SUSTAINABLE ENTREPRENEURSHIP
REGIONAL AND COUNTRY STUDIES

Middle East (Arab)

SUSTAINABLE ENTREPRENEURSHIP PROJECT

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Sustainable Entrepreneurship: Regional and Country Studies (Middle East (Arab))

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Sustainable Entrepreneurship: Regional and Country Studies
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PART XI
MIDDLE EAST (ARAB)

Preface

In 1985 Ronen and Shenkar reviewed the then-published literature on country clustering[1], including works by Haire, Ghiselli and Porter[2]; Sirota and Greenwood[3]; Ronen and Kraut[4]; Hofstede (1976)[5]; Griffeth, Hom, Denisi and Kirchner[6]; Hofstede[7]; Redding[8] and Badawy[9]. Ronen and Shenkar integrated and synthesized the available data to propose their own map of country clusters based on patterns of employee work attitudes derived after reviewing responses of thousands of employees in dozens of countries around the world to questions about their general attitudes towards work (e.g., the importance of various work goals, their satisfaction of needs through work, organizational factors and managerial issues and the nature of roles and interpersonal relationships in the workplace including how well managers related to subordinates).

Using a statistical procedure known as "smallest space analysis", Ronen and Shenkar identified and diagrammed eight country clusters: Arab, Near Eastern, Nordic, Germanic,

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[1] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. For further discussion of the various research studies reviewed by Ronen and Shenkar, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[2] M. Haire, E. Ghiselli and L. Porter, Managerial thinking: An international study (New York: Wiley, 1966).

[3] D. Sirota and J. Greenwood, "Understand your overseas work force", Harvard Business Review, 49(1)(1971), 53-60.

[4] A. Kraut and S. Ronen, "Similarities among countries based on employee work values and attitudes", Columbia Journal of World Business, 12(2) (1977), 89-96.

[5] G. Hofstede, "Nationality and espoused values of managers", Journal of Applied Psychology, 61 (1976), 148-155.

[6] R. Griffeth, P. Hom, A. Denisi and W. Kirchner, A multivariate, multinational comparison of managerial attitudes. Paper presented at the annual meeting of the Academy of Management, Detroit (August 1980).

[7] G. Hofstede, Culture's consequences: International differences in work related values (Beverly Hills: Sage, 1980). Hofstede's IBM survey is referenced frequently in this Guide and Ronen and Shenkar noted that several survey instruments used by Hofstede included various items relating to work goals (i.e., Hofstede's famous initial four dimensions of power distance, uncertainty avoidance, individualism and masculinity), need deficiency, fulfillment and job satisfaction. Hofstede also sought the opinions of respondents regarding their choice among four types of managers as to actual and preferred types of characteristics for their manager. Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").

[8] G. Redding, "Some perceptions of psychological needs among managers in South-East Asia", in Y. Poortinga (Ed.), Basic problems in cross-cultural psychology (Amsterdam: Swets and Zeitlinger B.V.: 1976), 338-343.

[9] M. Badawy, Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis. Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979).

Far Eastern, Latin American, Latin European and Anglo.[10] They also categorized four countries that they felt could not be easily fit into one of the clusters as "independents": Brazil, India, Israel and Japan. In general, countries tended to cluster together based on similarities in level of development and technological progress, geographic proximity, language and religious values and beliefs. Those countries that were classified as independents each had a unique language, religion, and history. The composition of the membership of each cluster is represented in the following table[11]:

Arab	Near Eastern	Nordic	Germanic	Far Eastern	Latin American	Latin European	Anglo
Abu-Dhabi	Greece	Denmark	Austria	Hong Kong	Argentina	Belgium	Australia
Bahrain	Iran	Finland	Germany	Indonesia	Chile	France	Canada
Kuwait	Turkey	Norway	Switzerland	Malaysia	Columbia	Italy	Ireland
Oman	Yugoslavia	Sweden		Philippines	Mexico	Portugal	New Zealand
Saudi Arabia				Singapore	Peru	Spain	South Africa
United Arab Emirates				Taiwan	Venezuela		United Kingdom
				Thailand			United States
				Vietnam			
Independents							
Brazil		India		Israel		Japan	

Ronen and Shenkar found that there country clusters generally corresponded to how countries might be grouped based on their measurements on the four original dimensions in Hofstede's cultural dimension model[12]:

	Power Distance	Individualism	Uncertainty Avoidance	Masculinity
Nordic	Low	Medium-High	Low-Medium	Low
Germanic	Low	Medium-High	Medium	High
Anglo	Low-Medium	High	Low-Medium	High
Latin European	High	High	High	Varies
Latin American	High	Low	High	Varies
Far East	High	Low	Low-Medium	Medium
Near East	High	Low	High	Medium

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[10] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454. Ronen and Shenkar actually presented the clusters in a "pie chart" format that grouped countries together in terms of their similarity on work-related variables and the table in the text follows this grouping of countries. For example, Latin American and Latin European countries were closely related as were Nordic and Germanic countries.

[11] Id. For discussion of "smallest space analysis," see L. Guttman, "A general non-metric technique for finding the smallest coordinate space for a configuration of points", Psychometrika, 33 (1968), 461-469.

[12] Derived from S. Ronen, Comparative and multinational management (New York: John Wiley & Sons, 1986), 262-265; and S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454.

Hofstede (1980) was the only one of the studies analyzed by Ronen and Shenkar that identified a Near Eastern cluster and it was included by Ronen and Shenkar in their synthesis with membership composed of the same countries studied by Hofstede: Greece, Iran, Turkey and Yugoslavia.[13] Geography played an important role in this clustering along with their comparable scores on Hofstede's cultural dimensions—high power distance and uncertainty avoidance, low individualism and medium masculinity; however, Ronen and Shenkar did raise concerns about the strength of support for this particular grouping given the diversity of language, religion and history among the four countries as well as the fact that only one of the researchers had included these countries in their survey and it was therefore difficult to assess the validity of the techniques used, and conclusions reached, by Hofstede.[14]

Badawy was the only one of the studies analyzed by Ronen and Shenkar that identified an Arabic cluster and, in fact, that study did not include countries that would have fallen into other clusters thus making it impossible to assess the clustering methodology used and difficult to make comparisons to other studies. However, since the data collected on these countries was a valuable contribution to the overall pool of knowledge and differentiation of the group made sense based on geography, history, religion and other factors, Ronen and Shenkar included the following countries in an Arabic cluster for purposes of their synthesis: Abu-Dhabi, Bahrain, Kuwait, Oman, Saudi Arabia and the United Arab Emitrates.[15]

Researchers working on the Global Leadership and Organizational Behavior Effectiveness project, commonly referred to as "GLOBE" project[16], concluded that the respondents to their surveys could be classified into 62 "societal cultures". In order to facilitate meaningful interpretation of the results the researchers determined that the societal cultures they were investigating could be meaningfully placed into one of ten "societal clusters," sometimes simply referred to as clusters. The clusters were designed, defined and created before the research was conducted, not as a result of the findings reached once the data was collected and analyzed, and were based on a variety of factors including the results of previous empirical studies; other factors such as common language, geography and religion; and historical accounts.[17] Among the societal clusters in the Middle East (Arab) cluster were members of both the Near Eastern and Arabic

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[13] S. Ronen and O. Shenkar, "Clustering countries on attitudinal dimensions: A review and synthesis", Academy of Management Review, 10 (1985), 435-454.

[14] Ronen and Shenkar noted that Greece was included in the study conducted by Griffeth et al. and that they had placed that country in their Latin European cluster; however, Ronen and Shenkar discounted this on the basis that Hofstede and Griffeth et al. used different methodologies and dimensions and thus is was not possible to fairly compare their results and conclusions.

[15] Id.

[16] For detailed discussion of the GLOBE project, see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[17] For extensive discussion of the design of the societal cultures and the reasons for placement of societies within those clusters see Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004), 536. See also V. Gupta, P. Hanges and P. Dorfman, "Culture clusters: Methodology and findings," Journal of World Business, 37(1) (2002), 11-15.

clusters identified by Ronen and Shenkar including Egypt, Iran, Kuwait, Morocco, Qatar and Turkey.[18]   Societies in the Middle East (Arab) cluster were high on in-group collectivism and low on future orientation, gender egalitarianism, and uncertainty avoidance. Societies in this cluster had high levels of devotion and loyalties to family and members of their other in-groups and shied away from relying on strategic planning and rules and laws to control and order their current and projected future environment. In addition, gender inequality was higher in the societies in this cluster and it was uncommon to find women in positions of status that included the authority to give directions to men.[19]

The degree of similarity or dissimilarity between the Middle East (Arab) cluster and the other nine societal clusters with respect to the cultural dimensions measured during the GLOBE study was as follows[20]:

Correlation	Societal Clusters
Strong Similarity	Confucian Asia; Eastern Europe
Mild Similarity	Southern Asia; Sub-Saharan Africa
Neutral	Latin America; Latin Europe
Mild Dissimilarity	Nordic Europe; Germanic Europe
Strong Dissimilarity	Anglo

Based on the information in the table above a manager from a society in the Middle East (Arab) cluster would expect to find familiar cultural values, although not precisely the same as in his or her own society, in the Confucian Asia and Eastern Europe clusters but would need to be especially careful and mindful of significant cultural differences in the Anglo cluster.

