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AN INVESTIGATION OF SMEs PENETRATING FOREIGN MARKETS: A
STUDY ON THE TURKISH AUTOMOTIVE SUPPLIER INDUSTRY SMEs
(INTERNATIONAL MARKETING STRATEGY)

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CHAPTER 1

INTRODUCTION

The second half of the 20th century has seen the world experience a high rate of globalization. As an aspect in creation of a global village, globalization has integrated the world social, political, and economical systems to close knit systems manage by global governance bodies. Globalization has been evidenced in different aspect but integration of economic systems is perhaps the most prevalent factor (Dembiski, 2003). Globalization in economic systems has integrated economic, technological and the socio-cultural into one global economic system. The first evident signs of globalization were increased activities of multinationals but the fourth quarter of the 20th century saw integration of national economies to form an international economy through increased activities in trade, foreign direct investment, capital flows, emerging technology, and many other factors.

Globalization is like a fast moving train which is seen as the only mode of transport available to the next world. This means that even in their small localities, countries have strived to move with the globalization pace, even when their economy, social and political system cannot allow. Globalization is creating a new world order

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which is not easy to resist. As a doctrine, globalization is a neoliberal form used to describe economic globalization (Croucher, 2004). Croucher (2004) also argues that globalization has positive and negative effects in the political, economical and social systems in the world.

One of the effects of globalization is opening up of geographical borders. As indicated, economic globalization entails creation of an economy system which is made up of subsystems. These subsystems can be individual countries can be individual countries or trading blocs like European Union (EU). Creation of economic system encompasses breaking up of trade barriers to enhance integration of these subsystems.

Breaking up of trade barriers opens up the market for operation of both local and international firms. This has been the leading premise behind creation of free markets in the world. Trade barriers serves different roles among them protection of the local markets from competition. This means that opening up of local market opens the local market for competition and the local firms have to take different strategies including merging and others to wake up to the increased level of competition. A peculiar response for the local firms has been venture to the international markets to look for new markets instead of to replace their lost domestic market share.

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For local firms, venturing into the international market provides and opportunity for more markets. Internationalization opens the company for new opportunity to improve its products to the international standards. However, internationalization process also presents different challenges for local firms going international which may inhibit their internationalization process.

The main focuses of this study will be on the internationalisation of small and medium enterprises (SMEs). The study will look at the strategic process of internationalization of SMEs and the challenges they face while going international. Specifically, the study will take Turkish automotive industry as a case study to study the causes, challenges and effects of the internationalization process of SMEs.

1.1 Background to the research problem

Given that nature of the globalized market today, it is no longer possible for SMEs to operate in their domestic market while ignoring risks and the opportunities that may be presented by the foreign firms venturing into their own market. The domestic market is not the only realm for a firm operating in the 21st century. For firms operating in technology driven industries, the threats posed by the international competitors is real. This has been the case for the Turkish automotive industry. Turkish automotive industry has experienced rapid growth since 1950s. The industry grew out of joint venture between world established firms and Turkish based companies. Since 1960s, Turkish automotive companies started their internationalization plan and today, Turkey is the leading exporter of commercial vehicles in the EU with Italy and Finland as the leading export market for Turkish automotives.

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Globalization is not the only aspect that is driving local firms towards internationalization. There are other push and pull factors which have continuously pushed local firms to the international market. In their internationalisation process, Turkish automotive firms have been faced by different challenges. Identifying these challenges is an important in formulating market entry strategies for these firms in other markets and for other Turkish firms which have not gone to the international market.

The aim of this study is to identify the drivers behind the expansion of the Turkish automotive supplier industry SMEs abroad as well as the problems to obstacles they face when attempting to penetrate foreign markets.

1.2 Research aim and objectives

The aim of this study is to identify the drivers behind the expansion of the Turkish automotive supplier industry SMEs abroad as well as the problems to obstacles they face when attempting to penetrate foreign markets

The research objectives can be summarised as follows:

- a) To identify and general information about the Turkish automotive supplier industry SMEs
- b) To carry out an analysis of the industry and its international competitiveness
- c) To asses the problems Turkish automotive supplier industry SMEs and recommend solutions

1.3 Summary of chapters

There are seven chapters in the study. The following is a summary of the seven chapters:

1. Introduction

This chapter introduces the study. It gives the background to the research problem, aims and objectives of the study, and the scope and limitations of the study.

2. Literature review

The literature review is a critical analysis of the secondary resources on SMEs and the internationalization process. This chapter defines SMEs in Turkish and EU scope; review the common competencies of SMEs compared to larger enterprises, their contribution to the economy, SMEs and supply changing, and how they have been adapting to the changing environment.

3. Methodology

The methodology chapter lays down the research approach and design. It defines the research philosophy, research design, data collection method, research population and sampling, data analysis, ethics, PDP, and the case study.

4. Industry Background

This chapter is a review of the Turkish automotive industry. This chapter takes a systematic study of Turkish automotive supplier industry looking into production capacity, usage capacity, production, exports, imports, and domestic sales. The

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chapter has three tables which clearly explain numerical information regarding the industry.

5. Findings

This chapter shows the finding from the study. It lists the problems that Turkish SMEs have faced while going to the international market. This chapter also gives the possible solutions to some the challenges faced by the SMEs.

6. Discussion

This discussion chapter is a coherent discussion of the results from the study. This chapter relates the findings of the study with the literature review.

7. Conclusion

This chapter summarizes the major findings from the study and review of literature. The chapter also give recommendations for the small car industry and recommends grounds for future research on the issue.

8. Recommendations

This chapter also give recommendations for Turkish SMEs and recommendations for further studies.

1.4. Scope and Limitations

The scope of this study is Turkish SMEs in the auto parts industry and their operation in the international market.

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The main limitation experienced during the study was lack of enough secondary information since most of the literature is written in Turkish language.

CHAPTER 2

LITERATURE REVIEW

2.1 Internationalization of SMEs

According to Gjellerup (2000) the previous literature on the process of internationalization has tended to lean on the side of the multinationals and the role they play in globalization. Gjellerup (2000) further asserts that previous studies have not recognized the dominant role that is being played by SMEs and more importantly in the internationalization process. SMEs make a great contribution to some countries, especially those experiencing payment deficit, which have provided appropriate policy framework for their expansion. In the face of SMES, this however presents a particular challenge since the internationalization process depends on the competitiveness of the particular SMEs and not on government framework. The way the domestic government can respond to a particular market changes is not the same way that the international market can respond. This implies that in the international market realm, SMEs are on their own, and their success is pegged on the competitiveness of their products and services, management, and their marketing strategies.

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Internationalization is a concept which emerged with the increased globalization. It refers to the geographical expansion of economic activities from confinement of the national or regional boundaries. In business politics, the term internationalization slowly replaced imperialism to become a dominant economic framework defining the economic interaction between nations starting from the 1920s. The great depression which resulted to decrease world trade had negative consequences in the internationalization process but the term gained momentum again after the end of the Second World War especially with the emergence of global governance bodies. Internationalization grew rapidly with increased multinational activities until in the later 1970s when a new concept of globalisation emerged. The emergence of globalization was however correlated with new information and communication technology which has revolutionized the economic, political, and social spheres in the world.

Pleiter (2002) clarify that there is a difference between internationalization and globalization. He defines internationalization as operation of a business entity in some selected countries. This means that there is no global operation as such as the specific business entity is not represented in every country in the world. For example, in internationalization, a company will chose to operate in few countries where there are prospects of higher sales. On the other hand, Plitner (2000) define globalization in terms of global operation where the company is represented in major countries in the world. Globalization does not include physical presence of a company in the market but still the company can make its sales virtually. For example, Amazon.com can be considered as a global company since it can make it sales world wide through the internet through its website amazon.com.

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According to Sventlici (1996) companies as well as SMEs have to respond to the changing nature of the market to rise up to the global competition. The changing production and marketing factors driving by emergence of new technologies poses a particular challenge especially for SMEs which are faced with different challenges while venturing to the international market. For these companies to succeed in the international market they have to come up with strategies to overcome these particular challenges.

Gjellerup (2000) identifies three main factors behind increased globalization of business. First he cites the explosion of low-cost technology like mobile phones which are connecting people and locations. The increased flow of opportunities is giving individual and business information regarding availability of economic opportunities which increases their chances of pursuing more profitable markets. The second factor is the dismantling of the trade barriers and tariffs through trade agreements. This has provided for financial deregulation which is leading to free trade agreements generating a level playing field for firms, especially innovative firms to increase their operations. The third factor behind business globalization is increased restructuring of the economic systems and liberalization which came immediately after the fall of communism and increased emergence of new markets in Asia like China and South Korea. These areas were earlier closed by political factors and now they have been opened up for investment. For example, after years of closed economy, China opened up its economy in 1970s and today it is leading in term of foreign direct investment (FDI) and is rapidly becoming a dominant economy in the world.

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While multinationals have benefited from globalization and internationalization, SMEs have been affected in different ways. Globalization has been having a profound impact on SMEs compared to large multinationals. Gjellerup (2000) clarify that SMEs are no longer passive victims of the internationalization process and they have become very active players with most of them, especially Turkish automakers, setting up their successful operations outside their domestic markets. SMEs have for a long time being confined to the domestic market and for many of them, existence beyond the domestic market may prove a difficult venture. There are many factors which have confined SMEs to the domestic market but most important has been lack of access to enough capital that can propel them to the international market and also lack market knowledge (Burns, 2001). However, for most SMEs, the domestic market is becoming limited especially with the increased opening of the local market to international competition. The world has changed in different aspects especially in business perspective. The process of globalization has brought about changes in socio-economic perspectives and SMEs have been challenged by the increased wave of globalization (Moini, 2008).

Globalization has impacted different on communities, individuals, and businesses. It has changed the way business enterprise develops and operation. Globalization has affected the national business policies and the impact of these policies on business operations (Observer, 2000). While globalization has come with different positive aspects, it has destructive aspects as well. Globalization can be compared to a life train rescuing countries, individuals, and business entities in danger such that those left out of by the train have no chances of making it. Globalization has led to openness of domestic markets which is driven by deregulation and linearization

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advocated for by the global governance institutions like WTO (Moini, 2008). Globalization has therefore created a competitive market or “globality” which is increasing becoming more turbulent and multifaceted than any time in the history of the world (Moini, 2008).

While large business may find it easy to withstand the increasing level of competition, the pressure may be too much for Small and medium-sized enterprise. In “globality” both multinationals and SMEs converge in the domestic and foreign markets. For SMEs, their localized trading activities are more likely to be marginalized by multinationals and other larger companies since they have the ability to penetrate potential customers through the use of modern advanced information technology and communication tools (Observer, 2000). They are also likely to raise a larger distribution network due to their large capital outlay which will outwork the SMEs even in their local areas of operation. SMEs are faced with a daunting task of counteracting the marketing efforts of multinationals. Most SMEs are psychologically cautious and are most of the time reluctant to make such efforts due to their financial limitation especially when it comes to adoption of modern ICT in marketing (Moini, 2008). SMEs have a weaker resource base and little lobbying power which means they are forced to operate in an environment where the policies are biased towards the operations of larger enterprises and the developed economies.

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In a positive note, globalization has however brought about advantages for SMEs. First it has increased market access for SMEs willing to operate beyond their home countries. This offers them opportunities to operating in the same platform with multinationals. Second globalization has also improved the rules and procedures which are used in governing international trade like the Doha talks which are opening ways for SMEs. According to Hollensen (1998) the process of internationalization of any company is usually initiated by someone inside or outside the company. This means that it may be difficult for a company to initiate the internationalization process without an internal or external trigger. Some of the most evident internal factors in the process of company internationalization include perceptive management, certain internal events, and internationalization from inward. On the other hand, external triggers for the internalization process include extended market demand, higher level of competition, association with traders outside the country and continued use of external experts from other countries (Observer, 2000). These factors have been explained in greater detail below:

Perceptive managers are those managers who are long sighted. These are managers who can see beyond the local market and believe that expansion of their companies to new markets will create new opportunities and improve their performance. For example a perceptive manager will not only travel to an external country for specific business purpose but they will try to explore new opportunities for their companies as well. Hollensen (1998) assert that a perceptive manager joining a new company will strive to bring in experience that has been gained from previous management into the company.

