new factory and purchased the existing Changzhou Casa-Shinco, the investment could be evaluated as Arçelik manager’s benefiting from the ownership advantages of “Changzhou Casa-Shinco”. In addition, among those the low cost production advantage of the firm could also be evaluated in country specific advantages of China. Because of Arçelik’s aim to reach those Asia Pacific and North America regions, the investment type could be categorized as market seeking.

In conclusion, like Arçelik’s previously examined relations with foreign markets such as exports and purchasing brands also the company’s strategy to own or establish production plants in foreign markets have economic triggers too. Those economic factors generally include the company’s aim to increase market size and

³⁸ <http://arsiv.ntvmsnbc.com/news/415743.asp> Consulted 16 May 2009

development potential which can be evaluated as a market seeking type of investment. In addition the company considers the geographical closeness usually. In this part, I examined the economic factors' effect on Arçelik's activities and I will examine the role of political and social factors in the next parts.

4.5.3 THE ROLE OF POLITICAL FACTORS IN ARÇELİK'S DEVELOPMENT AND INVESTMENT ACTIVITIES

Although it seems that the investment activities of Arçelik were mostly triggered by economic factors, there used to be times when other factors became influential in the company's investment decisions. In this part the interaction between investment activities of Arçelik and political factors will be explained.

As explained in the previous section Arçelik had a partnership with Amcor Limited Firm in Israel. On 20th April 1961, general secretary of the league of Arab States sent a letter warning Arçelik to stop its partnership with Israel or face a boycott. In 1961, the companies associated with Arçelik, Vehbi Koç, and Lütfü Doruk were on the boycott list. According to the memoirs of Tahsin Doruk, the son of Lütfü Doruk, it was impossible to get a visa from the Arab States, and Arçelik was only taken off the black list several years after ending its relations with Amcor. In this case, role of the dispute between two countries (Israel and Arab States) on the company managers' right to travel is observed. This case is an example to reveal the relationship between activities of the company and political issues.

In addition there used to be times when Arçelik had difficulties in their productions because of the disputes with government. For instance, raw material of the durable goods was metal sheet, and the kind of metal sheet used by Arçelik was found only in the U.S. and France. Therefore, Arçelik had to import the raw material

into Turkey. But with the start of steel and iron production in Turkey after the Establishment of Ereğli Iron and Steel Enterprises in 1960 (Erdemir Tarihçe)³⁹, imports of metal sheet was restricted. As Altan Sağanak, Arçelik purchasing manager between 1965 and 1969 explained that even Lütfü Doruk had talks with the manager of the enterprise personally to get an exception but was not successful. However in time, after several experiments, Erdemir began producing this specific type of metal plate.

Arçelik had some other difficulties in their productions due to the restrictions in imports. For instance, the roller washing machines' gear wheel and engines were imported, but later the import of the gear wheel was restricted. Therefore, the engineers in Arçelik designed a gear wheel, but this time they had to import the steel because in Turkey the steel, produced was not durable enough to be used in gear production. Therefore, they visited the Ministry of Industry in order to get permission to import, but the ministry directed Arçelik managers to agree with Mechanical and Chemical Industry Corporation to produce the steel and declared that there was no need for imports. At the end, Mechanical and Chemical Industry Corporation announced that they could not produce that kind of steel, and finally, the ministry gave permission for imports. In this case, as explained above Arçelik had difficulties because of the government's decisions for importing goods and this is an example to the affect of political issues on the company's business. According to the memoirs of Can Kırış, who started to work at Arçelik in 1956 at the times of Erel Çelik, people criticized the company (and the industry) and called it assembling industry because they were dependant on imports of parts. The accusation was that

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<http://www.erdemir.com.tr/hakkimizda/tarihce.aspx?SectionID=v84jiEYC3k7YeEPi79F5VQ%3d%3d&ContentId=PMO1LxuU1hr61oJQtL511g%3d%3d> Consulted 1May 2009.

Arçelik imported most of the parts and in Turkey, they only assembled them together (*Mamûlattan Markaya*, 2001: 108,109).

As I explained in the previous section when Arçelik decided to establish a new factory in İstanbul to produce compressors for refrigerators and engines for laundry machines they partnered with General Electric with a share of 51%. The General Electric Industry's capacity was limited compared to the firm's developing capacity. Since General Electric was one of the share holders of the firm, the State Planning Organization and other organizations regulating foreign investments did not allow the capacity of the factory to increase. (*Mamûlattan Markaya*, 2001: 225-231). In order to address this problem, Arçelik managers decided to establish a new factory to produce compressors. On 31 October, 1975, Arçelik obtained permission for the establishment of the factory in order to produce compressors in Eskişehir. On the other hand, General Electric was not able to increase its capacity, because it was not able to get permission from the government. Therefore, General Electric's shares were sold in 1989. As a result of those sales, Arçelik had a 65% share and İş Bank had a 35% share in the company, and the name of the factory was changed to Türk Elektrik Enstitüsü AŞ. In this case, General Electric's not being able to increase its capacity is related with the government policies against foreign company's share holding. Therefore as a result of such a political decision, Arçelik lost one of its partners.