The following chart depicts the relative importance and intensity of endorsement of the six culturally endorsed leadership dimensions to the societies included in the Middle East (Arab) cluster:

Level of Importance/Endorsement	Leadership Dimension
High	Self Protective Leadership
Moderate	Humane Oriented Leadership
Moderate	Autonomous Leadership
Low	Charismatic/Value-Based Leadership
Low	Team Oriented Leadership
Low	Participative Leadership

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[18] For further information on this cluster, see H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54. See also various articles in Volume 50 of Applied Psychology: An International Review published in 2001 that include specific findings regarding several of the countries included in the Middle East cluster.

[19] P. Northouse, Leadership: Theory and Practice (4th Ed) (Thousand Oaks, CA: Sage, 2006), 312.

[20] Chapter 10 of R. House, P. Hanges, M. Javidan, P. Dorfman and V. Gupta (Eds), Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies (Thousand Oaks CA: Sage, 2004).

Leaders in societies in the Middle East (Arab) cluster are most likely to be perceived as effective if they focus on ensuring the safety and security of the group or group members. Preferred leadership behaviors among these societies include being status- and class-conscious, ritualistic, procedural, normative, secretive, evasive, indirect, self-centered and asocial. Societies in the Middle East (Arab) cluster strongly disapprove of leaders who strive to inspire and motivate and expect high performance outcomes from others on the basis of firmly held core values, who involve subordinates in making and implementing decisions or who emphasize effective team building and implementation of a common purpose or goal among team members.[21] The leadership profile of the Middle East (Arab) cluster is moderately similar to the profile for the clusters such as Southern Asia, Confucian Asia and Latin America that also highly endorse the self protective leadership style; however, there are other substantial differences in the remainder of the leadership profiles for all of those clusters. The leadership profile of the Middle East (Arab) cluster is strongly different than the profiles of the Sub-Saharan Africa, Nordic Europe and Anglo clusters. Leaders from the US and other societies in the Anglo cluster can expect substantial difficulties in deploying their preferred leadership styles in the Middle East (Arab) cluster.

References and Resources

Additional information on studies and commentaries relating to various aspects of leadership and management styles and practices in the Middle East (Arab) cluster can be found in the Sustainable Entrepreneur's Libraries of Resources prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org) covering Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Finance, Human Resources, Product Development, Technology Management, Globalization and Managing Growth and Change.

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§1:1   Introduction

Clustering has been a popular method for facilitating cross-border comparisons and contrasts of national cultures and the well-known GLOBE survey defined and analyzed an Arabic cluster that included Qatar, Morocco, Turkey, Egypt and Kuwait. Kabasakal and Bodur, described the characteristics of the Arabic cluster identified in the GLOBE survey, acknowledged that other countries might also be logically placed in the Arabic cluster; however, the five countries mentioned above were the only ones who had participated in the GLOBE survey.[22] Kabasakal and Bodur pointed out that the countries shared a number of common societal norms and practices that reflected their historical, religious and socio-cultural characteristics. For example, each of the countries was predominantly Muslim and all had been heavily influenced by extended periods of domination by Europeans and the Ottoman Empire. In general, the GLOBE researchers found that societal culture in the countries of the Arabic cluster were highly group-

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[21] Among the ten societal clusters the Middle East cluster had the strongest disapproval ratings of charismatic/value-based, team oriented and participative leadership; however, the mean scores within the cluster with respect to those leadership styles of 5.35, 5.47 and 4.97, respectively, were still well above the mid-point of 4 on the 1-to-7 measurement scale.

[22] H. Kabasakal and M. Bodur, "Arabic cluster: a bridge between East and West", Journal of World Business, 37 (2002), 40.

oriented, hierarchical, masculine and low on future orientation and that in order for leaders in those countries to be effective they were best advised to follow team-oriented and charismatic leadership styles.

Some of the countries in the Middle East have been touted as potential goldmines for entrepreneurs who are able to tap into young and wealthy populations and who are interested in certain sectors that appear to have exceptional growth potential including construction, real estate, travel and hospitality and mining.[23] After the Arab Spring there was a great deal of excitement about the potential for entrepreneurship in Egypt, a country in which thousands of prospective entrepreneurs flocked to startup competitions, 2,300,000 worked in the technology sector and use of the Internet and mobile devices was strong and growing.[24] Analysts also noted the strength of the ICT sector in Jordan, which has been enjoying spectacular annual growth and was contributing 14% of the country's GDP as of early 2010s.

§1:2   Islamic economic system and development of entrepreneurship

Zapalska et al. examined the theoretical implications of Islamic beliefs and the Islamic economic system for development of entrepreneurship in Islamic countries.[25] With respect to the organization of decision-making arrangements they noted that decisions in the Islam economic system with respect to production, consumption, exchange and distribution must be made within the fixed and eternal set of orders emanating from God and as stipulated by primary sources. In addition, while merchants and consumers have some freedom of choice within the rules mentioned above they are expected to act in a manner that conforms to Islam's elaborate value system. According to Zapalska et al. the principle motivating force for economic activity in the Islamic economic system is "securing the pleasure of God" and private satisfaction can only be attained by "pleasing God". While Islam does not explicitly prohibit increases in a person's "worldly wealth", "Islam disapproves of worldly preoccupations and the pursuit of material prosperity as an end, while it attaches great importance to spiritual pursuits in this world as a means of attaining salvation in the hereafter."[26]

Zapalska et al. observed that, with some limited exceptions for trade in certain types of goods and services, Islam generally accepts the market as the basic coordinating mechanism of its economic system. However, government intervention in the market is encouraged and accepted to the extent necessary to reduce or eliminate imperfections in the market that are considered to be inconsistent with fundamental Islamic values. For example, Islamic law principles prohibit price fixing by buyers or sellers and Islam encourages the creation and maintenance of markets with numerous buyers and sellers that are free of discrimination and in which information flows freely. Profitmaking is not

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[23] Advantages and Challenges for Entrepreneurs in the Middle East, TradeMartes (June 28, 2013), http://trademartes.com/entrepreneurship/318-advantages-and-challenges-for-entrepreneurs-in-the-middle-east (accessed August 21, 2014).
[24] Id.
[25] A. Zapalska, D. Brozik and S. Shuklian, "Economic System of Islam and Its Effect on Growth and Development of Entrepreneurship", Problems and Perspectives in Management (1/2005), 5.
[26] Id. at 8.

prohibited by Islam; however, producers are expected to inform consumers about the quality and quantity of the goods they are proposing to sell to consumers and any type of fraud upon consumers, including requiring the payment of bribes, is strictly prohibited.

Government programs relating to encouragement and development of entrepreneurship in Islamic countries must be understood and analyzed within the broader context of an Islamic economic system that generally accepts the market as the basic coordinating mechanism for economic activities. While the government is expected to become involved in markets when imperfections occur and markets are unable to operate fairly on their own, the "invisible hand" that guides markets that is often attributed to governments in capitalist countries is rarely seen in Islamic countries.[27] Zapalska et al. explained that property ownership in Islam "is based on God's absolute, natural, and divine right of possession in relation to all that is on earth" and that "[r]eal ownership belongs to Allah, and man holds property in trust for which he is accountable, in accordance with established rules".[28] Accordingly, while private property rights are recognized in Islam they are subject to the requirement that owners must remain worthy of God's trust in order to maintain the right to enjoy and use the advantages of God's properties. As for public property in the Islamic economic system, a country's natural resources, each individual has a legitimate right of use provided that such use does not undermine the equal usage rights of others. The government's role with respect to public properties is generally limited to supervision and guardianship.

Hassan and Hippler examined entrepreneurship from an Islamic perspective with a particular emphasis on comparisons to Western views of entrepreneurial incentives, activities and financing arrangements.[29] They argued that, in general, Islamic laws significantly influence Islamic entrepreneurial activities and that incorporation of Islamic laws makes it difficult and inappropriate to use financial measures such as size, total productivity and the amount of wealth generated to compare the relative success of Western and Islamic entrepreneurial frameworks since Islamic laws impose altruistic goals on Islamic entrepreneurs (i.e., economic activities should advance the goals of society as a whole) that make financial measures unsuitable.