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There can also be a specific event in the organization which eventually leads to internationalization of a company. Under this category, there can be push or pull factors (Moini, 2008). For example a manager who leaves the company to work in a new market for another company can create links with the old company opening up new market fronts for the company. However, there can be a more specific push event like overproduction or increased competition in the local market which will eventually force the company to opt for a new market. Different researchers have shown that for most SMEs, the decision to venture into a new market elicits from either the CEO or the marketing department. Even when the decision comes from the CEO, the marketing department will eventually take up the duty of introducing the product to the new market.

The other factor for internationalization as explained by Hollensen (1998) is inward internationalization and outward internationalization which specifically include import and export specifically. Successful export activities have been identified as an opening for most SMEs especially in their early stage of internationalization. This process can be initiated by both the buyer and the seller where the buyer may search for an appropriate international supplier while the seller like an SME may be through advertisement activities.

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The growth in the international market is another factor that is likely to increase the process of internationalization for companies (Bennett, 1998). In the recent past, there has been increased opening of domestic markets especially in the developing countries. The opening of the internal market creates more opportunities in the international market. In face of shrinking domestic market, most companies will therefore be looking towards entering in the international market which acts as a pull and push factor for companies. For most SMEs, the international market provides an opportunity to experience a larger customer base market and higher profit opportunities as compared to the domestic market.

The level of competition in the local and international market also acts as a factor for an SME to enter into the international market. Hollensen (1998) asserts that when a company perceives the competing company to have a high interest in a certain market, the company is also likely to venture into the same market since high interest in a certain market is an indication that there are more profit opportunities in that market. This will act as a trigger for an SME to internationalize. The opening up of the domestic market also exposes SMEs to higher competition forcing them to find the alternative of an international market to find a larger customer base for their products and services (Terpstra and Sarathy, 2000). In most cases, this may act as counter-marketing where an SME enter into rivals' domestic market with an aim of equalizing their playing field. However, this strategy is usually risky and for most SMEs, it may end up in constrain of resources if the market is not well assessed.

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External factors have a great influence in the process of internationalization of SMEs. One of the greatest external factors behind internationalization of SMEs is trade associations. The current trends in business and the process of globalization have seen increased business to business association where companies are creating trade association (Observer, 2000). The collective experience of such companies especially when such business to business link is broken entices the company to internationalization into the foreign market to enjoy its earlier benefits.

Another factor behind increased internationalization of SMEs is their association with foreign experts. Hollensen (1998) assert that there are different kinds of expertises which can be outsourced from different markets outside the domestic market. One of the expertises can be agents who are already engaged in business with foreign markets and therefore have established the necessary contacts that can help SMEs in internationalization. The other source of expertise to internationalization is the government from both the domestic country and international market country. Every government in the world strives to attract foreign investors while the domestic government provide incentives for domestic companies to engage in foreign market in order to earn foreign exchange. The chamber of commerce is another organization which is committed to motivate domestic companies to expand their operations to foreign market.

2.2. Defining SMEs

Small and mediums enterprises (SMEs) is a term which is used to described companies which have a headcount which is far below some of the agreed limits (Caner, 2007). However, there are different definitions of SMEs which vary from region to region. For example, European Union members had their own definition of SMEs which varied from one country to another. In Germany, SMEs have a threshold of 250 employees while in Belgium the threshold was 100 employees. In the United States, a small enterprise is recognised as that having not more than 100 employees while a medium enterprise has between 101 and 500 employees. United States and European Union however agree on the definition of small office as that having not more than 10 employees (Caner, 2007).

SMEs comprise a larger percentage of entities in the world. In the European Union, SMEs compress approximately 99% of the total business entity. These firms employ more than 65 million people and SMEs have been held accountable for driving innovation and competition. In the global economies, SMEs comprise more than 99% of business accounting for more than 40% to 50% of the world Gross Domestic Product (GDP). (Caner, 2007) The main advantage of the SMEs sector as compared to the other business sectors is that SMEs have a low capital cost which means they are easy to start and operate. SME sector has a higher employment potential at a very low capital cost. The current statistics shows that SME sector employ more than 31 million people in more than 12.8 million enterprises. SME sector has been estimated to have a labour intensity four times more than the larger enterprises.

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There is no universal definition of SMEs. The term is used to describe a number of definition and measures. The common definition is excerpted from OECD definition which is based on employment figures where an SME has less than 500 employees. In EU the most used definition is Eurostat definition which defines SMEs as an organization with fewer than 250 employees. According to the new revised EU definition of SMES, it should have fewer than 250 employees with an annual turnover not more than 50 million euro and a balance sheet not exceeding 43 million euro.

In Turkey, the most common definition of SMEs point those business entity with less than 50 employee as small while those with 50 to 100 employees as medium sized enterprises. In financial terms, Turkish SMEs are considered to have revenue of less than US\$15 million. Another criteria used in definition of SMEs in Turkey is that it should not be owned by a non-SMEs firm or their ownership of such firm should not exceed 25% of the shares. Other qualitative aspects include that the owners should not be the managers, it should not have a hierarchic management, it can be a family business, it should not be quoted in the stock market, and it should find it difficult to trade in foreign market. Turkish definition of SMEs has been developed to align with EU definition except for turnover threshold that has been considered below the EU standards. The main issue of aligning Turkish definition of SMEs with EU definition has been to harmonize the entry of Turkish SMEs to the EU market.

2.3. Common competencies of SMEs

One of the main reasons behind the increased growth of SMEs has been their competencies compared to other business. The following are the main competencies associated with SMEs:

SMEs require little capital to set up as compared to other business. Start up capital for a business is one of the factors which determine the future growth and expansion. This means that the higher the start up capital, the higher the risk involved in business operation. SMEs require only small capital to start up and therefore their risk less compared to other business.

Due to their small size of operation, SMEs are easy to manage. Most SMEs are operated by family members showing that it is easy to manage and operate. When compared to large organizations, SMEs may not have many departments which increased management control of the business and reduced the cost of business administration.

Decision making process in SMEs is simple and fast. Unlike larger organizations, SMEs have simple structures which allow for easy decision making process. Bureaucratic structures which are used in managing large enterprises make decision making difficult since there is a lot of consultations.

The cost production in SMEs is greatly reduced when compared to larger enterprises. SMEs have reduced cost of production owing to their higher degree of

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specialization, work flexibility, low cost labour, and other factors. The cost of product per one unit of a product would be less in SMEs when compared to larger enterprises.

2.4 Contribution of SMEs to the economy

One of the most evident sign of a growing economy is the presence of a flourishing SMEs sectors. SMEs play a vital role in the economic growth and development in different ways. SMEs role in the economy encompass the creation of job opportunities especially in rural areas, provision of sustainability and innovativeness in the economy, and in other ways. The bulk of economic development in different countries lies in the growth in SMEs.

2.4.1. Employment creation

One of the most important functions of any government is to ensure that people in the country are engaged in economic growth activities. This ensures that the country has an active population employed in different sectors of the economy. The two common forms of employment are formal and informal employment. Formal employment occurs when an individual is employed by the government or by another institution. On the other hand, informal employment occurs when an individual is self employed.

Formal employment is limited by many factors like individual experience and education status. The available chances for formal employment are also fewer while compared to the workforce in any country. Therefore, informal employment becomes an option for many people in the world. The role of SMEs in the informal employment cannot be underestimated (Caner, 2007). SMEs therefore supplement the government efforts in providing employment in any country.

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Empirical research data has shown that SMEs are major contributors to employment in the world. World wide, SMES employ more than 70% of the total labour force especially in the low income countries and 95% in the middle income countries. In India, SMEs employ more than 31 million people with a labour intensity that is four times that of larger organization. In 2007, data released by the Business Enterprise & Regulatory Reform (BERR) showed that 99% of the UK economy comprise of SMEs. This means that out of 4.8 million of businesses in UK, only 1% was made up of larger corporations. Sole proprietor business in the UK comprises 73% of the UK business but they only account for 7.4% of the total GDP. However, SMEs which employ one or more persona absorb a total of 14.3 million people out the 30 million working population (European Commission, 2003; Davidsen and Honig, 2003).

In OEDC, more than 95% of all the enterprises are SMES employing about 60% to 70% of the entire labour force (OECD, 2002). In turkey, SMEs is leading source of employment. Recent statistics shows that 98% of the enterprises in Turkey are SMEs which absorb more than 58% of the entire labour force in the country. Economic experts have postulated that SMEs are the most important factor that will take developing economies out of their financial crisis through provision of employment.

2.4.2. Flexibility to adapt quickly to innovation

Unlike larger organization, SMEs have a smaller and flexible structure which can easily adapt to the changing nature of technology. SMEs have a smaller operation structure which makes it easy to adapt to changes taking place in the environment. One of the major inherent strength in SMEs is flexibility (Burns, 2001). Although research shows that small business do not respond well to the changing environment, their nimbleness and response speed is however aided by their small size of operation and a structure that allows for continuity. Their flexibility emanates from the close link between their management, planning process, and working process.

SMEs managers have been shown to pursue available opportunities with higher level of flexibility and innovation. One of the weaknesses facing SMEs is lack of enough resources to fund their operation. Although this has been shown as a great obstacle to their growth, SMEs have turned it to be an opportunity for innovation and flexibility. However, their flexibility may also lead to change in demand patterns leading to transient relationship between SMEs and suppliers. This means that there is a likelihood of strained long term relationships with their customers. However, it allows for adaptation to the changing environment (Caner, 2007).

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Due to their small structures, SMEs don't have specialization of tasks. This means that managers and other employees are flexible and adaptive in their performance to satisfy all the demands in the operation of the enterprise. This flexibility is quite important in provision of products and services in market place that is fast changing. Since most workers and managers are likely to work out of their area of specialization, they are likely to become more innovative in provision of services. In staff development, SMEs are more likely to be concerned with development of staff competencies and capabilities to enhance flexibility, timely responsiveness, and diversification of skills aimed at increasing their innovativeness. When compared to larger enterprises, SMEs are likely to maximize opportunities which allow for flexibility through adoption of multiple skills and multifaceted technology for their survival. In addition, they must draw up working strategies that will mitigate the negative effects of lack of resources in a changing market. This becomes the base of their innovativeness.

2.4.3- Promoting entrepreneurship

Small and Mediums Sized Enterprises has long being considered as the engine for entrepreneurial and the economic growth. Larger enterprises have grown out of SMEs which reassert the fact that SMEs encourage and nurtures entrepreneurship. SMEs promote private ownership and growth of entrepreneurial skills. Due to their flexibility and innovative nature, they have been considered influential in stimulating entrepreneurial skills when company to larger enterprises (Cortes, 1987). Entrepreneurial is the ability of the individual to turn ideas into business actions. Entrepreneurship mainly involves creativity, innovation, and acceptance of risk including the ability to put into practice planning and management skills to achieve set goals and objectives. In broader definition, entrepreneurship can be described as the mindset that is applied in business activities and in general life (Burns, 2001). This implies that entrepreneurial skills is vital fro competence in other skills as well. Research has also shown that most SMEs develop from sole proprietor or family run business. As the business expands, a sole proprietor may find it difficult to handle all the activities of the business and therefore employ one or two employees to assist in running the business. With time, this business may expand and establish new branches. Establishment of a sole proprietor business depends entirely on the entrepreneurial skills of the owner of the business. Therefore SMEs allows individual to put in practice and test their entrepreneurial skills.