Another case in which Arçelik's investment activities were influenced by political events was when the company managers were trying to find markets, because of unsuccessful attempts in exporting. Vehbi Koç contacted Turgut Kayakan and asked him to travel to some other countries to determine whether they had a sufficient market for Arçelik goods in late 1960s. Among the countries that Kayakan

traveled to were Pakistan, Iran, Iraq, Syria, Saudi Arabia, and Kuwait. He returned with a successful order of \$100,000, five times of the total amount of Arçelik exports until then. He had difficulties while traveling abroad because of a Turkish law called the Act to Preserving Turkish Money. Under this law, the amount of foreign exchange that could be taken out of the country was restricted. But since he was traveling for business, he used to carry large amounts of money for probable expenditures. Therefore, he would hide and scatter the money to different pockets of his suit. Vehbi Koç was usually in contact with Kayakan for Arçelik's export activities and shared his idea about establishing a company called Ram in Turkey to finance all of Arçelik's export activities. The company could function as a "foreign trade capital firm". Koç brought Kayakan to the head of the company. In this case, the difficulties that Kayakan came across while looking for new places to invest are as a result of the government policies since there used to be a restricted amount of foreign exchange that could be taken out of the country (*Mamülattan Markaya*, 2001: 240-252).

Also, under Arçelik's choosing European market laid political factors. According to Uğur Kayalı, Europe is a desirable place for investments because of the transparency in the countries' administration and the clarity of the laws and acts related to trade. As he explained, they desired to invest in countries where political and economic risks were at a minimum. He shared an example about the problems that he came across in 1991 in Kazakhstan when the country newly declared its independence from the United Soviet Socialist Republic (USSR). At that time the borders were not concrete, and when Kayalı tried to use Kazakh currency Tenge in Karagandı, which is a region of Kazakhstan, they demanded the Russia currency Ruble. As he explained, those kinds of uncertainties are not desirable for investors,

so they mostly chose to invest in the European countries (interview with Uğur Kayalı on 16 April, 2009). Therefore, since the transparency of the administration is related with the government, under Arçelik's choosing Europe for this reason laid the political factors.

Apart from the above mentioned activities, under the reasons of Arçelik's penetrating into the U.K. laid political reasons. Among Arçelik's share in the European market, the United Kingdom is at the top of the list followed by France, Germany, and Italy. As Subaşı explained, Arçelik's first penetration into the U.K.'s market emerged as a result of discovering an opportunity. Within the Cold War period, small refrigerators were sent to the United Kingdom from Eastern European countries. Because those countries could produce the refrigerators cheaply, they were able to sell a good for \$60 which costs \$80-90 elsewhere. Therefore the United Kingdom purchased those small refrigerators, called table tops, from Eastern European countries. When the table tops' prices increased as result of the fall of the iron curtain, Arçelik took the opportunity to penetrate into the market opening its first office in England in 1989. The situation became advantageous for Arçelik, and the company grew rapidly in the United Kingdom (interview with Hasan Subaşı on 14 April, 2009). As it is clear from the situation, Arçelik's first penetration into the United Kingdom market was as a result of the political changes in the USSR, and this is an important evidence of the effect of country specific conditions on company decisions.

In this section, I expressed the importance of political factors on Arçelik's investment decisions. Although Arçelik managers decided where to invest considering their cost benefit analyses and profits, political factors also had influence on those decisions. Even, as explained sometimes opportunities to invest in a proper

place emerged as a result of political events such as change in the government or sometimes the managers had hard times because of the political instabilities in some countries. Therefore, in Arçelik's foreign investment activities political factors played crucial roles.

4.5.4 THE ROLE OF SOCIAL NETWORKS IN ARÇELİK'S DEVELOPMENT AND INVESTMENT ACTIVITIES

Above the role of economic factors and political factors in Arçelik's investment decisions are explained. In addition to those factors also some social factors such as personal ties, networks play crucial roles in the economic activities of Arçelik. In this part, the role of social ties will be explained in Arçelik's investment decisions and commercial activities. While explaining the social ties' importance in Arçelik activities, I will benefit from the interview that I had with key figures of Arçelik.