Hassan and Hippler explored the Islamic view of entrepreneurship and noted that the commonly-held view that Islam does not motivate entrepreneurial behavior was erroneous and that, in fact, the teachings of Islam encourage and even demand that practitioners engage in productive or entrepreneurial endeavors to provide support for themselves, their family and the economic needs of society. According to Hassan and Hippler one important distinction between Western and Islamic entrepreneurs is that while Western entrepreneurs can separate their business and religious practices if they choose Islamic entrepreneurs must be adhere to the moral and ethical standards of Islamic practices whenever they engage in business transactions. A byproduct of this difference is that while Western entrepreneurs generally measure their success in terms of financial

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[27] Id.

[28] Id.

[29] M. Hassan and W. Hippler, "Entrepreneurship and Islam: An Overview", Economic Journal Watch, 11(2) (May 2014), 170.

gains from their business activities, success for Islamic entrepreneurs is measured using not only progress toward personal financial goals but also achievement of religious goals.

Hassan and Hippler also described how Islamic laws influenced the activities that Islamic entrepreneurs were willing and able to undertake. They noted that the activities engaged in by Western entrepreneurs were limited by ethical standards imposed on them by laws and regulations; their contractual relationships; and their personal standards and goals, which are not necessarily influenced by religious dogma. In contrast, Islamic entrepreneurs are constrained by the requirement that their business activities must adhere to Islamic beliefs and the principles embedded in the Qur'an and Shari'ah law. As a result, Islamic entrepreneurs cannot be involved in activities prohibited under Shari'ah law even if those activities are permitted under the secular laws applicable to prospective business partners in the West. For example, while Western entrepreneurs often engage in business activities that involve alcohol, speculation (i.e., trading of financial derivatives) or gambling, those areas are foreclosed to Islamic entrepreneurs. Islamic law is also the source of prohibitions on usury or interest that significantly influence how Islamic entrepreneurs structure their business transactions.

Hassan and Hippler noted that while Islamic entrepreneurs could use debt financing to acquire capital that can be deployed in business activities are permitted and encouraged by Islamic doctrine, debt financing is typically prohibited in Islamic economies due to concerns that the arrangements between lender and borrower are unfair and sometimes even unethical. For example, a lender that provides debt financing for a venture that turns out to be spectacularly successful is only entitled to receive a fixed interest payment, a result that is perceived to be unfair to the lender and one that will likely cause prospective lenders to stick to low risk projects for which repayment is likely rather than backing more risky projects that might lead to innovative new products or services that have great benefits to society. At the other extreme is the situation where the venture turns out badly, often due to circumstances beyond the reasonable control of the entrepreneur, and the entrepreneur is still obligated to repay the debt owed to lender. In those cases the entrepreneur is faced with extreme choices because of the debt financing arrangement: remain in debt for years beyond the termination of the venture or take on even more risk to try and generate profits sufficient to satisfy his or her creditors.

In order to avoid the concerns surrounding debt financing described above, Islamic lenders and entrepreneurs prefer a different types of arrangements that are intended to align their incentives and achieve a more equity result for both parties. Hassan and Hippler described two of these arrangements--mudarabah and musharakah—as "essentially profit sharing agreements" that provide for a financial institution to lend money to an entrepreneur in exchange for a predetermined share of the profits or losses associated with the venture. In the case of a mudarabah arrangement the financial institution puts up all of the capital required and the entrepreneur is compensated on the labor and expertise that he or she contributes to the venture. A musharakah arrangement is similar; however, it calls for the entrepreneur to place some of his or her own capital at risk as well as providing the know-how to execute the business model. According to Hassan and Hippler, musharakah is the structure most preferred by Islamic financial

institutions because they believe it does the best job of aligning the interests of both parties involved in the enterprise.

Vargas-Hernández et al. also set out to explore the influence of Islamic culture and religion on entrepreneurial behaviors in Muslim countries and began by proposing that Islam viewed the extrinsic aspects of work positively and encouraged people to pursue entrepreneurship as a source of independence and a means for achieving a fulfilled life.[30] However, while free trade and legitimate profit were spoken of favorably in the *Qur'an*, business activities must be carried out in a way that is consistent with Islamic ethics and does not exploit others. Vargas-Hernández et al. pointed out that while Islam follows the West in recognizing that money is a tool that can be used as a medium of exchange and measure of value in commercial activities, Islam rejects the Western notion that money is a commodity in and of itself and that accumulation of money alone should be used as the measure of entrepreneurial success. Instead, success for Islamic entrepreneurs "encompasses both the worldly and the hereafter" and prosperity must be supplemented by responsibility to others, cooperation, giving and generosity, benevolence and honesty, fairness and accuracy in every business transaction. In other words, "success in Islam is not merely measured by the end result but also the way and means of achieving them".

Scarbrough interviewed several Western entrepreneurs regarding their observations of Islamic entrepreneurship and how it differed from practices in the West and one of the central observations was the pervasive influence of Islamic law on every aspect of life including the economic and business environment.[31] Westerners need to be mindful of different workweeks in the Arab countries, the need to schedule meetings around daily prayer times, the preference for conducting business face-to-face and the relative lack of reliance on documents and contracts to memorialize business relationships. Scarbrough noted that the Islamic business culture resisted confrontation and conflict. In addition, Westerners often have trouble understanding Islamic ideas regarding capital, which require that capital be used only for the advancement of society and prohibit payment or collection of interest.

§1:3 Entrepreneurial ecosystem in the Middle East and North Africa

A comprehensive report released in 2013 by the Organisation for Economic Co-operation and Development (OECD) and the Canadian International Development Research Centre (IDRC) focused on the promotion of entrepreneurship and the development of high-growth enterprises in the Middle East and North Africa (MENA).[32] The OECD/IDRC Report noted that a majority of businesses in MENA countries were small or medium-sized enterprises and that they accounted for a large percentage of overall employment in those countries; however, the Report was particularly interested in the small percentage

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[30] J. G. Vargas-Hernández, M. Noruzi and N. Sariolghalam, "An Exploration of the Effects of Islamic Culture on Entrepreneurial Behaviors in Muslim Countries", Asian Social Science, 6(5) (May 2010), 120.
[31] S. Scarbrough, A Whole New World, Entrepreneur.com (June 1, 2008), http://www.entrepreneur.com/article/193666 (accessed August 26, 2014).
[32] Organisation for Economic Co-operation and Development and Canadian International Development Research Centre, New Entrepreneurs and High Performance Enterprises in the Middle East and North Africa (2013).

of those enterprises, roughly 5%, that had been able to achieve more than 20% annual growth in either employment or turnover over three or more consecutive years by identifying and exploiting new market opportunities and thus had been able to create a significant number of new jobs and bolster productivity and innovation.

The OECD/IDRC Report used data from the Global Entrepreneurship Monitor (GEM), statistics from other publicly available source and in-depth interviews with the graduate owner-managers of 20 then-current or potentially rapid-growth enterprises in Egypt, Jordan, Morocco, Tunisia and the UAE with fewer than six years of operation to create profile of high-growth entrepreneurship in the MENA region. The Report cited data from the World Bank and from the GEM survey as evidence of low levels of enterprise creation and development in the MENA region that lagged well behind high-income countries, emerging Asian countries and Latin America. A large proportion of the small and medium-sized enterprises in MENA countries operated as unregistered businesses in the "informal" sector and those firms were typically engaged in necessity, rather than opportunity-based, entrepreneurship in low productivity sectors such as basic retailing, craft production, catering, and transport. The Report also noted low levels of participation by women in entrepreneurial activities in the MENA region. However, in spite of the poor overall performance in terms of new venture creation, the Report argued that there was reason to believe that there was potential within MENA countries to create comparable shares of high potential firm in relation to other emerging economies. Among the high growth enterprises that were already operating in the region, most of them had been launched by entrepreneurs with high levels of education and significant and diverse work experience.