2.4.4- Boutique production through product differentiation

According to Goldman et al., (1995) the survival of SMEs in the competitive market mainly lies in the competitiveness of their products. While they are limited in resources capacity to engage in advanced research, flexibility and innovation in SMEs assists them to create new products. Product differentiation is one of the main strengths that help SMES to survive in highly competitive market. For example, large enterprises serve a larger market segment and in most cases they tend to generalise their products and service (Caner, 2007). On the other hand, SMEs serve only a segment of the market or a niche market which helps them to differentiate their product and service to suit the particular needs of that segment. Product differentiation has been used by different SMEs in order to compete with large enterprises

2.4.5- Provide supply goods to large enterprises

The relationship between SMEs and large enterprises may be of competitive nature but they are alliance in business. Researchers have found out that there are increased Business to Business activities between SMEs and larger enterprises than between larger enterprises. Apart from supplying products and services to the general population, SMEs also provide goods and services to the large enterprises as well. SMEs are engaged in production of specific goods and services (Burns, 2001). While large enterprises specialize in production of complete products, SMEs may be technologically incapacitated to produce whole products like vehicles. However, they can competitively produce parts which are used in production of the whole product. For example, in automotive industry, large enterprises can engage in production of vehicles. SMEs may be limited by availability of resource to produce vehicles but they can produce some parts which can be later assembled to a whole vehicle. This means that SMEs can supply automotive parts to large enterprises which later assemble the whole vehicles. In such cases, it will be found out that different SMEs will be contracted by large enterprise to produce different automotive parts. This ensures that there is specialization for SMEs.

2.5. Supply chain

A Supply chain can be described as strategic alignment of firms which brings products or services close to customers. It is made up of different stages which are used in meeting the demands of the customers (Hatice, 2007). A full supply chain will include manufactures, suppliers, transporters, warehouse, retailers, and finally customers. Therefore a supply chain can be considered as a systematic and strategic coordination of business functions. This is usually performed across a business or a particular company with the main aim of improving the performance of the company and the supply chain in general.

A supply chain is important as it assist the company compete effectively in global business through creation of alliances. It is also important in reaching the global through expansion of the distribution chain (Hatice, 2007). It also assists a business to focus on its core expertise thereby targeting its market effectively.

A supply chain is driven by different factors including production, inventory, transportation, location, information, and many other factors. For SMEs supply chain is important since it increases their efficiency and at the same time reduces the cost of operation and distraction. A supply chain therefore leads to significant gain for SMEs in any country. Supply chain management is advantages to SMEs since it assist in reduction of cost, flexibility, customer satisfaction, and other factors which can enable SMEs to compete effectively with other larger enterprise in the same economy. Supply chain management brings together the production and supply process of SMEs

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thereby reducing the cost of operation and the competitive effecting the domestic market (Hatice, 2007).

2.6. Adapting to a changing environment

Organizations are living in a dynamic environment. The business environment has been changing in different ways especially with the changing nature of technology and globalization process. The changes taking place in the environment cannot be changed and the only option is for organization to adapt to the changing environment. SMEs have been faced with a great challenge of overcoming competition in the domestic and international market. As globalization takes effect, there has been increased polarization of borders which has enabled cross boundary flow of capital and labour (Sakai, 2002). Traditionally, SMEs were faced with local competition alone but today, the competitor may not be a firm adjacent to the SME but an unknown firm located in the region or internationally.

The changing nature of technology has dramatically changed the terms of competition for SMEs. Every firm is looking for a weakness in firms operation in a country so that they can utilize that weakness to venture into the market (Grimes et al., 2007). Competition in the 21st century has become an all-round watch out activity where SMEs need to constantly monitor the progress by other firms. For example, fierce competition has been witnessed in the banking industry where operating adoption of Information and Communication Technology (ICT) has become the main term of competition. Any financial SME which fails to adopt ICT faced fierce competition from others which have adopted ICT in financial services.

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Therefore, SMEs are facing competition from the domestic and international firms. As market boundaries become more polarized and open, SMEs find that the earlier market protection has been polarized and they are open to competition. SMEs therefore need to respond to the changing terms of competition not by calling for market adjustments but through restructuring of their operation and production systems to rise to the higher level of competition (Sakai, 2002). While the level of competition has continued to rise in both domestic and international market, SMEs are incapacitated in different ways to rise to this level of competition. Their limited resources impend on their ability to raise a counter strategy that will empower them to rise to the competition.

2.7. Problems and Solutions for SMEs when penetrating foreign markets

The following are the problems and solutions for SMEs penetrating in the international market.

2.7.1. Problems encountered

The changing nature of competition in the domestic market has evidenced increased internationalization of SMEs (Grimes et al., 2007). The international market presents an opportunity for SMEs to explore new market opportunities to market their products and services. However, venturing into a foreign market comes with different challenges for SMEs especially due to the high level of competition in both domestic and international market (Leonidou, 2005). The difference in business

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operation structure, government policies and regulations, standards of quality, and others have been identified as the main challenges facing SMEs.

For a successful venture into a foreign market, SMEs must come up with strategies to overcome these challenges. Most important, SMEs need to learn from the firms in the foreign markets which they are venturing, to understand their structure of operation so that they can adopt counter strategies to compete effectively in the market. This means that SMEs entry into a foreign market should be preceded by an effective market research data of the firms in the foreign market.

a) **Security: CE-Marking**

CE marking is a mandatory safety market that must appear on products which are produced within the European Economic Area (EEA). This is a mark that is granted once the product has been cleared of all its security concerns. By putting in place a CE marking on their products, manufacturers assures the consumers that the produced has met the essential requirements which have been laid down by European Directive on safety, public health, and other consumer protection concerns. The advantage of a product bearing this mark is being granted a free access to the European market since it comply to the requirement, free movement of the product to France and other EEA, and proving to the client that the product is safe (AFNOR Group, 2009). CE marking has been considered stringent and very specific to an extent that SMEs find it difficult to meet these standards. Some of the CE Marking standards require the use of high level technology which is out of reach of many

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SMEs. This means that SMEs operating in European region are likely to face a great challenge in meeting these standards.

b) Environment- ISO 14000

Toward the fourth quarter of the 20th century, there has been an increased concern about the environment degradation and climate changes. There have been a number of defunct international agreements on environmental changes which have not been effective in tackling environment issues. ISO 14001 was enacted in 1996 as a standard Environmental Management Systems. This system was based on ISO 9000 family specifications. Some of the most important aspects of ISO 14000 are;

- i. The standard is voluntary
- ii. Its flexible and non-prescriptive
- iii. Can be integrated in the existing environment programs and systems
- iv. Calls for continued improvement
- v. Encourage cost saving measures through integration of environmental requirements in the operation of the system
- vi. Provide market advantage for the product

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ISO Environmental Standards include a number of voluntary standards which include environmental management systems, eco-labelling, assessment of life cycles, evaluation of environmental performance, and many others. Miles et al., (1999) argues that although SMEs are as well concerned with the environmental impact of their products, the requirements of this standard may be too stringent for them to meet even when their products are environmental safe. This is a great challenge for SMEs especially those operating in EU region.

c) **Quality- ISO 9000 Quality Standards**

Quality is the most important aspect of any product or service. Whether a firm is producing tangible goods like construction materials or services like financial services, customers will be expecting higher quality of the products or services (Grimes et al., 2007). Research has documented that high quality products and services creates consumer loyalty and opens new opportunities for businesses. ISO 9000 is a quality management system which ensures that products meet the expected standards which apply to both SMEs and multinational corporations. ISO 9000 puts in place the requirements rather than stipulation how the quality system should work leaving room for business entities to adopt the quality system to their culture. ISO 9000 is based on different principles specifically customer focus, leadership, people participation, process approach, system approach, continual improvement, and others. Quality system management may appear simple in definition but they are quite difficult to meet for SMEs (Leonidou, 2005). These quality management systems may result to strain in resources for SMEs as they struggle to meet quality standards for their products and services.

d) Lack of trained staff and Foreign Language Problems

One of the most important assets for any enterprise is well trained a competitive staff. Human resource management studies have shown that in the 21st century, organization need to continuously train their staff to upgrade their skills and hence their competitiveness (Leonidou, 2005). However, this requires input of resources. Due to resources constrain, SMEs are facing a challenge to continuously train their staff. This means that SMEs are likely to be faced with a challenge of lack of trained staff. For a successful venture into a foreign market, SMEs are also faced with a challenge staff well trained in foreign language. Large enterprise have resource base to hire experts who are trained in different languages who can oversee their operation in foreign countries. Lack of capital and resources therefore impends on the ability of SMEs to hire experts trained in foreign language to oversee their operation on in foreign markets.

e) Government policies and Import Quota

Government policies and market protection through tariffs and quotas is another challenge that is faced by SMEs in venturing to the foreign market. In most countries, government policies ensure protection of the domestic SMEs while import quotas restrict the quantity of products that can be exported to those countries. In most cases, these barriers come with political issues which means only large enterprise is likely to benefit (Leonidou, 2005).

f) Technology and R & D

Every other day, a new technology is transforming production, marketing, and distribution process in business. In the 21st century competitiveness in business is pegged on their response to the changing nature of technology through research and development. However, adoption of the emerging technology depends on the resources available in a business organization (Leonidou, 2005). For example, putting in place a new ICT system is very expensive which means SMEs may find it difficult to adopt such systems. The rising competition calls for improvement of products and services through research and development. However, this also requires input of resources which may not be available for SMEs.

g) Standardization

Standardization is another challenge that is faced by SMEs while venturing to the international market. Standardization entails meeting some quality aspects for all the products and services produced by a business organisation. Standardization of products sometimes require high technology equipment which may not be available for SMEs. Research has also found out that SMEs are also faced with a challenge of ensuring standards provision of products and services throughout its establishments which may be due to lack of standardized management and operation practices.

h) Culture

The culture of an organization encompasses the practice that have been perfected over time and proved effective in the operation of an organization. Culture is unique from one organization to another and it is used to identify a particular organization from the rest. Organization culture has a strong influence on its performance since it determines the day to day operation of the organization (Leonidou, 2005). Culture can stimulate or slow growth. For SMEs, research has found out that culture can be a great impediment to their growth to foreign market. At the same time, SMEs which ventures into foreign market are faced with another challenge of difference in domestic and foreign culture. Difference in business culture between the domestic and foreign market can have negative impact on the successful growth of SMEs in a foreign market.

i) Country and Company Image

The country of origin and the image of the company can have positive or negative impacts on the growth of SMEs in a foreign market. More than the product, company image has been considered an important factor in the successful venture into a market. Research has found out that the country of origin is an important consideration for consumer when purchasing their product (Leonidou, 2005). For example, China as a country is associated with low quality products and any product from China is more likely to be shunned by customers in the foreign market. The “Made in ...” label is a powerful marketing tool with a lot of influence in the market. Company image is also closely associated with its product. Large enterprises have found it easy to create a positive image from their influence while this may be difficult for SMEs (Clark et al., 1997).

j) Production Costs

One of the premises behind the increased growth of SMEs is cost reduction measures. Venturing to a foreign market means that SMEs have to increase their production in order to meet the market requirement. Unlike when distributing their products to the domestic market, SMEs operation in foreign market will have additional production cost depending on the market entry strategy of the firm. Whether the firm opts for direct or indirect market entry strategy, the cost of production is likely to shoot up when compared to the local market which poses a challenge in foreign market strategy considering that SMEs have financial limitation to meet additional cost (Leonidou, 2005).

k) Transportation-Warehousing and Distribution

For a successful entry into the foreign market, there has to be an effective distribution system which ensures that products and services are distributed throughout the country (Leonidou, 2005). Depending on the market entry strategy, SMEs can put in place an effective distribution system but in most cases, SMEs venture into foreign market directly due to their financial limitation which hinders their ability to put in place an effective distribution system. Without a warehouse and distribution system, SMEs find it difficult to venture in a foreign market.

l) High Competition and strong competitors

SMEs face high level of competition both in the domestic and the international market (Leonidou, 2005). Competition acts as a push and pull factor in that a competitive market is seen in terms of its potentiality with a belief that non competitive markets have low growth potential. At the same time, high competition in the local market also pushes SMEs to venture into foreign market as they market share shrinks in the domestic market. The presence of high competitors in both domestic and foreign market is a major challenge faced by SMEs particularly due to their resource limitation.

m) Used and fake goods

Used and fake goods are another challenge faced by SMEs in their foreign market venture. Counterfeit goods have a negative impact on product growth in both domestic and foreign market. Used and fake goods reap from the marketing efforts that have been carried out by SMEs since most consumers cannot differentiate between genuine and counterfeited goods (Leonidou, 2005). Unless there are stringent government rules counterfeit products, SMEs may find it difficult to venture into a foreign market.

n) Foreign Exchange risk

Foreign Exchange risk is another greater impediment in the successful venture of the SMEs in the foreign market. One of the major differences between large enterprise and SMEs is that SMEs have lower tendency to risk and therefore they are likely to venture in investments where they can absorb the risk (Leonidou, 2005). Unlike the domestic market, foreign market comes with their own risk especially when it comes to foreign exchange to valuation of the devaluation of currencies in the two countries.