Social relations were effective in the company's attempts to form consumption market and in accordance with this, dealerships played crucial roles. The factors that played important roles in the spread of the company's reputation over the country were not only its production processes but also its marketing strategies. Among those strategies, dealerships had an important role and in the documentary prepared for Arçelik's fiftieth anniversary, Ayşe Buğra discussed the importance of dealership as a part of economic development. As she stated when the economic development of a country is discussed the process of production is especially emphasized. However, production is especially not enough for development, and consumers are also essential. The dealerships were crucial to form the consumption market by reaching different cities and regions. Dealership model contributed to the formation of relations between the producer, the traders and buyers based on trust and cooperation

(50. *Yıl Kurum Tarih Filmi*, 2005). According to Can Kır a, Vehbi Ko used to choose those dealers among the well known tradesmen which were trustworthy in their cities. Sometimes those trustable tradesmen were chosen among the grocers, sellers of dry goods; and they would change their sector by starting to sell durable goods. Vehbi Ko was even interested in the family life of the dealers and would like them not to drink alcohol and not to gamble and there was solidarity between the dealers and the company. (Buęra, 1998: 15; *Mam lattan Markaya*, 2001: 118, 142, 148). For instance, there were times when Arelik had economic difficulties because of the economic crises and found the solution in borrowing money from its dealers. According to the memories of Hasan Subaşı, the company offset its deficit in 1994 with money that was borrowed from the dealers, as the dealers wanted to ensure the continuity of the company (*Mam lattan Markaya*, 2001: 386). Such a relationship between the dealers and the company shows the importance of trust. As explained in the literature chapter history and culture are an important element in TNCs as Yeung (1997: 4) discussed and in this situation the trust was formed in time in which the role of company can be observed. In this situation the role of social ties is observed since the dealerships formed a network and became influential for the Arelik products to be sold by locating in different cities and regions. In addition, the dealerships were influential to form trust and cooperation between the company and traders. As a result of this trust and cooperation, Arelik had the chance to borrow money from its dealers when the company had economic difficulties. Therefore this case is important to show role of social ties in the company's commercial activities.

The company's relations with the other business groups or governments are categorized as social relations also. For instance even in Arelik's designing its factories for production the role of business- business relations was important. Due to

Arçelik's growth and increasing market share, Arçelik's plant in Sütlüce became insufficient; and company managers decided to move to Çayırova. According to the memoirs of Aydın Boysan, the factory in Çayırova was the first factory established in Turkey designed according to production type. Before designing this factory, Aydın Boysan and Vehbi Koç visited factories in European countries, and they designed the factory in Çayırova with this experience in mind (*Mamûlattan Markaya*, 2001: 158). This situation could be regarded as mimetic isomorphism since Arçelik imitates the factories in Europe. As stressed in the literature chapter organizations which are engaged in similar activities and share common values and organizational structures imitate each other to minimize uncertainty. Arçelik's imitating the factories in Europe could be explained in this way.

Also, European style in Arçelik was tried to be implemented not only in the production plant but also in Arçelik's inward operations. For instance, as Filiz Ofloğlu, who founded the strategic planning department in Koç Holding and became the staff manager in 1974, explained when she first started her job, she used to visit the firms affiliated with Koç Holding. While she was visiting Demirdöküm, which was a Koç Holding company that produced water heaters, she came across the accountant of the company and realized that the accountant was keeping two separate books for the accounts, a "book of first entry" and a "book of final entry" which was unusual for her. Later, she talked with Vehbi Koç and explained a system called the card system which was used in the United States to follow the accounts. Vehbi Koç agreed to implement the system to Arçelik initially. Arçelik started to use this system but later stopped, as the company was required to keep the books of first and final entries under Turkish business law. However, after Vehbi Koç's several attempts like talking to the ministries, the law was revoked. In this situation also, implementing

the kind of an accountant system like in the U.S can be explained as mimetic isomorphism and shows the importance of social relations as well. In addition to this, Vehbi Koç's attempt to talking to ministries and maintaining the change in the law to implement different kind of a system was a result of business and government relationship. This is important to show that some businessman have an influence on the government. Therefore such a change could be regarded as a result of social relations.

In addition, Arçelik implemented some other changes in its structure by drawing examples from its European rivals. Among those changes was the idea of having "unique product in every factory". This idea was put forward by Fahir İlkel, who was an Arçelik administrative board member in 1968. According to the memoirs of Ünsal Anıl, who used to be the general manager at Arçelik in 1980, they would visit several countries, and there was no other durable goods manufacturer that produced all its products in a single factory. Every factory was specialized in the production of a single good. Arçelik adopted the unique product in every factory idea and worked in this manner between 1975 and 1995. After 1995, with the growth of the firm, the situation changed into a unique product being produced in numerous factories. With the adaptation of the "unique product in every factory" idea, Arçelik agreed to build a factory specialized in the production of refrigerators in Eskişehir. This situation could be regarded as a result of competitive isomorphism also. By using the competitive isomorphism term, I refer to the late adaptation of new practices by "follower" organizations. As explained in the literature review chapter, competitive isomorphism assumes "a system rationality that emphasizes market competition, niche changes and fitness measures" (Powell and DiMaggio, 1983: 149,150). It is relevant to fields in which free and open competition exists. Therefore

Arçelik's adaptation of the "unique product in every factory" idea could be regarded as competitive isomorphism and the factories in other countries played a follower role.