The OECD/IDRC Report noted that the development of high growth firms in the MENA region was constrained by an unfavorable business climate as well as specific barriers to the creation and development of those particular types of enterprises. With regard to the overall business climate among the MENA countries, the Report referred to several studies that had repeatedly found that the development of a vibrant and independent private business sector in those countries had been undermined by "high levels of corruption, cumbersome regulatory frameworks, market dominance by a small group of well-connected and favored firms, and a relatively generalized preference for employment in the public sector to the detriment of private enterprises". Other issues mentioned in the Report included a regulatory environment that restricted competition and the influence of strong networks of entrenched business, financial and political interests which, taken together, reduced incentives and opportunities for innovation and change. As for specific barriers to the creation of high growth enterprises the Report mentioned that such enterprises faced higher barriers to accessing finance than firms with physical assets to offer as collateral; owner-managers, although generally well educated with significant work experience, often lacked key entrepreneurial skills needed to launch and growth their businesses; the low participation of women in the general labor force contributed to a gender gap in terms of the entrepreneurship; and poor infrastructure services—Internet and telecommunications, roads, electricity and water—strongly impaired the competitiveness of high growth companies that were generally frequent users of such services given their business models.

The OECD/IDRC Report put forth the following recommendations for improving the overall business environment in the MENA region:

- Create a transparent regulatory framework through sound regulatory policy and regulatory simplification is necessary in order to increase competition, particularly in sectors that present opportunities for growth.
- Increase competition and diversification in the banking and financial sectors to facilitate better access to financing for viable and promising businesses and develop and implement strategies for improving the capabilities of banks and financial institutions with respect to assessing the business plans and projects of innovative and high potential enterprises.
- Develop and implement policies to increase women's participation in the labor market generally and in enterprise creation specifically including programs to support women-led enterprises and provide relevant business training and experience to women outside traditional sectors.
- Implement legal and judiciary reforms to improve contract enforcement, thereby increasing the certainty of the business environment and fostering risk taking.
- Design and implement human capital development policies to improve skills and promote an entrepreneurial culture, including promoting the introduction of curricula on education and training for entrepreneurship at all educational levels.

The OECD/IDRC Report put forth various recommendations for steps that governments in the MENA region should take to support the creation and development of high growth enterprises in their countries. For example, it was suggested that governments could improve access to finance by introducing programs to stimulate private sector equity and make it easier for high growth enterprises to access to bank credit. With respect to skills development, governments were encouraged to use tax credits and grant monies to support vocational training, internship programs with universities and vocational institutes and hiring programs for new graduates. Finally, the Report advised governments to invest more time and resources on strengthening links between local high potential service enterprises and large enterprises, including multinational firms, and noted that properly structure linkages could improve skills development and promote certification programs and quality improvements.

According to Chen, Christopher Shroeder, the author of *Startup Rising*, identified three groups that were the building blocks for an entrepreneurial ecosystem in the Middle East and North Africa (MENA): "Investors – businesspeople who provide seed financing, mentorship, business networks, and access to technical services, such as HR and legal advice; Conveners – individuals who connect entrepreneurs with each other to exchange ideas, share experiences, and discuss lessons learned; [and] Recognizers – organizations that hold business competitions and celebrate great ideas".[33] While Shroeder did not explicitly include policymakers as one of the central building blocks, he did take note of

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[33] R. Chen, "Startup Rising: Entrepreneurship Ecosystems in the Middle East & North Africa", CIPE Development Blog (April 24, 2014), http://www.cipe.org/blog/2014/04/24/startup-rising-entrepreneurship-ecosystems-in-the-middle-east-north-africa/#.U_TQQfldUgQ (accessed August 20, 2014).

the policy and institutional challenges that often confronted entrepreneurs in the region including corruptions, complex customs regulations, cultural resistance to providing financial support to startups, poor address systems, a lack of secure online payment options and restrictive laws and regulations pertaining to the Internet. According to Schroeder, the desire of entrepreneurs in the Middle East and North Africa to create change and build their own ecosystem from the ground up often clashes dramatically with government officials more concerned with retaining control over the social, political and economic agendas in their countries.

Chen noted that there is tremendous potential for technology-driven entrepreneurship in the Middle East and North Africa (MENA) given that the population is very young and most of those young people are already "tech-savvy" and eagerly take advantage of mobile devices.[34] With smartphone penetration in MENA increasing rapidly the Internet and mobile commerce would appear to be fertile ground for local entrepreneurship. However, in order for their dreams to come true, entrepreneurs in MENA must persuade government officials to strengthen legal protections for intellectual property rights, adopt and enforce regulations to facilitate secure online payments, and implement programs to provide consumers with more access to credit—less than 10% of adults in the region had credit cards as of 2014—they can tap into to purchase the new goods that Internet entrepreneurs are hoping to make available.

§1:4   Middle Eastern management styles

Badawy[35] surveyed need deficiency, fulfillment and job satisfaction among 248 respondents characterized as "mid-management" personnel from six countries in the Middle East. Badawy measured various managerial and organizational variables such as classical versus democratic managerial attitudes toward the capacity to lead and initiative, sharing of information and organizational objectives, participation, internal controls and communications. The data collected and analyzed by Badawy uncovered a range of significant differences between Western and Middle Eastern management styles as measured using a variety of dimensions including the following[36]:

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[34] Id.

[35] M. Badawy, "Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis", Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979). Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").

[36] Adapted from M. Badawy, "Styles of Mid-Eastern Managers", California Management Review, 22 (Spring 1980), 51-58, 57. Note that while Badawy included observations on Western management styles for contrast his survey did not include Western countries. With respect to management styles in the Middle East generally, see also U. Yucelt, "Management Styles in the Middle East: A Case Example", Management Decision, 22(5) (1984), 24–35. Studies of individual countries have also become more prominent such as, for example, A. Al-Jafary, A. Aziz and A. Hollingsworth, "Leadership styles, Machiavellianism and the needs of Saudi Arabian managers", International Journal of Value-Based Management, 2(1) (1989), 103-111.

- Leadership: Middle Eastern management styles featured a highly authoritarian tone, rigid instructions and too many management directives. In contrast, leadership styles in the West placed less emphasis on the leader's personality and considerable weight on the leader's style and performance.

- Organizational Structures: Organizational structures in the Middle East tended to be highly bureaucratic and centralized with power and authority vested firmly at the top of the organizational hierarchy. This led to vague relationships and ambiguous and unpredictable organizational environments. Western organizational structures were generally less bureaucratic and more decentralized with greater delegation of authority.

- Decision Making: Middle Eastern organizations operated based on ad hoc planning with decisions made at the high level of management by managers who were generally unwilling to take high risks. In contract, Western organizations typically made use of model decision making tools and sophisticated planning techniques supported by elaborate management information systems.

- Performance Evaluation and Control: There was a lack of vigorous performance evaluation systems and internal control mechanisms in the Middle East and control was exercised informally using routine performance checks. Western organizations tended to have fairly advanced control systems that focused on organizational effectiveness and control and reduction of costs.

- Personnel Policies: In the Middle East there was heavy reliance on personal contacts and getting individuals from the "right social origin" to fill major positions; however, in the West organizations relied on sound personnel management policies with decisions regarding hiring and promotion made on objective factors such as the qualifications of the candidates.

- Communication: In the Middle East the tone of communications depends heavily on the communicants with factors such as social position, power and family influence being extremely important. In the Middle East the chain of command must be followed rigidly, people relate to each other tightly and specifically and friendships are intense and binding. In contrast, in the West equality and minimization of differences are generally stressed, people relate to each other loosely and generally and friendships are not intense or binding.

In a subsequent study and analysis of managerial work value systems among Arab managers, Ali suggested the following "Arab stereotype" with respect to a wide range of workplace-related dimensions, activities and processes[37]:

- Leadership style: Egalitarian, emphasis on peer approval and gaining personal acceptance.
- Decision style: Consultative.
- Negotiation style: Ritualistic; stress on establishing a long-term relationship; affective, appealing to emotions and feelings; and concession seeking.

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[37] A. Ali, "A Cross-National Perspective of Managerial Work Value Systems", in Advances in International Comparative Management (Vol. 3), 1988, 151-169.

- Work orientation: Hard work is perceived to be a virtue in light of the needs of man and the necessity to establish equilibrium in one's individual and social life; family and work are the centers of life.
- Organizational authority: Authority vested in organizational leaders is necessary in order to avoid chaos and to build the desired and approved family-type environment.
- Business conduct: Highly personalized with an emphasis on honesty, moral aspects and verbal commitments; written contracts and documentation are not highly regarded.
- Communication systems: Face-to-face, informal and urgent communications are favored and the most effective communications emphasize human interest and provide examples of how programs have benefitted the people.
- Reward systems: Longevity and seniority are the primary factors in awarding pay increases; emphasis on recognition by the superior for a good job by the group and personal growth as a part of humanity.
- Motivational systems: Motivation comes from social relationships, interpersonal transactions, egalitarian values and opportunities to be rewarded for helping others.
- Performance appraisal: Informal and generally based on subjective judgment of superiors rather than formal performance evaluations; appraisals emphasize the human relations aspect of the performance of the individual.
- Recruitment and promotion: Recruitment and promotion decisions are highly subjective with decisions based primarily on personal contacts, nepotism, regionalism and family name.
- Management consultants: Management consultants are used only in crisis situations since such a move is seen as a sign that something is going wrong.