2.8. Recommend Solutions

The increased internationalization and globalization of economic systems means that SMEs are left with little option except to adopt measures to adapt to the changing environment. It is therefore imperative that SMEs come up with strategies that will mitigate the overall risk involved in their venture to the foreign markets. The following are some of the solutions that SMEs should consider to mitigate the difficulties they face while venturing to the foreign market.

a) E-Commerce

The growth of the internet based electronic commerce offers and opportunity for SMEs to expand their customer base without incurring the risks and cost involved in venturing into a new market. E-commerce should be considered by SMEs as an alternative to overcome a number of challenges faced while venturing in the market. It can assist SMEs to customize their products and services, manage their supply process and in their inventories, and also to reduce the time between delivery and ordering of goods and services (Cortes, 1987). However, research has revealed that SMEs adopt e-commerce slowly than other large firms despite the obvious advantages that comes with adoption of such technologies. This slow rate of adoption can be attributed to a number of internal factor including inadequate finance, low level of understanding of the complexity of the electronic commerce operation, inadequate skills among the staff, high cost of access to ICT infrastructure, and other factors. To overcome these challenges, SMEs should consider enterprise clusters where SMEs

can work in clusters to access ICT infrastructure which greatly reduces the overall cost.

b) Strategic collaboration

Strategic collaboration between SMEs can reduce some the risks that are faced by SMEs while venturing in a foreign market. Strategic collaboration does not work in the same way as a merger or an acquisition but rather it is a mutual collaboration between two or more SMEs where both benefits. For example if SME A operate in on country specializing in clothing and fashions, it can form a collaboration with SME B which operate in another country producing the same goods but under different brands to markets goods produced by SME A in its domestic market. In the same way, SME A will respond by marketing products produced by SME B in its domestic market. This means that both SMEs will be marketing their products in the two countries without having physical establishments in both countries. In some cases, SMEs can merge with other SMEs to consolidate their market and reduce the cost of production. Strategy collaboration assists SMEs to compete with multinational operators.

However, strategic collaboration comes with its problems especially in management and integration of the marketing goals of the two SMEs (Cortes, 1987). This means that it has to be pre-planned before it is implemented and a careful assessment done to ensure that possible obstacles are resolved before it is implemented. Despite the possible challenges, strategic collaboration between SMEs can go a long way to reduce a number of challenges faced by SMEs while venturing in a foreign market.

c) Database Marketing

Data base marketing is a direct marketing strategy which uses database of customers with an aim of creating a personalized communication plan to promote products and service produced by the company. Unlike other forms of direct marketing, database marketing emphasizes on data analysis in order to come up with customer behaviours which selects customers for the purpose of communication. Database marketing can be used by SMEs venturing into a foreign market to profile customers and hence come up with effective strategies that address the needs of a particular group of consumers. This can assist SMEs to become more focused in their marketing efforts (Hughes, 2000).

d) Sectoral Foreign Trade Companies

Sectoral Foreign Trade Companies (SFTC) was an initiative from Turkey which was developed in 1990s to encourage the growth of SMEs and their increased internationalization. The organization structure encourages SMEs to venture into foreign market engaging in foreign trade activities. Under the initiative, different SMEs come together to form a larger joint venture company where each SME has a limited share in the entity. SFTC have been found effective in raising capital for SMEs to venture into a foreign market and reducing other related risks when SMEs venture into the market alone. SFTC can therefore be an effective strategy for SMEs to venture into the foreign market (Tarriff, 1993).

e) Bartering

Although it is considered as an outdated form of trade, barter system has been considered as one of the most effective way of venturing into a foreign market. The barter system involve counter trade measures in which SMEs can exchange goods and services in their domestics market while they engage with another SMEs which market their products in another market. The barter system works as a strategic alliance but in this case, SMEs will be exchanging goods and marketing them in their own domestic market. This reduces the overall cost that SMEs incur while venturing in a foreign market. The barter system can therefore be used by SMEs to reduce the cost of venturing in a foreign market (Ruzzier et al., 2007).

f) Participation in trade fairs

Trade fair can be an inexpensive way for SMEs to venture into the market. An SME aspiring to venture in a certain market can begin by first participating in trade fairs where it gives consumers a chance to familiarise with its products and services. It is through trade fairs that the SME will create new customers and other SMEs to form a strategic alliance that assist it to venture into the market (Ruzzier et al., 2007). Participating in a trade fair is an inexpensive way to advertise products and services offered by a company.

g) Incentives and Supports

Government incentives and support can go a long way to mitigate the challenges faced by SMEs in venturing to foreign market. Government to government engagement can be used to create enabling environment for SMEs to venture in a foreign market. For example the chamber of commerce can be used as an important business avenue to censure the government to put in place policy framework to reduce the number of problems that are faced by SMEs (Ruzzier et al., 2007).



CHAPTER 3

METHODOLOGY

3.1. Research philosophy and orientation

Research philosophy defines the way that the researcher thinks regarding the development of knowledge which generally affects the research approach, research methodology, and the data collection methods. The research philosophy is important in clarifying the research design that is to be used in the study. There are three basic research include positivism, interpretation, and realism which are epistemological approach while philosophical approach include objectivism and constructivism.

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The main research philosophy for this study is based on the premise that SMEs play an important role in the economy of any country. With the rapid changing business environment, SMEs can no longer operate in the confinement of their environment. They need to take adaptation measures in order to operate within the realm of the changing business environment. The research orientation for this study is based on the fact that SMEs can gain a lot from the internationalization process but once they understand the challenges they are likely to face and the effective strategies they can adopt to overcome these challenges.

3.2. Research design

The research design used in this study was survey method. In survey method, the researcher selects a sample that bears all characteristics of the study population. The study is carried out using the selected sample with assumption that it will be replicated to the whole population. Survey research method is preferred in most social and business studies since it can be applied in different forms including written surveys, oral surveys, and electronic surveys.

Survey method was chosen for this study since it is relatively cheap, can be used to describe the characters of a large population through use of a small sample, can be administered in a remote areas, use of large sample is feasible which increases the statistical significance of the study, and there is a lot of flexibility in administration of survey instruments (Churchill, 2002). Survey method is also rated higher on reliability.

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This study is a business study research samples will be selected to study how SMEs can successfully venture into the foreign market. The study will take a qualitative approach using the survey method to collect data from firms operating in Turkish auto parts industry. This data will allow for systematic understanding of the how the Turkish SMEs sector has evolved and how it has been internationalized, the challenges it has faced, and steps that have been taken to overcome these challenges.

3.3. Data Collection Method

There are three types of surveys including written surveys, oral surveys, and electronic surveys. This study will use written and oral survey methods. The study will use self administered questionnaires in the data collection method. Questionnaires are the common method used in data collections especially in surveys. Questionnaires are commonly used in surveys since they are easy to administer in a large sample. This study will use closed format question for easy analyses of the data collected.

3.3.1. The person interviewed

In every company, not everyone could be selected to answer specific question regarding its operation. The study therefore relied on information from the operation manager if available or from public relations officer. However most SMEs don't have these positions and therefore the manager can also be an important source of information regarding the operation of the company.

3.4. Pilot Study

Before the actual data collection process, a pilot study will be carried out to test the effectiveness research process. A pilot is a feasibility study or a small experience which is designed to test the logistics and the data collection before the actual study is carried out. The result of the pilot study will be used to improve the quality and the efficiency of the data collection process. The pilot study will be carried out in five SMEs in Turkish auto parts industry. However, the five SMEs will be excluded from the final selection sample.

3.5. Sampling

Sampling is a statistical procedure that is used in selection of samples for the study. Sampling is intended to yield systematic knowledge about a population under the study for the purpose of statistical inference. Two major theories which are used in the statistical process include the probability and statistical theory.

The main population for the study will be Turkish SMEs in the auto parts industry. There are about 4000 SMEs in the Turkish auto part industry who will form the sampling frame for the study. However the study will only select a sample of 100 SMEs to work within the time frame and resources available. The main sampling method that will be used in the study will be simple random sampling which is a probability sampling. Simple random sampling will help to reduce bias in the selection process.

3.5.1. SME qualification

There were specific criteria that any company had to meet to qualify for the study. This criterion was generally adopted from the Turkish definition of an SME. The following were the general profile for company participating in the study:

- a) Must be operating in the auto part industry
- b) Must have met Turkish criteria for definition of SMEs which include:
 - i. Have not more than 250 employees
 - ii. Annual revenue turnover not more than US\$15 million
 - iii. No owned by a non-SME company which means all non-SME company had not more than 25% of the ownership
 - iv. Not quoted in the stock market

The information regarding these companies would be obtained from government(Ministry of Industry and Trade). Data from Registrar of companies, stock market, and from the SMEs themselves would be vital in obtaining this information.

3.6. Data analysis

The data analysis process is important in any research process. Data analysis process assists the researcher to present the collected information in a coherence manner and to relate it with other studies. Data analysis process acts as the link between the methodology and the discussion of the result of the study. Since this will be a qualitative study, the study will use simple data analysis tool like means, percentages, and other tools.

3.6. Ethical issues

There will be a number of ethical considerations in the process of carrying out the study. The following will be the main ethical consideration:

- a) The research will ensure that their privacy of information. The data obtained will be used for the purpose of the study alone and will not be diverted to a third party.
- b) The study will also ensure that participants are well informed of the purpose of the study and their consent will be sought before participating in the study

3.7. Professional Development Plan (PDP)

A Professional Development Plan (PDP) is a recording of the skills that an individual had gained from an experience. It is a reflection of the extent to which an individual has met goals and objectives that had been set before carrying out a project. Therefore a PDP shows personal development elicited by what has been learned from an experience.

For this study, my PDP was to gains skills in collection and analysis of data regarding the Turkish auto parts industry and how it has undergone through the internationalization process. These skills would assist me in my future research career. Through the study, I would also gain skill to collect primary data using structured questionnaires. Through the study, I also aimed at gaining knowledge regarding the competitive of the Turkish auto part industry both domestically and internationally.

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There will be no one single method through which I would develop these skills. While skills are imparted in the classroom, they are perfected in the field. This means that the classroom would be an avenue to gain these skills while my actual field work would assist me to perfect the skills. The study period which is approximately two months would be enough to assist me to gain the required skills. There are different activities which will be carried out during this period including the formulation of questionnaires, pre-testing, and actual data collection process. The most effective way to evaluate the skills gained involve successful carrying out of the study.