Similarly, according to the memoirs of Sarper Kartal, who used to be the general manager of administrative activities between 1982 and 1995, after Hasan Subaşı became Arçelik's general manager, the company shifted to a new management style called quality circle system in November 1983. This system was adopted from Japan. It was a system in which workers shared their ideas about improving the goods and suggesting solutions to problems they came across during production. Through this method, workers were also included in the improvement process and worked to develop solutions to do the work with a higher quality. This was an important period for the company since all the workers were included in the development of the company (*Mamülattan Markaya*, 2001: 290-300). Like adapting the quality circle system, Arçelik adopted some additional projects in the periods of economic crises. For instance, during the 1998 economic crisis, Arçelik adopted the six sigma project. Six Sigma project is a kind of business management strategy, and its aim is to remove the causes of errors in manufacturing and therefore to improve the quality of process outputs. Arçelik applied the Six Sigma strategy in production and technology processes in 1998 (*Mamülattan Markaya*, 2001: 328, 6 Sigma Metodolojisi⁴⁰). By adopting this system Arçelik had the opportunity to increase its quality of manufacturing. As in the previous section, the competitive isomorphism could be observed here through the company's adopting the quality circle system from Japan to improve quality and adapting the six sigma project. In both of these

⁴⁰<http://www.arcelikas.com.tr/Cultures/trTR/Kurumsal/ArceIikKaliteYolculugu/6SigmaMetodolojisi/?MENUID=1> Consulted 22 May 2009

practices, Arçelik plays the role of “follower” as in the competitive isomorphism in the previous chapter.

As in the previous example, the competitive isomorphism could be observed here through the company’s adopting the quality circle system from Japan to improve quality. In this situation also Arçelik plays the role of “follower” as in the competitive isomorphism explained previously.

In addition, there used to be times when social relations became influential when the company managers were trying to find markets. For instance, as explained in the previous section, Arçelik engaged in economic activities with Pakistan. According to the memoirs of Ali Mansur, at that time, Eyüp Khan was in power in Pakistan, and Arçelik negotiators tried to find people with connections to him in order to succeed in the negotiations (*Mamûlattan Markaya*, 2001: 309). They were able to find someone with close ties to Khan and gave the Arçelik dealership to him. In this situation the importance of government business relationship can be observed and as a result of that kind of a relationship the company had the ability to penetrate in to the Pakistan market.

As exemplified in the literature review chapter, technology and even transportation has crucial influence in maintaining networks. Therefore, I categorize the situations in which those factors were influential in this section. For instance, after Arçelik managers decided to export goods to finance company imports, difficulties emerged since the factories and ports were not conducive to exports. In addition, the companies had to report every single export activity to the Central Bank. Because of difficulties in communication, according to the memoirs of Erol Argun who used to be an Arçelik officer engaged in export activities, Arçelik negotiators that tried to maintain export contracts had problems contacting the head

office in Turkey. In addition to the communication problems, there were transportation problems as well. For instance, in order to go Tunisia, Arçelik officers had to first fly to Switzerland and then Tunisia. The capacities of the ports were not sufficient either. When the company sold 40,000 refrigerators to Tunisia, officers at the Haydarpaşa Port had difficulty storing the goods until all the refrigerators were transported due to the limited space. According to the memoirs of Atıl Öncü, assistant general manager of Arçelik between 1975 and 1980, struggled maintaining connections with the countries importing Arçelik goods. As he stated all the companies that wanted to export goods to Iraq were staying of the same hotel, and since the communication was limited only to telex, messages were read by other people. Therefore, in order to keep secret the offered price, Öncü formulated a system. In this message he would send his wife's phone number, but the 3 numbers in the middle would be their offered price. Then, they got the bidding (*Mamülattan Markaya*, 2001: 240-252). In this situation, the solutions that tried to be found to solve the disconnection between the networks are tried to be explained. As a result of this the importance of transportation and communication could be observed in maintaining network relations.