While exploring the relationship between societal culture and managerial styles and practices in Saudi Arabia, Harris and Moran suggested that notice should be taken of several fundamental culture values in that country: tribal and family loyalty, Arabic language, close and warm friendships, Islam, honor and shame, an "idealized self", polychromic use of time, independence, and male domination.[38] They argued that these values contributed to the portfolio of styles, practices and behaviors typically employed by Saudi Arabian managers such as work group loyalty, nepotism, management by walking around, Theory Y management, sensitivity to Islamic values, clear guidelines and conflict avoidance, training and defined job duties, centralized decision making, sensitivity to control, interest in the individual, and separation of sexes. Harris and Moran also cautioned foreigners seeking to engage in personal and business relationships with Saudis to avoid certain behaviors that would like be perceived poorly in the context of Saudi societal culture: bringing up business subjects until you get to know your host; raising colloquial questions that may be common in your country but possibly misunderstood in Saudi Arabia as an invasion of privacy; engaging in conversations about religion, politics, or Israel; bringing gifts of alcohol or using alcohol, which is prohibited in Saudi Arabia; requesting favors from those in authority or esteem, for it is

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[38] Adapted from P. Harris and R. Moran, Managing Cultural Differences (4th Ed) (Houston TX: Gulf Publishing Company, 1996).

considered impolite for Arabs to say no; and pointing your finger at someone or showing the soles of your feet when seated.[39]

As part of a cross-cultural study of internal work culture in ten countries, Aycan et al. found Turkey to be highly paternalistic, moderately collectivistic and hierarchical and non-fatalistic.[40] Further details on the study later reported by Aycan noted: ". . . managers held favorable assumptions and beliefs regarding employee malleability, responsibility seeking and participation. On the other hand, it was a common belief that employees were not proactive. In HRM practices, Turkey scored high on job enrichment and empowering supervision, but low on performance-reward contingency."[41]

Another survey conducted in 2000 of senior business students from different universities all around Turkey provided support for charismatic leadership as the preferred style of leadership, followed by the participative and paternalistic leadership styles.[42] Respondents indicated that the factors that would provide the highest motivation for them in the workplace would be having power and authority, a peaceful work environment, opportunities for career advancement and pay. On the other hand, respondents indicated that close supervision and guidance, praise from supervisors, feedback on performance and a sense of belonging would be the least motivating. The researchers concluded that the trend among an increasingly younger and more educated workforce in Turkey is toward "aspirations and preferences that are more aligned with those prevalent in 'Western' industrialized societies".[43]

The studies describe above provide interesting insight into the challenges confronting those who are designing human resources management practices throughout Turkey as it seems clear that, using the words of Aycan, "Turkish societal and organizational culture is a blend of 'Western' and 'Eastern' values".[44] As a result, one sees business organizations in Turkey that are adapting and using Western style human resources practices such as job enrichment and empowering supervision; however, the effectiveness of these strategies is often muddied by the impact of long-standing traditional cultural values which, while changing, still remain influential.[45]

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[39] Adapted from P. Harris and R. Moran, Managing Cultural Differences (5th Ed) (Houston TX: Gulf Publishing Company, 2000).

[40] Z. Aycan, R. Nanungo, M. Mendonca, K. Yu, J. Deller, G. Stahl and A. Khursid, "Impact of culture on human resource management practices: a ten country-comparison", Applied Psychology: An International Review, 49(1) (2000), 192-220.

[41] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 253.

[42] Z. Aycan and S. Fikret-Pasa, "Leadership preferences, career choices and work motivation in Turkey: a national profile and regional differences", Paper presented at the 15th International Congress of the International Association for Cross-Cultural Psychology, Pultusk, Poland, July 16-21, 2000 (cited and described in Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260).

[43] Id. at 254.

[44] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 253.

[45] Id.

§1:5   Women entrepreneurs in the Middle East

Vaughn reported that the prevalence of women entrepreneurs in the MEDA region was lower than in other middle-income countries in East Asia, Latin America, the Caribbean, Europe and Central Asia.[46] She collected data from a group of 23 women business owners and prospective entrepreneurs in the formal sector in Morocco and found that the most common and serious impediments to entrepreneurship for them included difficulties accessing financing, both from commercial banks and from alternative forms of sources of external financing; lack of information and professional networks, particularly a lack of business knowledge and know-how and access to business mentors and professional advisors; and problems in the general business environment including corruption and competition. The participants in Vaughn's survey indicated that several steps should be taken to ease the path of women entrepreneurs in Morocco including "strengthening entrepreneurism awareness and training programs, targeting younger generations in schools and universities, improving education, providing role models and promoting the image of the entrepreneur.

§1:6   Entrepreneurship training and development

A blogger commenting on training and development practices and problems in Arab countries in 2011 emphasized the importance of religion and family on Arab organizations and noted that loyalty and obligations among family members often make it difficult to implement transparent, fair and professional managerial practices in Arab companies.[47] For example, nepotism and favoritism are quite apparent in hiring and promotion practices and formal consultation and decision making procedures are often ignored in favor of personal and social contract relationships. As for training and development in Arab enterprises generally, and in Jordanian firms in particular, the blogger reported that there was an absence of systematic internal training and assessment for employees and that companies typically prefer to rely on external training providers that deliver information in a variety of ways including lectures, seminars and case studies as opposed to on-the-job observation and training. The blogger was critical of the lack of a strategic and proactive focus on HR development in Jordan and argued that Jordanian employees lacked the motivation to attend, and benefit from, training and development programs and that their employers send inappropriate persons to the program and selected providers that offered poor training in terms of content and delivery methods.

§1:7   Entrepreneurship in Turkey

Digital Bosphorus is the name that has been given to the startup sector in Istanbul and 2011 and 2012 brought both spectacular successes, particularly for a handful of local companies engaged in e-commerce, and disappointing failures as several high-profile

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[46] K. Vaughn, "Constraints for Women Entrepreneurs in the Middle East and North Africa: Insights from Morocco", Presented at Diana International Research Conference 2014, Stockholm, Sweden (June 16, 2014).

[47] Current Training and Development Practices and Problems in Arab Countries (May 7, 2011), http://www.hrdiscussion.com/hr30628.html (accessed August 23, 2014).

local startups were forced to shut down their operations.[48] Turkish venture capitalists, while obviously not enjoying losses of capital, have tried to put a positive spin on the troubles of some of the portfolio companies by arguing that Turkish entrepreneurs must accept that failure is part of the process and that their job is to learn from their failures and apply those hard-earned lessons to their next company. Venture capitalists are also excited to see that entrepreneurship and startups are become increasingly acceptable and legitimate career choices for talented young people in Turkey and expect to see a large amount of activity in e-commerce, software and gaming.

The human resources profile for the Turkish workforce points to one of the interesting potential competitive advantages for the country: the availability of a relatively young and educated group. Another interesting human resource characteristic of Turkey is the active and increasingly important role of woman. In the late 1990s, for example, reports indicated that Turkish women ranked favorably in relation to global competitors with respect to their numbers in scientific, technical and professional-related jobs and their ascendency to high-level management positions.[49] While participation of women in the workforce is generally seen as a positive development, there are long-standing cultural values and expectations regarding the role of women in families—women are expected to take primary responsibility for child rearing and maintaining family integrity and harmony—that may impede the development of their full potential as valuable contributors to the economy.[50]

One of the most serious economic problems confronting Turkey has been its attempts to continue its impressive progress is finding strategic to cope with and reduce what has become a "chronic" unemployment issue. Across the country the unemployment rate hovers around 10%; however, there are particular concerns about higher rates among specific important groups including young people, unskilled candidates, women and inhabitants of the eastern regions of the country. *The Economist* reported the results of a public opinion survey in October 2009 that found that 63% of Turks believed that unemployment was the most important issue facing the country and while the government has responded by announcing plans for creation of a substantial number of new jobs *The Economist* warned that "the labour market is too rigid: minimum wages are too high and do not allow enough regional variation, and temporary labour contracts are discouraged".[51]

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[48] D. Cornish, Europe's Hottest Startup Capitals: Istanbul, WIRED (October 1, 2013).