From the study, I feel that I attained my personal development plan. I successfully formulated the questionnaires, pre-tested it and went to the field and collected primary data. From the study, I also gained important knowledge regarding Turkish automotive industry and its internationalization process. The most important information I got from the process was that effective planning of the study, choosing the correct design and accurate data collection process are important for the overall success of any study.

CHAPTER 4

INDUSTRY BACKGROUND

Turkish automotive industry has undergone rapid development since 1950s to become one of the important economic sectors in the country. In the 1960s, the industry gained new momentum with the growth in the number of vehicle assembly plants. In the early 1950s, Turkish automotive industry started producing prototype vehicles and by 1954, the country produced its first vehicle assembly plant located at Tunk Willys Overland Ltd which specializing in production of jeeps (Akin Sari, 2008). The company experience a rapid growth and by 1955, it was producing trucks and buses by 1963.

This development was followed by increased establishment of passenger car companies like TOFAS a subsidiary of FIAT, OYAK form RENAULT, and OTOSAN which was a subsidiary of FORD. The companies established their growth in a period of three years in a row. By 1966, OTOSAN was produced as a brand that was produced and assembled in the Turkey. Today, old Turkish generation have nostalgic memories of ANADOL which was the passenger car. TOFAS and OYAK-RENAULT which were producing with licence from Italian and French motor industries become the leading automotive producers in the country. In 1971, these two companies had expanded their production such that it was necessary to set up their own plants in Turkey (Akin Sari, 2008).

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Since, then the automotive industry in the world has been rapidly changing. The emergence of Japanese and South Korean automotive industries has seen increased competition in the Turkish automotive industry (Akin Sari, 2008). Japanese and South Korean car manufactures have entered into joint venture with leading car producers in Turkey. The first case of internationalization of Turkish automotive industry saw BMC, which has been a leading Turkish truck manufacturer, export its own designed and produced trucks to the United Kingdom, Spain and Portugal. Turkish manufacturers have entered into agreements with other global companies and slowly they are becoming the centers for production of passenger cars which are being exported to all parts of the world.

The entry of the country to the European Union in 1987 opened new marketing frontiers for Turkish automakers. Presently, Turkey has the leading bus manufactures and also it has been ranked the third producer of light commercial vehicles in the whole of EU (Akin Sari, 2008). There are more than 15 companies which are engaged in manufacture of vehicles including passenger cars, trucks, min buses, trailers, and other as follows:

There are five companies producing passenger cars including FIAT, HONDA, HYUNDAI, RENAULT, and TOYOTA

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There are eleven manufactures producing pick ups and trucks including ASKAM, BMC, FORD, HYUNDAI, ISUZU, KARSAN, M.A.N., MERCEDECE-BENZ, OTOKAR, OTOYOL, and TEMSA.

The following table illustrate the main companies in Turkey, their location and the type of vehicles they produce:

Company	Location	Type of vehicles
HONDA	Kocaeli and Gebze	Passenger vehicles
ANADOLU ISUZU	Istanbul	Trucks, buses and pickups
ASKAM	Kocaeli and Gebze	Tractors, trucks and pickups
BMC	Izmir	Trucks, pickups, buses, and min buses
FORD OTOSAN	Istanbul and Kocaeli	Trucks, pick ups and minibuses
HYUNDAI ASSAN	Kocaeli	Passenger vehicles, pick ups and minibuses
M.A.N.	Ankara	Tractors, trucks and buses
KARSAN	Bursa	Pickups, and

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		minibuses
OTOKAR	Sakarya	Pickups, and minibuses
OTOYOL	Sakarya	Tractors, trucks, pickups and minibuses
OYAK RENAULT	Bursa	Passenger vehicles
TEMSA	Adana	Trucks, pickups, buses and mini buses
TOFAS-FIAT	Bursa	Passenger vehicles and pickups
TOYOTA	Sakarya	Passenger vehicles

From this list, it is evident that there is clustering of motor vehicles in some parts of the country depending on a number of industrial and environmental considerations. This also indicates that there is a high level of competition in the local market going by the type of cars produced in different industries. As we reviewed earlier, the competition in the local market is a push and a pull factor in the process of SMEs internationalization. The increased local competition in Turkish automotive industry started to be felt in the early years of development of the industry which consequently led to increased internationalization of companies.

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Turkish automotive industry has a higher capacity of producing more than 1.5 million vehicles every year. The bulk of the production rests in passenger car, which constitutes more than 60.7% of the total number of cars produced (Akin Sari, 2008). Appendix 1 indicates the level of production of vehicles by type in Turkish automotive market from 2002 to 2007.

Apart from vehicle manufacturers, the commercial tractor production sector has been gaining momentum and it is one of the biggest in the world. In total, turkey has 12 manufactures of commercial vehicles and three tractor production companies including UZEL, TURK TRAKTOR, and HATTAT TARIM. These companies have become the leading manufacturer and exporter of tractors in the agriculture sector in Turkey and to other international markets especially in the developing world. Production of tractors in Turkey has been growing in number each and every day. For example in 2002, the total number of tractors produced was 10,840 and by 2007, Turkey produced a total of 33,518 tractors which was a decline from the 38,847 total recorded in 2008. There has been speculation that tractor production in Turkey is being severely affected by the ranging global crisis.

There is a high level of competition in Turkish domestic market. With more than 12 commercial vehicles producers, Turkey is one of the most competitive markets to venture in the European Union. As had been reviewed earlier, the higher level of competition in Turkish automotive industry is one of the factors that have led to increased internationalization of these producers to seek opportunities in the foreign markets. Appendix 2 illustrates the level of production from each manufacture from 2003 to 2007.

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From appendix 2, it will be found out that Otosan has been one of the biggest vehicle manufacturers in Turkey with more than 286,256 car units in the light commercial vehicle segment. Otosan was closely followed by Oyak-Renault which produced about 263,656 vehicle units in the passenger car segment. Tofas-Fiat comes third with 212,493 vehicle units in light commercial vehicles and the passenger cars segment and Toyota close the four best produces with 161,516 units in the passenger car segment (Akin Sari, 2008). Unlike in other market, Toyota finds itself in an unfamiliar position trailing fourth. It will be acknowledged that in 2008 Toyota became the leading producer of vehicles in the world after toppling General Motors which has been the leading producer for 77 consecutive years (Akin Sari, 2008).

A peculiar ownership in the Turkish automotive industry reveals most of the companies are joint venture between leading producers in the world and local Turkish manufacturers. This is an indication that turkey is one of the most lucrative markets in the world with an enabling investment environment. For example Anadolu-Isuzu is a joint venture which is owned by Anadolu Group from Turkey, Isuzu Motors and Itochu Corporation. The joint venture has benefited a lot from the technical capability of Isuzu which is leading manufacturer in the world. Ford-Otosan is a joint venture between Koc Holding and Ford which began its operation in Turkey in 1984 (Akin Sari, 2008). Since then it has undergone dramatic growth and development and it opened up a new plant in 2001 consolidation its market share in Turkey.

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The growing competition in Turkish domestic market has forced many companies to turn to the international market for more opportunities. Since 1970s, there has been a growing trend towards internationalization of Turkish automotive industry. In 2007, the total export from turkey automotive industry reached an estimated 823,380 unties which was a 16% increase from the previous year units. There was a remarkable growth in the export of passenger cars which increased by 21% while commercial vehicle recorded a 38% export increase (Akin Sari, 2008). This is a clear indication that Turkish automotive producers are becoming bullish in the international market. However, the agricultural tractor export reached its all time record high increasing by more than 101% in the same years when compared to the exports that had been made in 2006.

While most countries have been looking for opportunities in the emerging market, Turkey seems to have enjoyed its entry into the EU bloc. A close analysis of the main export market will reveal that Turkey's main export market including Italy, France, Germany, United Kingdom, Spain, Romania, Slovenia, and Netherlands. Statistics reveal that more than 78.8% of the total exports were made to the EU countries. The leading export country for Turkish automotive is Italy which is closely followed by Finland.

4.1. Turkish automotive supplier industry SMEs

Turkey has developed a strong component sector and in the recent years, it has developed one of the most competitive automotive parts industries. The industry has been producing different automotive parts which are compatible with car brands like GM, Mercedes, BMW, Opel, Toyota, Honda, Fiat, Ford, and many others. Compared to other auto parts produced in EU region, the industry has a large production capacity producing high standard parts with a high potential for export.

The automotive and auto parts industry in Turkey is highly concentrated in Marmara region with Bursa as the epicentre for the industry. However, auto parts producers are also based in other major cities like Istanbul, Izmir, Kocaeli, Ankara, and others. Auto part production in Turkey is at its all time high and feeding most of the EU market (Akin Sari, 2008).

One of the historical developments in the industry has been the setting up of TAYSAD Components Manufactures Industrial Zone, commonly referred to as TOSB. TOSB is a project that was started back in 1999 by TAYSAD (The Association of Automotive Parts and Components Manufacturer). The project is located in Kocaeli covering an extensive area of 2500 hectare which provides members under TAYSAD with production sites, technical facilities, close proximity to vehicle manufacturers, training facilities, and other incentives which have been crucial for the overall growth of the auto part production sector (Akin Sari, 2008).

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TAYSAD has more than 180 members and represent 65% of the total output in the automotive supplier industry. TAYSAD also comprise a total of 70% of the total exports in the industry. 87% of TAYSAD members are based in Marmara region. All 180 members operating under TAYSAD employs more than 40,000 people directly and approximately 80,000 including the suppliers (Akin Sari, 2008). As an organization TAYSAD carries out various activities including lobbying on behalf of members states, designing of policies and regulations, advising members on production, productivity, and technical aspects, cooperating with public and private parts, organization participation of members in domestic trade fairs and international trade fairs, preparing and publication of promotional materials, representing the sector in various trade missions, and many other activities.

Like the Turkish automotive manufacturer, auto parts sector has a very high potential for export. Combine with the regional advantage of Turkey, this sector has continued to attract foreign investors and currently, there are more than 192 foreign investors. The auto parts industry is a reflection of the joint venture activities that we have identified in automotive manufacturers since world leaders in the industry has joint ventures with Turkish companies.

4.2. General Status of the Automotive and Automotive Supply Industry

The following is the status of the automotive and automotive supply industry sector

4.2.1 Automotive Supply Industry

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4.2.2. Supply Industry's Definition, Importance and General Assessment

Supply industry can be defined as a supportive industry that supplies essential auto parts. It has emerged as a separate sector in the automotive industry supplying automotive parts to both the manufactures and the consumers. Automotive supply industry is continuously playing a central role in the growth of automotive industry. However the industry has been created in joint venture with leading auto manufactures since the parts supplied by this industry are supposed to be used by the automotives produced by those manufactures.

The automotive supply industry is playing a key role in the growth and development of the motor vehicle industry. The sector is dominated by SMEs which means it can reduce the cost of production of auto parts and therefore supplies them to manufacturers and retailers at a lower cost. The Turkish auto part industry has been able to support the automotive industry production and the Turkish vehicle park. Turkish supply industry is one of the leading in European Union producing all kinds of auto parts except spark plugs. The auto parts produced include:

- a. Suspension system
- b. Engine parts
- c. Security system
- d. Chassis frame
- e. Hydraulic system
- f. Brake and clutch parts
- g. Power train components
- h. Casting and forging services
- i. Electrical and the lighting system

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- j. Batteries
- k. Seats and seat belts
- l. Auto glass

The supply industry is therefore playing an important role in the overall growth of the automotive industry.

4.2.3. General Status of the Automotive Supply Industry

The Turkish auto parts industry is a major player in the automotive industry. Auto part manufacturers are in close contact with the automotive manufacturers which means they respond to the changing industrial needs in time. Currently, there are about 4000 auto part manufacturers in Turkey. Like in other countries, more than 70% of these companies are SMEs (Akin Sari, 2008).