Although Arçelik gave its investment decisions mostly considering economic incentives that a country provided and the firm specific advantages that a firm offered, in order to maintain its sustainability and reputation in the country, Arçelik managers also tried to establish long-lasting relationships. For instance, as Arçelik's general manager Levent Çakıroğlu had explained, when Arçelik tries to build some connections in a country when it is researching for investments, the company deals with Turkish commercial attaches there, gathers data about the local market regulations from the authorities, and gets into touch with the other firms investing in

the market as well as investment banks. Çakıroğlu also added that the company tries to be in touch with as many resources as possible to maintain the continuity of those connections. Such flexible networks also mean that the company has trustable data sources about the market. Although the company may have evaluated the opportunities and decided the investment appropriate, the management also attempts to be more secure by building the aforementioned type of relationships with certain authorities. This is beneficial to have knowledge about certain developments from the first source or to have some certain help as a result of previously established relations. For instance, Levent Çakıroğlu explained a problem that was solved as a result of a previously conducted personal relationship. When goods were exported from Turkey to Russia to be produced in the Russian plant, the exports were held at customs and were moving very slowly due to the controls. At the end, the local authority in the vicinity of the factory wrote a letter to stress the importance of Arçelik for the region and helped the Arçelik transporters to get through customs faster. This story is also an example of the importance of the relationship between business and government since the local authority defended Arçelik as a result of their previous relationships.

These personal or previously established relations can be effective in accelerating the entry of companies into the market process in countries where penetration into the market is not welcome. The corporations in the market might be linked together through some informal ties as in the case of Keiretsu in Japan that was explained in the literature review chapter. There were times when Arçelik came across difficulties because of some special ties in the market, as Subaşı explained. He said that in order to market compressors to Damascus, they went to observe the bidding experiments in Syria. Before the bidding, the goods were tested for quality.

Although, the test results for the Arçelik goods were successful and better than other companies, Arçelik managers were informed that they could not succeed in the bidding. Initially this made no sense. Then, they learnt that respectability played a ten per cent share in the bidding. Respectability was gained by selling goods in the market, but in order to sell goods, respectability was needed. At last, they gained respectability in the country by spending time to persuade the technicians who scored companies for respectability. As it is evident from the situation, some countries may have different types of informal structures that outsider firms need to learn during the market penetration processes. In the Damascus case, the special ties that were established previously by other companies in the bidding process affected Arçelik negatively in the beginning, although Arçelik compressors' test results were better. This was because of Arçelik's not having any special ties since that helped to gain respectability in the market. But later when these ties were established by spending time and developing the personal relations, Arçelik was able to win the bidding with the gained respectability in the market (interview with Hasan Subaşı on 14 April 2009).

The previous example is good for explaining the influence of personal relationships in FDI and proves that in addition to the economic advantages or incentives to choose regions to invest in; special ties also became effective. As Subaşı had explained, while maintaining those special ties, they had to make some personal or financial sacrifices too. For instance, although he did not like drinking Araq, he had to drink with them, in order to maintain those relationships. Also, in order to spend more time to gain the respectability, he missed his scheduled flight back to Turkey. At that time, flights were very rare, and it was very hard to find tickets. In order to find a new plane ticket for his new departure date, he had to

maintain some special ties with the booking clerk. As he had explained, at that time he used to have small calculators which were rarely found but he had to forget this calculator which he used to be proud of owning such a calculator at the desk of the clerk by mistake (!). Therefore these examples prove the importance of special ties and personal relationships in conducting businesses. In that situation Hasan Subaşı tried to establish personal ties in order to get the job and during this situation he had to maintain some special ties even with the booking clerk to turn back to Turkey.

Like the Damascus case, Subaşı recounted another story involving Germany. In order to gain the trust of the consumers in Germany there is a quality benchmark which is gained as a result of several controls. Although it is not an obligation to have the quality benchmark label, consumers do not prefer goods without those labels. After samples were sent for tests from Arçelik, German officials returned the results 6 months later, demanding some adjustments. After making the corrections, Arçelik officers sent the good again, however, they found out new adjustments to be accomplished which already existed and could be determined in the previous test. As Subaşı said, they passed through those tests three or four more times, because the German officials did not advise them of all the required adjustments in the beginning of the process. After wasting two years with those tests, they decided to invite the chief technician of the institute to Turkey in order to spend more time together and get to know each other better. They also offered him a suitcase by a famous Turkish brand as a gift at the end of this trip because of his visit to Turkey. Subaşı said if they had not invited the technician to Turkey, the efforts of Arçelik to get the label would have taken even more time. They managed to get the label after getting to know each other better. As explained in the literature review chapter, those kind of personal relations are important in the other regions of the world, like the personal

relationships' importance in Hong Kong firms as Yeung explained. In addition, as Yeung (1997: 6) explained, Redding (1990, 1991) has also emphasized the importance of trust relationships in family and business networks in the Chinese business system. Therefore, the relationships maintained in accomplishing Arçelik's business fit for Yeung and Redding's ascertainment of trust and personal relationship's importance.