[49] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 254-255. Specifically, the United Nations Development Programme, in its 1996 Human Development Report, ranked Turkey 73rd out of 210 countries with respect to the proportion of women in scientific, technical and professional related jobs and a 1997 report published by the International Labour Organization found that 4% of Turkish women were employed in top management positions, a ratio higher than what was found in the US (2.4%), the United Kingdom (2%), Germany (3%) and Japan (1%).

[50] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 255 (citing Z. Aycan, Key Success Factors for Women's Career Advancement in Turkey, 6th European Congress of Psychology, Rome, July 4-9, 1999).

[51] "The economy has had a bigger boost from much sounder management", The Economist, October 21, 2010.

Education and training in business management is still lagging in Turkey. While the country has a relatively well developed system of universities and other institutions of higher learning, access is still relatively limited and reports indicate that the participation rate of persons between the age of 18 and 21 in higher education was just 33% as of 2007.[52] Almost half of the university students (45%) were enrolled in one of the many majors falling under the general category of "applied social sciences". Since business management is just one of a large number of potential social sciences majors, and access to university training is limited, it has been suggested that perhaps Turkey's network of two-year schools should assume responsibility for offering a wider array of accounting and business courses, particularly since Turkish entrepreneur admit that their businesses suffer due an inability to create and maintain accurate and accounting records and keep up with regulatory reporting requirements in tax and other areas.[53]

Small- and medium-sized enterprises ("SMEs"), firms with 1 to 150 employees, play a significant role in Turkey's economy and OECD figures indicated that SMEs accounted for 99.8% of the total number of enterprises in Turkey as of 2000 and that they provided 76.7% of total employment.[54] In the dynamic and growing manufacturing sector, 99.3% of the firms are SMEs and they employ 56% of the workers engaged in manufacturing activities.[55] Turkey has ratified the European Charter for Small Enterprises and has established the Small and Medium Industry Development Organization within the Ministry of Industry and Trade to "improve [the] SMEs share and efficiency in [the] Turkish economy and enhance their competitive capability".[56] Specific policy goals relating to SMEs that have been announced include improving the training, financing and managerial skills of Turkish entrepreneurs; improving the country's business environment and infrastructure; reducing the complexity of Turkey's regulatory environment, particularly with respect to tax reporting and payments; increasing SME access to financial markets; and facilitating the acquisition and usage of new communication technologies.[57]

In 2009 Benzing et al. published the results of their survey of 139 entrepreneurs in Ankara, Turkey relating to the motivations for business ownership, the factors contributing to their success and, finally, the problems that they encountered during the course of forming and operating their businesses and attempting to make them successful.[58] The researchers explained that Ankara, the capital of Turkey, was chosen for the survey "because of its potential for economic growth through the development of its small business sector", and particularly noted that Ankara had a significant foreign

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[52] C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management, January 2009.
[53] Id.
[54] C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management, January 2009 (citing OECD, "Small and Medium-Sized Enterprises in Turkey--Issues and Policies", 2004).
[55] Id. (citing Republic of Turkey Ministry of Industry and Trade, "Small and Medium Sized Industry Development Organization (KOSGEB)", 2006).
[56] Id.
[57] Id.
[58] Id.

presence because of its role as a diplomatic center; served as a focal point of education as a home for 10 well-known universities; and had a relatively developed industrial/administrative infrastructure — including modern railways and the second largest airport in Turkey — and a population base that made it an attractive domestic market for the products and services of the new businesses launched by entrepreneurs in the survey group. As the survey noted, retail activities in Ankara have been expanding rapidly along with tourism and large construction companies and defense industries have relocated to Ankara to join firms engaged in traditional local industries such as tractors, lumber, furniture, pasta, flour, vegetable, oil, paint, textiles and beer and wine.[59]

Participants in the survey were chosen based on simple random sampling techniques from among 37,922 entrepreneurial establishments registered with the Ankara Chamber of Commerce Directory and were limited to businesses with less than 250 employees (i.e., the then-current definition of a small- and medium-sized enterprise used by the OECD and United Nations Economic Commission for Europe). The researchers noted several key characteristics of the entrepreneurs in the survey group including the following: 91% of the respondents were male, which was consistent with prior surveys and the relatively low percentage of women in the entire Turkish labor force[60]; the average number of full-time employees among the respondent firms was 24.9, and 58% of the firms would be classified as "microenterprises" (i.e., firms that employee 10 full-time employees or less)[61]; and 30% of the businesses were involved in retail activities while service and manufacturing business represented 19% and 17%, respectively, of the entire sample size. In contrast to entrepreneurs in other developing countries, Turkish entrepreneurs tended to focus their efforts on a single business at one time and worked hard at it — the average time spent on their business among respondents was 70 hours per week.

With regard to their motivations for seeking ownership of their own businesses, survey respondents indicated that the two most important reasons for embarking on an entrepreneurial path were "to increase income" and "to have job security".[62] The researchers commented that this result was not particularly surprising in the context of Turkey given that income levels in the country remain relatively low and the labor market in general continues to struggle with uncertain employment conditions and an overall high level of unemployment.[63] They also noted that studies of entrepreneurs in other

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[59] Id.

[60] See also M. Arslan, "A Cross-Cultural Comparison of British and Turkish Managers in Terms of Protestant Work Ethic Characteristics", Business Ethics: A European Review, 9(1) (2000), 13-21; M. Kozan, D. Oksoy and O. Ozsoy, "Growth Plans of Small Business in Turkey: Individual and Environmental Influences", Journal of Small Business Management, 4(11) (2006), 114-129; D. Cetindamar, "Policy Issues for Turkish Entrepreneurs", International Journal of Entrepreneurship and Innovation Management, 5(314) (2005), 187-205; and H. Ufuk and O. Ozgen, "The Profile of Women Entrepreneurs: A Sample from Turkey", International Journal of Consumer Studies, 25(4) (2001), 299-308.

[61] Among the entire sample, 89% of the firms had 50 or less full-time employees and thus would be categorized as either micro- or small-sized enterprises, and the remaining 11% of the firms would be categorized as "medium-sized".

[62] C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management (January 2009).

[63] The researchers noted that the rate of new job creation in Turkey during the last decade had fallen far below the number of new entrants to the working age population and that educated young people had

developing countries have also identified income and job security as primary motivators.[64]   The third most important reason for entrepreneurship was "personal freedom and independence", which was also consistent with earlier surveys conducted in Turkey that identified a desire for "flexibility" and "work freedom" as important motivators for business owners.[65]   The researchers noted that this finding was interesting given that the "individual initiative" implied by a drive for personal freedom and independence might be seen as inconsistent with the fundamental values of a predominantly Muslim society such as Turkey and commented that it appears that there is an Islamic entrepreneurial class in Turkey bridging the gap between West and East and attempting to integrate a "spirit of capitalism" and Protestant work ethic into their local business culture.[66]   Based on their factor analysis of the responses, the researchers concluded that the entrepreneurs included in the survey were driven more by income rewards than intrinsic rewards, not surprising given the uncertainties of the Turkish economic and political situation and the correspondence turbulence in labor markets; however, they noted that as Turkey continues to develop, it could be expected that "higher-order needs for personal fulfillment" will become more important motivators for local entrepreneurs in the future.

Other studies of motivational factors associated with Turkish entrepreneurs have yielded similar results. For example, Ozsoy et al. found that the primary factors driving interest in forming new businesses in Turkey were security for the entrepreneur and his or her family, increasing income and directly participating in the success of a company, and that entrepreneurs also appreciated great flexibility and work freedom and opportunities to be their own boss.[67]   Cetindamar noted that entrepreneurs in Turkish technology-producing firms were most interested in achieving work independence and also valued the opportunities for creating new jobs, higher income and personal satisfaction.[68]   Several studies of female entrepreneurs in Turkey have been conducted and indicate their primary motivations to be meeting the needs of their families, initiating social contacts,

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suffered the most because of a large gap between their skills and knowledge and the requirements of the jobs that had been created. While unemployment insurance is available, benefits are limited and many would need to rely on savings and family resources to survive while waiting for jobs in the standard employment market if they did not attempt to create their own opportunities through entrepreneurship. Id. (citing The World Bank, Turkey: Labor Market Study (2006)).

[64] See, e.g., H. Chu, C. Benzing, and C. McGee, "Ghanaian and Kenyan Entrepreneurs: A Comparative Analysis of Their Motivations, Success Characteristics, and Problems", Journal of Developmental Entrepreneurship, 12(3) (2007), 295-322; C. Benzing, H. Chu and B. Szabo, "Hungarian and Romanian Entrepreneurs in Romania – Motivation, Problems, and Differences", Journal of Global Business, 16 (2005), 77-87; and C. Benzing, H. Chu and G. Callanan, "Regional Comparison of the Motivation and Problems of Vietnamese Entrepreneurs", Journal of Developmental Entrepreneurship, 10(2005), 3.