Since the early 1990s, auto part manufacturers have continuously increased their outputs. In 1998, the total output from the sector was US\$3.1 billion which later increased to US\$5.3 billion in 2004. In 2007, their total revenue reached more than US\$13 billion (Akin Sari, 2008). There are many factors which have contributed to the rapid growth of the industry in the recent years but most remarkable has been the increased internationalization of the industry and ascension of Turkey to the EU market.

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With the ascension of the Turkey to the EU market, auto parts producers have been faced with various challenges especially in meeting the quality standards. However, the sector has continued to Exeter effort towards improvement of quality and response to the environmental needs. For example most of the TAYSAD members are certified with ISO 9000 series and other standards. Turkish automotive parts have also strived to excellence winning coveted “European Quality Award” and others. For example Brisa, which is a tire manufacturing company in Turkey, was the first to be awarded the coveted award when it was started in 1996. In 1997, another Turkish auto part SMEs, Beksa, won the award (Akin Sari, 2008). In 2002, another company Bosh bagged a quality management prizes in for its operational units. In 2003, Bosch plant in Bursa was awarded European Quality Award in the production unit category and also in the field of organizational excellence. This is a clear indication that Turkish auto part manufactures are waking up the new challenges arising in the market (Akin Sari, 2008).

Today Turkey is ranked in 17th position in the largest auto manufacturers in the world. Combined together all the companies have an annual output f 1.5 million vehicles making it the leading manufacture of passenger buses and third in truck and commercial cars. In 2008, the sector grew by more than 42% and it is expected that Turkey will be come the 10th largest car producer sin the world in the next four years. By 2011, the industry is aiming at raking in more than \$25 billion in exports (Bozkurt, 2008)

4.2.3.1. Production, Export, Import and Domestic Sales

The sector has been experiencing rapid growth in production with a focus on export market. There has been significant growth in the replacement components. In 2007 alone the total export from the industry totalled US\$6 billion (Akin Sari, 2008). The export sector has played a critical role in the overall growth of automotive industry. The following are the main components which are exported from the sector:

- Engine parts
- Tyres and tubes
- Body accessories
- Wheels and parts
- Rubber parts
- Transmission shafts including cranks

Recent statistics has indicated that Turkey export more of its vehicles in parts. These auto parts are exported to different countries in the world including Germany, United Kingdom, Italy, France, Poland, Russia, Belgium United States, and others (Yasar et al., 2007). However, most of the auto parts are exported to the EU region. For example in 2007, more than 72% of the auto parts were exported directly to European Union region (Akin Sari, 2008). Turkish auto parts have been supplying most leading European vehicle producers like OPEL, VW, Ford, General Motors, and others. Appendix 3 shows the total exports to different countries in the world:

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From appendix 3, Germany comes as the leading export market for Turkish auto parts. Italy and France comes second and third. One of the strength in the industry has been diversification of its market such that the sector does not rely on one market alone. This market diversification reduces risks associated with economic changes in one market.

While the export market has been growing rapidly, industry statistics also shows that there has been increasing import of auto parts. In 2007, it is estimated that the imports from the auto parts industry was valued US\$10.9 billion recording a growth of 18.5% from the previous years (Akin Sari, 2008). The following were the main parts which were imported;

- Diesel engines
- Body accessories
- Gear boxes
- Engine parts
- Tyres and tubes
- Brakes

These imports were however for the growing segment of new models. This is an indication that Turkey auto parts has not been able to respond to the technical changes which are brining new models to the market each and everyday and therefore automakers are forced to import parts from other countries to assemble the new models. Appendix 3 shows the main import markets to Turkey;

4.2.3.2. Capacity Usage

With increasing marketing prospects in Europe, the industry has been optimizing its productivity capacity to ensure that it respond to the rising market demand. Since 1990s, Turkish automotive industry has been increasing its capacity usage. Currently it is estimated that the sector operate at 80% efficiency rising from lower 50% experienced in 2001 (Akin Sari, 2008). The ascension of the country to the European Union market opened new markets for the industry and increased investment by leading automakers in the world increased the capacity usage of the industry.

Turkish auto parts sector supply at least 80% of the total parts and automotive components which are required by the Turkish automotive industry. The capacity usage in the industry has been raised by a high degree of technological investment to an extent that the sector can supply Original Equipment Manufacturers (OEMs) which are required in the developed markets (Akin Sari, 2008).

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The increasing capacity usage has also been coupled with increased quality of products sold in the market. Most of the auto parts producers operating under TAYSAD have been awarded international quality certificates including ISO 9000, QS 9000, ISO 14000, and many others. This can be underpinned by the fact that more than 64% of all the exports are sold in the EU region (UNCTAD, 2006).

4.2.3.3. Productivity Level

Increased investment in the auto part sector has seen the level of production increasing day by day. TAYSAD has provided technical capability to its members thereby increasing the level of production of the industry. The location of the production zone offers close proximity to the automakers and therefore the sector is able to supply more than 80% of the automakers requirements. The industry can supply all auto parts except spark plugs and the parts which are required by new models.

CHAPTER 5

FINDINGS

The following were the findings of the study:

Structural ownership of the sector

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From the study, only 20% of the SMEs started were started with capital from Turkish companies while the rest 80% started from capital provided by leading automakers like Ford, GM, and others.

Productivity

From the survey, 70% of the firms surveyed had recorded more than 60% growth in the last three years with their production efficiency increased to 80%. For these firms, their growth has emanated from the increased demand of their products both domestically and internationally.

There is also a high level of specialization in these SMEs. 95% of the firms show that they have specialized in production of specific automotive parts while only 5% of the firms were producing more than one part. Most of the firms are joint ventures and are therefore likely to produce parts for their automakers. Specialization has assisted these companies to produce high quality products. Five of the firms participating in the study had won coveted quality awards domestically and internationally.

Factors for increased growth of the sector

There are four main factors behind increase growth of SMEs in Turkey including:

1. Establishment of TAYASAD
 - 94% of the firms in the study operated under TAYASAD umbrella while only 6% of the firms operated in isolation

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2. Higher investor interest

- 95% of the firms in the study were joint ventures between Turkish enterprises and foreign enterprises
- 5% of the firms were wholly owned by Turkish company
-

3. Government incentives

- 80% of the firms which had entered in joint venture in the Turkish Automotive market were attracted by government incentives.
- 94% of the firms operated under TAYASAD formed from government incentives of a free trade zones
-

4. Growth of Turkish export market in EU

- 87% of the firms export half of their products
- 75% of Turkish auto part output are exported to EU countries
-

Technology transfer

- 99% of the firms acknowledge having benefited from technology transfer from the foreign companies investing in Turkey.

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Internationalization process

- 98% of the firms were also selling their products in the international market
- 99% of the firms selling their products in the international market were exporting their products to the European Union

What factors attributed to internationalization of Turkish SMEs?

- 98% of the firms sought international market due to the increasing level of competition on the market

Problems faced during internalization

a. Capital

- 90% of the firms are faced with financial constraint
- 40% of the firms closed during 2001 Turkish financial crisis
- 70% of the firms entered into joint venture due to financial problems
-

b. Security-CE marking

- 68% of Turkish SMEs had acquired CE marking
- 32% of the firms have not acquired the marking

c. Environment-ISO 14000

- 78% of the SMEs are ISO 14000 certified
- 22% of the SMEs are in the process of being certified

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d. Quality-ISO 9000

- 99% the firms exporting their products to EU are Quality-ISO 9000 certified
- 82% of the all firms in the Study were certified

e. Language and cultural barriers

- 64% of the SMEs identified language as a barrier to enter international market
- 85% of the firms had to employ employee representatives from English speaking countries to market their products

f. Technology and standardization

- 14% of the firms cannot venture into international market due to low quality goods

g. Competition

- There are more than 400 SMEs in auto parts industry in Turkey which raises the level of competition
- 95% of the SMEs identify competition as a great challenge in both domestic and international market

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How the companies have mitigated these problems

Strategy	SMEs that have adopted the strategy
Strategic collaboration	95% (Joint venture)
Sectoral Foreign Trade Companies	50%
Trade fairs	80%
Incentives and support	94% (TAYASAD)

CHAPTER 6

DISCUSSION

Turkish auto parts industry is one of the rapidly growing sectors in the country. It is also one of the rapidly automotive sectors in the European Union. From the survey, it was evident that there are some factors which have facilitated the rapid growth of the sector especially in the domestic market. However, there are other factors which have greatly inhibited on the growth of the sector especially in the international market.

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Structural ownership of the sector

The data from the survey reveal that most of the SMEs in Turkish auto part sector are co-owned by Turkish companies and international automakers especially from European Union. All the firms which participated in the survey were as a result of joint venture between Turkish companies and other automakers from Europe. Foreign automakers have made a great impact in the sector especially in provision of the capital, technical knowledge and internationalization opportunities. From the study, only 20% of the SMEs started were started with capital from Turkish companies while the rest 80% started from capital provided by leading automakers like Ford, GM, and others.

Productivity

As the Turkish automotive industry grows, there has been responding increase in the productivity of the auto parts sector. Turkish auto part sector supply more than 80% of the total automotive parts and components which are used by the Turkish Automotive industry. In 2007 alone, more than 70% of the automotive parts which were produced from the sector were exported to EU and other regions in the world. This shows that there has been increased demand for Turkish automotive parts domestically and in the international market. From the survey, 70% of the firms surveyed had recorded more than 60% growth in the last three years with their production efficiency increased to 80%. For these firms, their growth has emanated from the increased demand of their products both domestically and internationally.

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There is also a high level of specialization in these SMEs. 95% of the firms show that they have specialized in production of specific automotive parts while only 5% of the firms were producing more than one part. Most of the firms are joint ventures and are therefore likely to produce parts for their automakers. Specialization has assisted these companies to produce high quality products. Five of the firms participating in the study had won coveted quality awards domestically and internationally.

The firms participating in the study produce a wide range of automotive parts. The following were the main parts produced by SMEs which participated in the study;

- Engine parts
- Tyres and tubes
- Body accessories
- Wheels and parts
- Rubber parts
- Transmission shafts including cranks

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Factors for increased growth of the sector

The growth of the auto part sector in Turkey can be described as a phenomenon when compared to other sectors. Since the end of the Turkish economic crisis in 2001, the sector has increased its production by more than 80%. Today, the sector operates at 127% level compared to the auto part sector in the United States. From the survey, it was evident that this phenomenon growth cannot be attributed to one factor alone but to a number of factors. Some of these factors include;

One of the main factors behind the increased growth of the sector has been the establishment of TAYASAD. 94% of the firms that participated in the study belong to this umbrella organization. TAYASAD has been responsive to the needs of the sector and has strived to increase the productivity of its members through negotiating with government for incentives and enabling environment. TAYASAD has also played an important role in providing the sector with technical capacity. From the survey, all the firms which were operating under TAYASAD had a higher level of production and higher penetration of the foreign market compared to others. All firms which had own awards for quality and excellence were also operating under TAYASAD.

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The second factor which can be attributed to increased growth of Turkish auto part sector is higher investor interest. Turkey is the tenth biggest economy in Europe and the growing economy has been attracting European investors in the auto parts industry. In the last three years, the economy has recorded a 25% growth at a rate of 5% and 10%. The emergence of Turkish automotive export sector has attracted foreign investors to the industry. Among the firms participating in the study, 95% of the firms were joint ventures between leading automakers in the world while only 5% were jointly owned by Turkish companies. After years of stagnating FDI flow, Turkey attracted more than US\$21.9 billion in FDI which was channelled towards the automotive industry.