Those networking relations with the groups that the company had to be in contact with for business purposes eased the operations of the company. As explained above also, technological advances also helped simplify maintaining the relationships. Previously, technology was not advanced and people were not in touch as frequently with each other, negatively affecting the firms' foreign investment relations. For instance Subaşı said, he experienced a problem when he was an Arçelik engineer at the time of bidding in North Africa. They sold compressors to Kuwait, and the compressors broke down because of the high voltage in the factory. Arçelik produced compressors suitable for use with low voltages. This was a production problem. But since the cost of this change would be high, Subaşı did not have the authority to order the change himself. Therefore, he had to talk to company executives in Turkey but it was hard and expensive in those days to deal on the phone. By coincidence, a friend of his was traveling to Turkey by plane, he had a chance to write a note about the situation and give it to his friend. At that time calling from Turkey was easier, and they finally had the chance to talk on the phone after the note arrived in Turkey. The problem was solved. This is a clear example of the importance of technology in maintaining business networks.

In this situation, even the piece of paper on which the note is written serves as a means for obtaining the network. As Kendall (2006) expresses, networks are not

composed of only technical advances, but that they have to be understood as a process which includes humans and non-human aspects as a whole. As in this example, if the contact man did not exist, there would not be any meaning of the piece of the paper that was carried to Turkey. And if the necessary telephone technology had been available, it would have made the decision taking process easier and faster. Uğur Kayalı also discussed communication problems he had when he was the manager in the Middle East and Africa region, mobile phones did not exist and the people who called him would not be able to find him. He added that when he first saw the fax machine, he thought that the technology had reached its ultimate (interview with Uğur Kayalı on 16 April, 2009).

To conclude, in this section I tried to evaluate Arçelik's internationalization process through factors other than economic incentives and political factors such as the personal and social relationships' importance as well as the technological advances' contribution in maintaining business relations. Based on the above explained statements with examples, it could be evaluated that in addition to Arçelik's internationalization activities which was explained in different phases above, also social and personal relationships in accordance with technology's positive effect played an important role in the company's internationalization process. Therefore, it could be expressed that while giving investment decisions, economic incentives and advantages played an effective role but social ties and network relations were influential also for example in maintaining the durability of the commercial relations, easing and accelerating the commercial operations of the company.

4.6 CONCLUSION

In this chapter, I examined Koç Holding's and Arçelik's internationalization processes and their developments by separately considering economic factors, social factors and political factors.

In the first part, I started with the political factors' effect on Koç Holding's development and commercial relations, because in the establishment process of the company the political conditions were crucial. At that time the commercial relations were held by non-Muslims and therefore they played an important role in the emergence of Koç as a businessman. In addition I explained about the other political factors that were influential in Koç Company's commercial relations with other companies abroad. Later, I examined the role of social factors in the commercial relations of the company. I exemplified about the friendship ties' role in business by giving examples from Koç Company and I expressed how the company was influenced by the other companies' structure and policies and adopted their strategies as a result of interactions with other companies. In the last part, I categorized the economic factors' role in the Koç Holding's maintaining relationships with foreign companies and its investment decisions. Among those categorizations, in the decisions of the company like purchasing different brands or investing in other countries, economic factors' influence such as considering profits, maintaining its survival not to go bankrupt or searching for markets was playing the outstanding role.

In the second part of this chapter, I made the same categorizations like in the Koç Company for Arçelik and examined the development and internationalization activities of Arçelik according to economic political and social categorizations. Before doing that, first of all I examined the establishment of the company in order

to explain how the idea of establishing a household durables company evolved and highlighted the history of the company. Later on, I categorized the economic factors' effect in the company's taking certain decisions in terms of investments, trading with other companies, shaping its structure in historical order. Later, I explained the role of political factors on the company's investment and trading decisions and lastly I expressed the role of social relations, networks and friendship relations in the internationalization activities of Arçelik and in its certain commercial activities. Among those categorizations again the economic factors played the crucial role in the internationalization activities of the company. The managers decided where to invest considering the companies' cost benefit analyses, closeness to markets or some other economic incentives as explained. In addition to the economic incentives, political and social factors also became influential and played an easing role in the investment decisions and sometimes those factors became helpful to maintain their durability in the regions where the company invested.

In conclusion, according to the categorizations I made through the interviews I had and other sources such as newspaper pieces, video footage or bibliographies, company managers decide their location of investments mostly considering their cost benefit analysis. However there were times, when among the reasons that made the country more appropriate for investment laid political reasons and even social ties. Also social relations became influential in terms of maintaining the durability of the company after they determined the place of investment. In this process also the available technological means almost always played a crucial role, as well.