[65] O. Ozsoy, D. Oksoy and K. Kozan, The Characteristics of Turkish Entrepreneurs and Their Enterprises (2001).

[66] See also M. Arslan, "A Cross-Cultural Comparison of British and Turkish Managers in Terms of Protestant Work Ethic Characteristics", Business Ethics: A European Review, 9(1) (2000), 13-21.

[67] O. Ozsoy, D. Oksoy and K. Kozan, The Characteristics of Turkish Entrepreneurs and Their Enterprises (2001).

[68] D. Cetindamar, "Policy Issues for Turkish Entrepreneurs", International Journal of Entrepreneurship and Innovation Management, 5(314) (2005), 187-205.

experience self-actualization, gaining work independence and creating employment opportunities.[69]

With regard to success factors, entrepreneurs in the study ranked "reputation for honesty" as most important followed by "charisma and friendliness", "social skills" and "good customer service". These factors had also been cited as important in other studies conducted among entrepreneurs in other developing countries with different cultural and religious foundations such as Pakistan, Romania and Vietnam.[70] The researchers commented that the importance of honesty among Turkish entrepreneurs was to be expected in light of the influence of Islamic values on business practices in Turkey and the expectation that entrepreneurs will act in ways that are consistent with Islamic values of honesty, respect and obedience to elders. The factor given the least weight among Turkish entrepreneurs was "satisfactory government support", a result that perhaps reflected the fact that respondents were resigned to the fact that the Turkish government, at least for now, provided little in the way of protection or support (i.e., subsidies) for entrepreneurial activities.[71] Interestingly, several factors typically associated with fundamental managerial activities—good management skills, appropriate training and ability to manage personnel — received only modest support among the entrepreneurs as being essential for success. In addition, the "personal characteristics" of the entrepreneur referred to above (i.e., honesty and friendliness) were thought to be much more important than whether the business had access to capital, offered a good product at a competitive price or conducted an effective sales and marketing program.

With regard to the problems that must be overcome for effective entrepreneurship in Turkey, the respondents cited confusing and complex tax structure; inability to attract and retain good employees; inability to maintain accurate accounting records; and weak economy. The researchers noted that these concerns were similarly to those found in other studies of small- and medium-sized enterprises in the European Union including a survey conducted by the European Commission covering 30 countries indicating that innovative activities were often hampered by lack of financing; a scarcity of skilled labor; a lack of market demand, sometimes attributable to weaknesses in the economies of the target markets; and the high cost of finding and maintaining human resources. Interestingly, Turkish entrepreneurs were less bothered about access to capital than their

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[69] Id. See also H. Ufuk and O. Ozgen, "The Profile of Women Entrepreneurs: A Sample from Turkey", International Journal of Consumer Studies, 25(4) (2001), 299-308.

[70] C. Benzing, H. Chu and B. Szabo, "Hungarian and Romanian Entrepreneurs in Romania – Motivation, Problems, and Differences", Journal of Global Business, 16 (2005), 77 (honesty, friendliness and customer service most important for Romanian entrepreneurs); C. Benzing, H. Chu and G. Callanan, "Regional Comparison of the Motivation and Problems of Vietnamese Entrepreneurs", Journal of Developmental Entrepreneurship, 10 (2005), 3 (honesty, friendliness and customer service most important for Vietnamese entrepreneurs); S. Coy, M. Shipley, K. Omer and N. Rao, "Factors Contributory to Success: A Study of Pakistan's Small Business Owners", Journal of Developmental Entrepreneurship, 12(2) (2007), 189 (customer service among three most important success factors for Pakistani entrepreneurs).

[71] See also S. Coy, M. Shipley, K. Omer and N. Rao, "Factors Contributory to Success: A Study of Pakistan's Small Business Owners", Journal of Developmental Entrepreneurship, 12(2) (2007), 189 (government support also considered to be unimportant by Pakistani entrepreneurs).

counterparts in other countries[72] and also did not have the same level of concern regarding excessive governmental intervention and regulation that was found in many other European countries.

The researchers noted that while the "total tax rate" as a percentage of profits that Turkish entrepreneurs are subject to is actually a bit more favorable than in other countries in the region or the OECD, it was also substantially higher than in many other countries.[73] High taxes drag down the entire economy and high payroll taxes lead to "informal" hiring arrangements that are less efficient. Another tax-related challenge for Turkish firms is the relatively large administrative burden associated with tax computation and payments.[74] The inability to attract and retain good employees is a complaint of entrepreneurs in many countries[75]; however, Turks also complain about the expense and burden of hiring and firing employees including high minimum wages, large mandatory severance payments and inflexible restrictions on work hours. The problems with maintaining accurate accounting records can be traced to inadequacies in Turkey's system for providing training in accounting and other skills relating to business management and marketing. While Turkey has a large number of universities, access is limited and students typically focus on applied social sciences, of which business management is just one of a wide range of possible majors. Finally, concerns regarding the impact of a "weak economy" on entrepreneurial activities have been traced to uncertainty in the economic and political environment in Turkey.[76]

Karadeniz and Ozdemir used data and opinions collected in 2006 from an adult population survey and a national expert survey as part of the Global Entrepreneurship Monitor project to explore entrepreneurial activities in Turkey including a determination of some of the demographic characteristics, personal perceptions and motivations of Turkish entrepreneurs and an analysis of the entrepreneurial framework conditions in

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[72] See e.g., C. Benzing, H. Chu and B. Szabo, "Hungarian and Romanian Entrepreneurs in Romania – Motivation, Problems, and Differences", Journal of Global Business, 16 (2005), 77; C. Benzing, H. Chu and G. Callanan, "Regional Comparison of the Motivation and Problems of Vietnamese Entrepreneurs", Journal of Developmental Entrepreneurship, 10 (2005), 3; and H. Chu, C. Benzing, and C. McGee, "Ghanaian and Kenyan Entrepreneurs: A Comparative Analysis of Their Motivations, Success Characteristics, and Problems", Journal of Developmental Entrepreneurship, 12(3) (2007), 295.

[73] According to World Bank figures for 2007 the total tax rate as a percentage of profits for Turkey was 45.1%, which compared to 46.2% in OECD countries, 35.7% in the United Kingdom and 23.3% in Singapore.

[74] According to the World Bank's Doing Business in Turkey 2008 Report, an average medium-sized business in Turkey spent 223 hours in 2007 computing and paying its taxes. While this was slightly higher than the OECD average of 183.3 hours, it was substantially more burdensome than in potentially competitive countries such as Hong Kong (80 hours) and Singapore (49 hours).

[75] See e.g., C. Benzing, H. Chu and B. Szabo, "Hungarian and Romanian Entrepreneurs in Romania – Motivation, Problems, and Differences", Journal of Global Business, 16 (2005), 77; C. Benzing, H. Chu and G. Callanan, "Regional Comparison of the Motivation and Problems of Vietnamese Entrepreneurs", Journal of Developmental Entrepreneurship, 10 (2005), 3.

[76] D. Cetindamar, "Policy Issues for Turkish Entrepreneurs", International Journal of Entrepreneurship and Innovation Management, 5(314) (2005), 187.

Turkey.[77] They found that the level of early-stage entrepreneurial activities in Turkey was much lower than in other developing countries and that the number of established business entrepreneurs in the country was relatively higher than in other developing countries. They speculated that these results could be traced to long-standing Turkish governmental practices of providing more support and attention to larger firms than to smaller companies. In addition, they pointed out that ratio of early stage entrepreneurship to established business ownership was a measure of the overall level of entrepreneurial dynamism in the economy and thus it was reasonable to interpret the results as evidence that there was a lack of competitive pressure in the Turkish markets that allowed incumbent firms to avoid reacting to such pressures by improving efficiency or introducing product or process innovations. The researchers also found the Turkey ranked 13th out of 14 developing countries on an index that measured the level of opportunity-based entrepreneurship and pointed out that in relation to other developing countries more Turkish entrepreneurs started their own businesses out of necessity since they had no better options for work.