The third factor for the growth of the industry has been government incentives. Since the economic crisis of 2001, Turkish government has provided different incentives which are meant to attract foreign investors especially in joint ventures. 80% of the foreign investors were attracted by government incentives to the industry. Incentives to attract foreign investors has been implemented with an aim of increasing the level of Foreign Direct Investment in the country and facilitating transfer of technology to Turkish manufacturing sector. One of the government incentives has been the formation of Free Trade Zones under which TAYASAD operate. These zones are meant to encourage trade especially in import and exports.

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The fourth factor that has assisted in the growth of Turkish auto part sector has been the growth of Turkish export market (Andersen and Buvik, 2002). Since the country ascended to EU market, there has been increased growth of the export market. From the survey, 87% of the firms make more than half of their sales in the export sector. A comparison data of this study and other studies reveal that more than 75% of the output from the auto part sector is exported to the EU market. One of the facts attributed to increased export to the EU bloc is that most of the companies are joint ventures between Turkish firms and leading automakers from Europe.

Technology transfer

The increased participation of leading automakers in Turkish auto part sector has continuously improved the level of technology (Andersen and Buvik, 2002). One of the aims of government incentives has been to facilitate technology transfer from the established automakers to the Turkish farms. High level of technology has been responsible for increased quality of products from the Turkish automotive industry. Apart from the efforts of the individual SME in the sector organization like TAYASAD has been facilitating technology transfer to increase the technical capacity of its members. This has come with positive effects as the Turkish automotive parts have been able to meet the set market standard for quality in the EU market.

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From the survey, all the firms acknowledged the role that has been played by technology transfer in their success. Joint venture with established automaker has helped these firms to acquire technical capacity to produce standardized products compatible with wide range of motor vehicles produced by these companies.

Internationalization process

Internationalization process is important since it opens firms to new markets in other countries (Andersen and Buvik, 2002). Internationalization of SMEs helps to counter the increased domestic competition. With more than 4000 auto part producers, the domestic market in Turkey is becoming more and more competitive forcing the SMEs in the sector to seek alternative international market. The increased internationalization of the SMEs in the country has also been attributed by joint ventures with international firms. From the survey, 98% of the firms were also selling their products in the international market. 99% of the firms selling their products in the international market were exporting their products to the European region. A close analysis of the export data from these companies show that the main export market for products from these firms is destined in EU region. The following data show the percentage of export market share in the EU region by country:

Germany	- 22%
Italy	- 18%
United Kingdom	- 15%
France	- 10%
Spain	- 8%
Russia	- 7%

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USA	- 6%
Rest	- 14%

From the above data, the EU countries remain an important market for the Turkish automakers. The EU accounts for more than three quarter of their total exports while the United States has also been rising as an important market for this sector.

There are different push and pull factors which have contributed to the internationalization of the Turkish auto parts sector. 98% of the firms participating in the survey sought international market due to the increasing level of competition on the market. However, the role of the internal competition is neutralized by the fact that 99% of the firms have strategic alliance with foreign car makers which means their internationalization process is mediated by these firms. Most of the joint venture auto part firms have been supplying their product to the automakers in foreign companies who are actually a part of the auto part company. Since our definition of internationalization includes export of goods and service from to a foreign market, this should also be considered as internationalization since the SMEs are selling automotive parts to a foreign market. This study however revealed that more than 80% of the exported parts end up with joint venture automotive makers especially in European Union. It is only 20% of the exported parts that goes to the retail sectors in foreign countries.

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Internationalisation in Turkish automotive industry has also been catalysed by the strategic position of Turkey (Clark et al., 1997). Turkey acts as link between Europe, Asia, and Middle East. This places the country in a strategic position to access the market in these regions. However, the membership of the country to the EU market has also been a critical factor in the development of export sector in Turkey. Since the country joined the union in 1987, it has been a bridge between EU and Middle East. This strategic position has helped Turkey to export its products to all the markets.

Government incentives and the formation of free trade zones like TAYASAD have also contributed to the increased internationalization of the SMEs. TAYASAD has been instrumental in exploring new markets for its members especially in the EU region. The Turkish government has also supported the sector through tax incentives and government to government engagement which has opened new markets for these SMEs.

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Problems faced during internalization

There are many problems that Turkish SMEs have faced in their exploration of international market. The following are the main problems that were identified in the study:

- Capital

According to Grimes et al., (2007) capital is a major challenge limiting growth of SMEs not only in the international market but also in the domestic market. Leonidou (2005) stress that lack of capital hinders the competitiveness of any business in the market. Turkish auto parts industry has been faced with a challenge of raising capital to fund their operation. More than 90% of the firms in the survey have been faced with financial problem prompting them to seek capital investment from foreign automakers how have been willing to invest in the sector. About 40% of the firms participating in the survey halted their activities during the Turkish economic crisis in 2001. The government regulation since 2001 has made it difficult for Turkish SMEs to access loans from banks which have hampered their ability to find finance capital. 70% of the firms participating in the study acknowledged that they resulted to joint venture as a result of financial problems they were facing.

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- Security-CE marking

According to AFNOR Group (2009) CE marking is mandatory for all products entering into European Economic Area. Security-CE marking ensure customers that the product is safe and has met all the laid down security requirements. Most of the Turkish auto parts are exported to the EU region. The need for security marking in all products sold in EU market has greatly impeded on their ability to venture the market since the procedures to obtain the standard is stringent. Only 68% of the firms in the study have been able to acquire this marking for some of their products.

- Environment-ISO 14000

Miles et al., (1999) argues that ISO Environmental Standards are important to ensure products are environmental friendly. However, these standards are sometimes difficult to meet and therefore a great inhibitor for growth of small businesses. ISO 14000 standards are voluntary, flexible and non-prescriptive, integrated to current environmental programs, encourage cost saving measures, and has many other features. Although ISO 14000 is voluntary, it has become one of the factors that consumers are considering before purchasing products in the EU region. It has been difficult for Turkish auto part makers to sell their product in most EU countries if the SME has not been certified with ISO 14000. More than 78% of the firms in the study have however been certified with ISO 14000 which gives them the advantage of venturing into EU market. This means that the other 22% find it hard to venture into EU market without this essential standard.

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- Quality-ISO 9000

Grimes et al., (2007) asserts that whether a firm is producing tangible goods or services, quality is an important aspect that determine consumer satisfaction with the product or service. High quality goods create new market frontiers for an enterprise and retain the current customers. ISO 9000 is the yardstick that is being used by consumers to get quality assurance of the products they are purchasing. It has become increasing difficult for some Turkish auto part makers to get this certificate since they are accused of low quality product. According to Leonidou (2005) quality system management may appear simple in definition but rather difficult to meet especially for SMEs. From the survey only 82% of the firms had all their products certified with ISO 9000 due to the stringent process that is involved in acquiring he mark.

- Lack of trained staff and language and cultural barriers

Human resource management studies have shown that in the 21st century, organization need to continuously train their staff to upgrade their skills and hence their competitiveness (Leonidou, 2005). Due to financial constraint, most SMEs find it difficult to finance education for their staff and therefore their staffs are not well updated on market transformation. Language barrier is a great hindrance for business entering into a foreign market. Most of people in Turkey use Turkish as their official language. It is therefore very difficult for the Turkish firms to send their expatriate to the foreign market since most do not understand English. 645 of the SMEs identified language as a leading barrier in their internationalization efforts. SMEs going international are left to rely on foreigners to sell their products which greatly hinder

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the excellence of their marketing campaigns. 85% of the firms in the study, especially those exporting to the EU region had to hire English speaking representatives to market their product.

- Technology and standardization

In the 21st century, competitiveness in business is pegged on their response to the changing nature of technology through research and development. However, adoption of the emerging technology depends on the resources available in a business organization (Leonidou, 2005). Although there has been increased investment by the foreign automakers which brings about technology transfer, Turkish auto part industry is greatly limited in its capability by low level of technology and standardization. 14% of the firms in the study have not been able to acquire important quality marks to help them export their products due to low quality products. Despite the sector producing more parts than needed in the domestic market, there is increasing importation of components for new models since the level of technology in the sector cannot allow for production of these components.

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- Competition

One of the great hindrances for effective entry into a foreign market is the level of competition (Leonidou, 2005). The presence of competitors with large capital resources further skews the competition landscape. There are more than 4000 auto part producers in Turkey. This shows that the market is already saturated with producers and the SMEs have been looking for alternative markets in other countries. High level of competition in the domestic and international market has been hindering their prospective growth. 95% of the SMEs identified high level of competition as a challenge in both domestic and international market.

How the companies have mitigated these problems

Turkish SMEs have taken different strategies to rise to overcome these problems. The following are some the strategies these SMEs have taken:

- Strategic collaboration

According to Cortes (1987) strategic collaboration can be understood as a mutual collaboration between two SMEs where both benefits in the same way. A pre-planned strategic collaboration can assist SMEs to mitigate a myriad of challenges while venturing into the foreign market. The biggest challenge facing these SMEs has been their financial limitation. Most of the firms the in study has resulted to formation of strategic alliance with leading automakers to overcome financial and marketing problems. Strategic alliance with leading automakers especially in Europe has provided the much needed financial capital for these SMEs. 95% of the SMEs are

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joint venture with foreign auto makers. These automakers have also become their leading market in the foreign countries which has helped them to overcome the challenges in the internal competition.

1. Sectoral Foreign Trade Companies

Sectoral Foreign Trade Companies (SFTC) was an initiative by the government of Turkey developed in 1990s as a result of growing SMEs sector. It was meant to encourage the growth of SMEs and their increased internationalization. SFTC initiative encouraged different SMEs to come together to form a larger joint venture company where each SME has a limited share in the entity. These organizations are best suited to address a wide range of problems facing the sector. They have also facilitated the entry of the SMEs to the international market (Tarriff, 1993). More than 50% of SMEs in the study have benefited from this program. SFTC has been an important strategy for Turkish SMEs to venture into international market and the strategy can be used by other SMEs in other countries to internationalize.

2. Trade fairs

According to Ruzzier et al., (2007) trade fairs can be an inexpensive way of venturing into the international market. SMEs wishing to venture into foreign market can first participate in trade fairs in the international market to bond with potential customers in the market. Trade fairs are therefore important in acquiring new customers and creating strategic alliances. Trade fairs have been instrumental in supporting the internationalization of SMEs. Turkish SMEs have been aggressive in

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their marketing campaign and have participated in different trade fairs both internally and externally. Trade fairs help SMEs to market their products in the international market.

3. Incentives and support

Government incentives and support are important in mitigating various challenges faced by SMEs in both domestic and international market. Government to government engagement prepare way for entry of SMEs into a foreign market. Incentives and support have been instrumental in supporting the internationalization of SMEs. According to Ruzzier et al., (2007) the chamber of commerce can be used as an avenue to prepare a framework to reduce the framework for internationalization of SMEs. Turkish government has come up with different initiatives which have been aimed at assisting SMEs to market their products effectively in the market. For example TAYSAD has been an initiative developed out of government initiative for free trade zones. TAYASAD has been instrumental in growth of the SMEs sector.

CHAPTER 7

CONCLUSION

Since the second half of the 20th century, there has been increased internationalization and globalization. Internationalization entails a company which is operating in few countries while globalization entails a global presence of a company. The most evident factor in globalization has been economic integration of the world. Globalization has led to break up of geographical boundaries and market barriers facilitating free flow of capital, goods and services. Economic globalization has been evident in both multinationals and SMEs.