CHAPTER 5

CONCLUSION

This study's aim is to lay out the underlying reasons behind the outward foreign direct investment of firms. Initially, this study grew out from this initial aim, and expanded with annexing the case study of Arçelik. Thus, the study became a two-fold research both mapping out the reasons of firms' going abroad and examining to what extent those reasons overlaps with Arçelik.

Two things pushed me to study this subject: First, when people talk about FDI they usually mean inward foreign direct investment in Turkey, however the amount of outward foreign direct investment of Turkey is noteworthy since it has increased five times between 2002 and 2008. Second, studies about outward foreign direct investment activities of Turkish companies are rare. Because of those reasons I found it appropriate to study outward foreign direct investment decisions of firms and chose Arçelik as a case study to examine if those reasons show compatibility for Arçelik.

The main question in the thesis is: How can we explain the choices companies make for outward FDI using different theories? To answer this question, I accomplished a literature review that encloses scholars' studies about FDI and explaining it in terms of focusing on economic factors. In addition, to find out if there are causes other than economic rationalities, I also examined the literature

review that enclosed the importance of network relations, friendship relations, relations between businesses and employees and some others like this. Also, I laid out historical institutionalism in the literature review to highlight the importance of inherited contextual features' effect institutions.

For my second inquiry, which aimed to find out those approaches' ability to explain Arçelik's FDI activities, I have conducted my primary research on three different resources. Those include examining the annual reports of Koç Holding between 2001 and 2008 in addition to Arçelik's annual reports between 2005 and 2008. Secondly, I reviewed video footage documenting the company's past and finally I conducted interviews with Hasan Subaşı, who is a current member of the Arçelik board of directors and a former general manager at the company between 1983 and 1991; Uğur Kayalı a former general manager of Arçelik's Romanian brand Arctic; and Levent Çakıroğlu, the general manager of Arçelik. With the help of those resources, I learnt about underlying reasons of Arçelik's investing abroad.

The argument in this study is that, while firms decide to invest abroad, they do not only consider economic factors such as the amount of their profits, the cheap cost production facilities, and the geographical closeness to markets. Also their decisions for searching a proper area to invest are influenced by previous relations such as between businesses, social networks and governments.

Initially, the economic factors that affected the investment decision of firms are explained throughout the study. In line with this, when firms engage in FDI, they take into consideration their advantages such as in terms of innovation, costs, finances or marketing. Sometimes the foreign direct investment in another country occurs as a result of the home country market's reaching to saturation point and the firm's starting to search for a similar market. There are different scholars made

different categorizations while explaining the reasons of firms' investing abroad. Among those scholars, Dunning had brought together the reasons of firms' investing abroad in three known as OLI paradigm. Those are categorized such as ownership (O) advantages, internalization (I) incentives and locational (L) attractions. Ownership advantages constitute advantages that are unique to a certain country's firm like marketing skills, monopoly power or technology. Internalization incentives make up internalization of ownership advantages by which firms profit more than transferring them to other firms. Finally, locational attractions account for advantages that a firm enjoys by using its ownership advantages in a foreign country. In addition to the OLI paradigm, scholars have also categorized foreign based MNE activities into four such as market seeking, resource seeking, efficiency seeking and strategic asset seeking FDI. However all of those explanations of FDI highlights the firms' reasons of investing abroad from a perspective of purely economic terms of cost benefit analysis.

What this study highlighted is that, when firms decide to invest abroad, they also consider the social ties in addition to the economic rationalities. According to studies about network relations, influence of the social, rules, norms and institutions are important and play a crucial role in the decision making process. In addition, previous relationships, common languages, historical legacies play a crucial role in doing business and forming networks. Not only investing those countries but also maintaining this relationship's durability is also a matter. This is possible by maintaining flexible relations with those countries which could be enabled by having multiple connections. Even technology is among the important components of maintaining networks' flexibility and durability. As a result of advanced technology, communication became easier and the durability of established networks sustained.

In addition to those, I also categorized the network relationships as personal-business, government-business and business-business relations. In those relationships types, previously established personal relationships and trust have crucial role. As explained, in the formation of business-business relations isomorphism plays an important role and as a result of interacting similar sectors' with each other, they homogenize and look similar. Moreover, the influence of political elites, institutional factors and government relationships affect the policy making and this type of relationships are explained by historical institutionalists. The changed policies and government relationships have impact on companies' determining their investment places therefore they are influential in the decision making process of MNC. In short, in FDI activities of companies not only purely economic reasons and cost benefit analysis play role but also social ties, history, previously established relationships, networks are also crucial and effective in determining where to invest.

My second inquiry of the study aimed to find out if the existing literature about FDI activities of firms overlaps with Arçelik's FDI activities. What I found in light of my interviews, the video footage and the annual reports has again multiple facets. First of all, from the beginning of the Koç Holding and Arçelik, those company managements decided their relations with foreign firms and investing abroad mainly regarding their cost benefit analysis. In addition, in the process of their deciding about the proper place to invest, the political conditions between Turkey and the host country also had an influential effect. When the effect of social relations, networks, history in Arçelik's internationalization process is considered, there had been times when those factors had been influential too. Most of the time, factors other than economic factors had been influential to maintain convenience in the relations of the company with the official authorities. Likewise, the previously maintained

relationships of Arçelik with the other companies in different countries had been instrumental in the company's adapting similar systems like them and improving itself. Those relations were also crucial to accelerate the necessary procedures in the host countries as well as maintaining the durability of established relations. Among those factors, even the technological progress had been influential in terms of accelerating the connections between the network nodes in different countries. In short, in Arçelik's internationalization process, as well as economic factors also social networks, friendship relations, history and even technology played the key role, if not the leading role.

Since there are not many studies about examining the outward foreign direct investment of MNC, I believe that this study can be an influential initiation for broader studies about outward foreign direct investment decisions of MNC. Since this study stand outs with highlighting the factors other than economic interests in the FDI activities of firms, the study could be also an important contributor to the literature by this way. Although not so many, there are other studies examining the outward FDI decisions of Turkish firms but what is missing most is contacting with the people in the decision making process of those companies to ask for the underlying reasons. I believe that this study became an important contributor in terms of interviewing with the people who had been in the decision making process of Arçelik. I have come to believe that, the best way to carry out such a study would be to search for more than one company's internationalization process and interview people who used to be in charge of company's internationalization process. Another study might have been on examining the reasons of Turkish firms' investing abroad by separating them according to different sectors like textile, durable goods, construction, and explain their investing abroad separately by identifying their

reasons' likeness and differences. My research maybe guide for how to hold such a research for other sectors' companies since it tried to explain Arçelik's underlying reasons for investing abroad.

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Araştırma Yapım Yönetim

ANNEX

INTERVIEW QUESTIONS

- 1) When the total amount of Turkey's outward foreign direct investment is considered, West Europe comes first. Is it the same for Arçelik's investments?
- 2) How did the financial crises in 1989, 1991, 1994 and 2001 affect Arçelik's foreign investments?
- 3) How will Arçelik be affected from the financial crisis in 2009?
- 4) How did Turkey influence Arçelik's internationalization process by signing the Customs Union Agreement?
- 5) Starting from 1989, Arçelik opened sales offices in England, France and Germany. In 1996, the export amount of England was 28%, for France it was 18% and for the other European countries it was 14% (Root and Quelch, 1997). What was the reason for Arçelik to give more importance to England and France?
- 6) Could you give any examples to difficulties that were faced in the countries that Arçelik wanted to invest because of those countries' laws? How were these difficulties got over?
- 7) Have you involved in any close relationship with the formal authorities to find solutions for the difficulties faced in the country?
- 8) To what extent does geographical closeness to the markets play role in determining the proper place to invest in?
- 9) Are there any countries Arçelik managers succeeded to penetrating as a result of long negotiations? What were the reasons that lie behind insisting on that market to penetrate?
- 10) What criteria were standing out while determining the countries for Arçelik's investment?

- 11) Has there been any government that had to maintain services for public to the area where Arçelik invested?
- 12) Did Arçelik managers have any difficulty for determining the proper place to invest, in terms of choosing it from other alternatives? If yes, what were the reasons that pushed them to choose that country?
- 13) To what extent does the infrastructure of the countries play an effective role in determining the proper place to invest?
- 14) How does Arçelik benefit from the experiences of the previously invested firms?
- 15) Have you had any difficulties to penetrate in the market of a country because of that country's having protective economic policies? How was this problem solved?
- 16) To what extent do Arçelik managers take into consideration the previously maintained export or import relationships of Arçelik or Koç Holding while maintaining the invested country?
- 17) To what extent Arçelik managers consider the cultural factors as a benchmark in determining the countries for investment?
- 18) Does Arçelik make special productions according to the consumption habits of particular countries?
- 19) From what kind of sources other than the state's formal data does Arçelik management learn the economic information of the possible host country?
- 20) To what extent does the purchasing power of the countries affect Arçelik's investment decision?
- 21) Has Arçelik managers ever changed their country of investment or changed their decision for the investment place because of high taxes of that country?
- 22) Why did Arçelik penetrate into Romanian market by purchasing Arctic brand and not by its own brand?