Small and Medium Sized Enterprise is any business entity that meet a set threshold of workforce depending on threshold set from different countries. On

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international standard, Small Enterprise has not more than 50 employees while a Medium Enterprises has not more than 250 employees. The end of the Second World War led to increased growth of SMEs mainly due to their low operation cost and less risk. SMEs play an important role in the economic development of a national including provision of jobs, provision of goods and service to both retailers and large enterprise, promotion of entrepreneurship, product differentiation, and others. However, SMEs have also been faced with fierce internal and external competition as a result of opening up of their market. The declining market share in the domestic market has prompted SMEs to venture into the international market. While going international, SMEs are faced with different challenges including high competition, CE-marking, quality standard like ISO 9000, Environment regulations like ISO 14000, foreign language barriers, lack of trained capital, and many others. There are different strategies that SMEs can use to overcome these challenges including e-commerce, strategic alliance, barter, trade fairs, incentives and support and others.

Turkish automotive industry is one of the rapidly growing automotive industries in the world. Since the end of Turkish economic crisis in 2001, the industry has witnessed rapid growth. Turkish automotive parts sector has experienced a rapid growth parallel to that experienced by the automotive industry. More 70% of firms operating in Turkish auto parts sector are SMEs which are strategic venture between Turkish companies and leading automakers in the world. Turkish auto part industry exports more than three quarter of its product to the EU market which is an evidence of increased internationalization in the sector. The sector has experienced rapid internationalization due to its strategic alliance with foreign auto makers, competition, and government supports and incentives. The sector has adopted different strategies

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including incentives, strategic alliance, trade fairs, and others to overcome some of these challenges. Turkish automotive industry can therefore be used as a case study for SMEs in the internationalization process.

Therefore this study would recommend small car manufacturer to take advantage of the flourishing Turkish auto part manufacturer and increase form strategic alliance which would improve their efficiency. Small car manufacturers should team up with auto part producers in order to take advantage of the reduced cost of production and venture into the foreign market just like Turkish auto part industry has strived to do. However, there is need for further research to establish how small car manufactures can benefit from the increased opportunities in the international market like Turkish auto part industry.

CHAPTER 8

RECCOMENDATIONS

8.1 Recommendations for Turkish SMEs

From the study, it is evident that Turkish SMEs can be taken as a case study for other SMEs to internationalize. However, there are important lessons that can be learned from the challenges encountered by the SMEs. This study would like to make the following recommendations for Turkish SMEs:

- a) The European Union presents an important market for Turkish SMEs. However, there have been major challenges like meeting the quality and environment standards that have barred most Turkish SMEs from venturing into EU market. It is important for Turkish SMEs to make strategic alliance with producers in EU who have attained these standards to help improve in technology to acquire the standards

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- b) Government initiatives have been instrumental in growth of SMEs in Turkey. This study would recommend more government actions to engage in government to government negotiation to open more markets for Turkish SMEs in EU and outside EU
- c) In the internationalization process, Turkish SMEs have concentrated on the EU market alone. There are more potential in emerging markets like Africa and Latin America that Turkish SMEs should consider venturing to.
- d) Turkish SMEs should also seek more strategic alliance with established automakers in order to expand their markets and to assist in technology transfer.

8.2 Recommendations for further studies

This study has looked into the case study of Turkish automotive SMEs and their internationalization process. However, there are some aspects that are unique to Turkish SMEs that may not be applicable to other SMEs. For example government incentives in Turkey may not be applicable to other countries limiting generalization of the study. It is recommended that further studies on the subject should look at comparative study of SMEs in more than one country to erode this bias.

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APPENDICES

Appendix 1

VEHICLE PRODUCTION BY TYPE 2002-2007 (Units)

	2002	2003	2004	2005	2006	2007
Passenger cars	204,198	294,116	447,152	453,663	545,682	634,883
Trucks	12,295	19,041	31,790	37,227	37,026	34,544
Pickups	116,872	195,606	301,563	349,885	369,862	391,737
Buses	2,684	4,490	4,839	5,406	6,019	6,946
Minibuses	6,139	13,625	28,161	26,162	20,728	21,999
Midibuses	4,377	6,794	9,903	7,109	8,263	9,305
Total	346,565	533,672	823,408	879,452	987,580	1,099,414

Source: Automotive Manufacturers Association (OSD)

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Appendix 2 VEHICLE PRODUCTION BY MANUFACTURER 2003-2007 (Units)

	2003	2004	2005	2006	2007
Anadolu Isuzu	3,970	6,011	6,762	7,445	7,842
ASKAM	1,769	1,878	2,439	1,309	79
BMC	9,920	12,819	12,500	11,679	10,369
Ford Otosan	114,515	206,706	243,423	258,126	286,356
Honda Türkiye	10,970	15,581	11,236	18,322	23,663
Hyundai Assan	35,730	57,740	60,020	60,895	90,190
Karsan	8,302	16,885	13,146	12,524	9,720
MAN	1,934	1,966	2,030	2,501	2,069
Mercedes-Benz Türk	6,739	11,686	13,916	15,209	19,014
Otokar	2,514	3,245	2,590	2,775	2,534
Otoyol	4,381	4,723	3,634	4,165	585
Oyak Renault	132,257	197,353	179,669	228,593	263,656
Temsa	2,564	6,316	8,161	8,915	9,328
Tofaş-Fiat	127,268	146,048	161,360	178,434	212,493
Toyota	70,839	134,377	158,566	176,688	161,516
Total	533,672	823,408	879,452	987,580	1,099,414

Source: Automotive Manufacturers Association (OSD)

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Appendix 3

AUTOPARTS INDUSTRY EXPORTS OF TURKEY BY COUNTRIES (Value: US\$)

COUNTRY	2004	2005	2006	2007
Germany	822,79 6,962	948,27 5,784	1,139, 370,121	1,625, 359,756
United Kingdom	206,10 5,571	279,53 8,087	368,68 6,929	563,44 7,056
Italy	303,44 1,027	343,71 5,834	416,28 1,137	557,38 2,426
France	288,23 1,546	321,00 3,980	395,06 3,933	483,02 8,312
Poland	99,743 ,642	121,12 6,440	147,27 9,451	225,82 2,228
Russian Fed.	51,529 ,442	58,943 ,088	97,912 ,660	217,39 7,751
Belgium	89,092 ,776	109,68 7,810	132,52 5,264	208,71 4,808
Romania	42,313 ,632	76,991 ,013	114,87 4,868	196,96 3,594
Spain	86,505 ,082	88,244 ,665	114,16 9,246	165,71 9,777
U.S.A.	91,105 ,985	109,80 2,878	125,11 5,663	130,24 7,121

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Iran	81,350 ,315	89,220 ,655	86,844 ,019	123,54 2,521
Iraq	28,919 ,938	38,467 ,053	44,939 ,890	81,058 ,243
Netherlands	25,143 ,740	33,426 ,840	45,823 ,040	72,378 ,918
Austria	40,948 ,994	45,484 ,733	46,225 ,000	65,875 ,991
Egypt	25,975 ,030	40,665 ,381	44,737 ,448	55,064 ,742
Slovakia	3,263, 977	7,417, 086	12,185 ,948	49,717 ,730
Brasil	18,812 ,039	22,981 ,909	43,371 ,528	48,063 ,050
Czech Republic	10,670 ,380	18,220 ,842	24,916 ,424	47,739 ,656
Saudi Arabia	21,439 ,651	36,429 ,291	29,150 ,660	41,897 ,637
Others	772,53 6,400	963,73 4,544	1,073, 508,835	1,130, 134,819
TOTAL	3,112, 358,091	3,765, 877,201	4,532, 467,963	6,092, 203,123

Source: Undersecretariat for Foreign Trade (DTM)

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Appendix 4

AUTOPARTS INDUSTRY IMPORTS OF TURKEY BY COUNTRIES

(Value: US\$)

COUNTRY	2004	2005	2006	2007
Germany	1,304,766,791	1,676,173,221	1,896,764,411	2,311,746,437
France	1,272,961,831	1,075,574,407	1,452,319,887	1,542,976,599
United Kingdom	1,107,582,296	1,248,184,588	1,300,167,272	1,414,052,701
Italy	777,699,860	747,164,687	914,019,772	1,001,334,853
Spain	360,569,364	520,893,614	630,922,815	741,132,953
Japan	444,408,254	544,096,093	610,562,584	721,415,950
South Korea	395,351,741	386,086,890	525,985,833	616,947,906
Czech Rep.	91,682,384	103,373,645	83,526,046	391,295,582
Poland	155,583,951	201,492,880	244,835,014	356,424,387
China	133,476,737	145,771,764	192,592,014	316,696,175
Hungary	44,470,387	170,440,127	346,369,675	258,078,240
U.S.A.	109,598,686	146,949,854	188,066,151	226,617,531
India	34,246,406	45,440,216	86,918,941	108,300,338
Thailand	18,230,486	28,012,752	68,236,759	79,034,715
Sweden	36,827,814	49,022,571	59,991,207	71,137,409
Taiwan	33,033,148	41,938,848	48,249,835	62,204,084
Romania	23,697,205	30,341,242	38,522,785	60,747,317
Brasil	55,084,224	51,806,612	46,788,591	59,463,319
Denmark	24,041,622	45,303,637	45,989,055	58,223,750

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Netherlands	28,130,334	35,595,230	41,515,979	56,102,019
Others	285,573,538	348,540,605	411,078,805	488,832,700
Total	6,747,670,189	7,649,470,346	9,240,399,721	10,953,111,465

Source: Undersecretariat for Foreign Trade (DTM)

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Questionnaire

Dear Respondent;

My name is Yakup GUZEL, I am currently doing My MBA course at University of Sunderland. Currently, I am conducting my fieldwork for my dissertation title “AN INVESTIGATION OF SMES PENETRATING FOREIGN MARKETS: A STUDY ON THE TURKISH AUTOMOTIVE SUPPLIER INDUSTRY SMES (INTERNATIONAL MARKETING STRATEGY)”. For the purpose of my dissertation I have developed a questionnaire which contains 12 questions. This questionnaire is designed specifically to take only a few minutes to complete and I would appreciate your collaboration.

Thanking you in advance.

You're sincerely.

Yakup GUZEL
MBA Student
University of Sunderland

1. Have you got any exporting activities or export planning?

- Yes
- No

2. Have you got any strategic partnership with big Automakers like Ford, GM and others?

- Yes
- No

3. Where do you sell your product?

- Domestic market
- International market(Europe Region)
- International market (Other Region)
- All

4. In the last three years, have increased your production efficiency?

- Yes
- No

5. How do you penetrate the foreign markets?

- Joint venture
- Direct export
- Retail sales
- Other

6. Do you want to foreign partner?

- Yes
- No

7. If yes, why do you want?

- For technology transfer
- Due to the financial problems
- Other

8. Please rate the when penetrate the foreign markets mainly encountered problems.

	Extremely Important	Important	Doesn't Matter Much	Deal Breaker	N/A
Security: CE-Marking	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Extremely Important	Important	Doesn't Matter Much	Deal Breaker	N/A
Environment-ISO 14000	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
	Extremely Important	Important	Doesn't	Deal	N/A

	Extremely Important	Important	Doesn't Matter Much	Deal Breaker	N/A
	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Lack of trained staff and Foreign Language Problems	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Technology and R & D	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Standardization	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Culture	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Country and Company Image	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Production Costs	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Transportation-Warehousing and Distribution	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
High Competition and strong competitors	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
Used and fake goods	<input type="radio"/> Extremely Important	<input type="radio"/> Important	<input type="radio"/> Doesn't Matter Much	<input type="radio"/> Deal Breaker	<input type="radio"/> N/A
9. Whic certificate have you got?					

- ISO 9000
- ISO 14000
- CE MARKING

NOTHING

10. How many types product do you produce?

- Just one parts
- More than one parts

11. Have you been participated any umbrella organisation

- Yes
- No

12. How the companies have mitigated penetrate the foreign market problems?

- Strategic collaboration
- Sectoral Foreign Trade Companies
- Trade fairs
- Incentives and support

Thanks

I appreciate your feedback.
Thanks again!

Yakup GUZEL
MBA Student