With regard to the demographic characteristics of Turkish entrepreneurs, Karadeniz and Ozdemir noted that males far outnumbered females—in fact, the participation of women in entrepreneurial activity in Turkey was almost half the number of women in other developing countries used for comparison purposes by the researchers, early-stage entrepreneurs in Turkey were most frequently between 25 and 34 years-old and the percentage of early-stage entrepreneurs in Turkey with post-secondary degrees or graduate school experience was dramatically lower than the comparable percentages in other developing countries (6% of Turkish early-stage entrepreneurs versus 31% of early-stage entrepreneurs in all developing countries).[78] As for the personal perceptions of Turkish entrepreneurs, Karadeniz and Ozdemir found that, in comparison to non-entrepreneurs, they knew more about entrepreneurs and entrepreneurship, saw more good business opportunities in their environment, had the necessary skills and knowledge and had less fear of failure.[79] With regard to the personal motivations of Turkish entrepreneurs the researchers identified a wide gap between opportunity- and necessity-driven entrepreneurship at different income levels (i.e., at lower income levels, 30.6% of early-stage Turkish entrepreneurs tended to be necessity-driven, while 4.9% were opportunity-driven; for the high income levels, 32.8% of early-stage entrepreneurs are opportunity-driven and just 13.9% were necessity-driven) and suggested that opportunity-driven entrepreneurship was positively correlated to higher levels of education (i.e., people with education at the graduate level tend to be opportunity-driven entrepreneurs).

Karadeniz and Ozdemir found that while most of the established business owners in Turkey operated in the extractive and transformative sectors, early-stage entrepreneurs focused their efforts on the country's consumer products sector.[80] Turkey's early-stage

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[77] E. Karadeniz and O. Ozdemir, "Entrepreneurship in Turkey and Developing Countries: a Comparison of Activities, Characteristics, Motivation and Environment for Entrepreneurship", MIBES Transactions, 3(1) (Spring 2009), 30.
[78] Id. at 34.
[79] Id. at 35-36.
[80] Id. at 36-38.

entrepreneurs ranked 4th among the 14 developing countries that the researchers had selected for comparison purposes with respect to their growth expectations in terms of job creation: 22.8% of those entrepreneurs expected to employ more than 20 people within the five year period following the survey. Karadeniz and Ozdemir also noted that Turkish entrepreneurs tended to be more export-oriented than entrepreneurs in other developing countries, a finding they attributed to the export-led economic development policies that Turkish governments had promoted since the 1980s. As for the level of innovation associated with Turkish entrepreneurship the researchers found that the country's level of customer-oriented innovation was unusually high in relation to international standards, meaning that Turkish entrepreneurs felt that while their products and/or services may not necessarily be new in the international market they did provide new options for their local customers. However, very few of the Turkish entrepreneurs claimed that others did not offer the same products and/or services and the researchers concluded that product differentiation strategies were not as popular among Turkish entrepreneurs as they were among entrepreneurs in other developing countries. Finally, Karadeniz and Ozdemir found that the usage rate of new technologies among Turkish entrepreneurs was lower than among entrepreneurs in other developing countries and suggested that this was because new technologies were too costly in Turkey. If this situation continued Turkish entrepreneurs would have difficulty in lowering their production costs and addressing changes in consumer requirements and would find themselves steadily falling behind in terms of competitiveness.

With regard to the entrepreneurial framework conditions in Turkey Karadeniz and Ozdemir found that the assessments made by the experts placed the country below the averages of other developed countries analyzed for comparative purposes on almost all of the measures of the conditions and Turkish entrepreneurs particularly suffered from a lack of financial support for entrepreneurship, inadequate governmental programs for providing knowledge about technology and tax incentives to entrepreneurs, and insufficient intellectual property rights.[81] On the positive side, however, the researchers noted that there was a positive attitude in Turkish society toward entrepreneurship and that domestic markets were open to rapid changes, particularly those that were occurring in the country's markets for consumer goods and services. Karadeniz and Ozdemir pointed out that large and family-owned companies continued to dominate the private sector in Turkey and that government programs had traditionally focused their attention on larger firms rather than small- and medium-sized enterprises and they urged policymakers to provide more financial and informational support for entrepreneurs. Other steps that the government might take to improve the environmental framework conditions for entrepreneurship in Turkey included injecting more competitiveness into the marketplace, thus forcing firms to pursue innovation with respect to their products and services; providing more support for education to provide entrepreneurs with the necessary skills to identify and exploit business opportunities; providing more support for government research and development programs to expand and improve the technology base throughout Turkey; and creating incentives for young people and women to choose entrepreneurial career paths.

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[81] Id. at 39-40.

§1:8   Entrepreneurship in Egypt

A report prepared under the auspices of the Small and Medium Enterprise Policy Development Project organized by the Egyptian Ministry of Finance and released in January 2008 included profiles of nine Egyptian growth companies and the entrepreneurs who had founded and led those companies in an effort to learn more about their experiences and strategies, the main challenges they had to overcome and the key factors in their success.[82] The companies that were included in the survey had been 20 and 3,000 professional and skilled workers and came from a variety of sectors including Information and Communications Technology (ICT), specialized business services, retailing of food and ladies fashions, manufacturing of furniture, garments, educational products and processed olives and foodstuffs, and agricultural commodities trading. The report noted that the size of the companies in terms of number of employees was extraordinary in the Egyptian context since the average number of employees in the country at that time was 2.9.

On average the companies had been in business for about eight years and each of the companies had been launched by university graduates, some of whom also held post-graduate degrees. The educational background of the entrepreneurs was quite varied and included engineering, mass communications, medicine, dentistry, pharmaceutical studies, architecture, construction, business administration and artificial intelligence. All of the founders had worked for other companies for different lengths of time and only two of the nine companies were started by founders with previous entrepreneurial experience. Interestingly, a majority of the entrepreneurs chose to establish their companies in a sector in which they had no prior experience, a decision that certainly made launching the company more challenging as the entrepreneurs had to invest additional time and effort in learning the basics of the industry in which they were operating.

The amount of capital used to launch the firms varied depending upon the capital intensity of their businesses and the access that the entrepreneurs had to money, which typically came from savings, family members and, to a lesser extent, advance payments from the firm's initial customers. Most of the companies in the survey began with basic premises and equipment and expansion, such as building a factory and hiring more workers, was generally financed out of profits until the entrepreneurs were able to open up credit facilities with commercial banks. A few of the nine companies were able to secure equity venture capital from outside investors to build their businesses.

The report identified three different paths to growth for the surveyed companies. Several of the companies thrived by embracing internationalization and based their strategies on exploiting export opportunities for their products that they had identified through participation in international trade shows. In fact, six of the nine companies were primarily focused on export activities. Another path to growth was rapid expansion of the number of retail outlets, leading to increases in both revenue and the number of employees. Finally, the growth of three of the companies was based primarily on their

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[82] Egyptian Ministry of Finance: Small and Medium Enterprise Policy Development Project, The Path to Growth: Experiences of Egyptian Entrepreneurs (January 2008).

ability to attract new customers, identify new market segments or applications and develop new products or services. In all instances, growth was significantly influenced by the ability of the companies to continuously upgrade their technical capacity and premises and improve the working environment for their employees.

All of the companies featured in the survey were clearly focused on pursuing "opportunity-based" entrepreneurship and their founders realized that there were lots of opportunities in a country such as Egypt which was largely underdeveloped in terms of the breadth of products, services and expertise and the quality of those offerings to businesses and consumers. The reported noted that the entrepreneurs typically undertook an extensive search for business opportunities that included Internet-based research to gather and analyze market and production data and information on international trends and opportunities. In some cases the entrepreneurs supplemented their own research by seeking input from consultant to conduct market and feasibility studies. One striking finding was that developing a formal business plan that quantified the market potential for their product or service before proceeding was "the norm rather than the exception" among the surveyed entrepreneurs.[83] Some of the entrepreneurs selected businesses in areas in which they felt existing Egyptian enterprises had already achieved a comparative advantage (i.e., agricultural products or furniture making) and based their strategies on improving what others had already done by offering a product or service that bested the competition in terms of quality, innovation, efficiency or price. Other entrepreneurs staked their futures on their ability to identify and exploit market trends such as anticipated strengthening of interest in outsourcing business processes. In almost all cases, the entrepreneurs set ambitious goals from the moment they decided to open their new businesses and the report quoted several of them mentioned their desire to be the first provider of specific services in the region, one of the main traders in Egypt or the top company in its field in the Middle East.

The report included the opinions of the surveyed entrepreneurs as to the key factors that contributed to their successful launch and growth. At the top of the list was the need for a "long term vision and a clear business model" based on new and innovative ideas and careful and extensive market studies. The entrepreneurs also stressed the importance of preparation and planning that included anticipating growth and taking the steps required to ensure that growth was achieved smoothly. For example, many of the companies had undergone restructuring as they grew to upgrade their management information systems, develop quality controls and create distinct departments with specific functional responsibilities. Entrepreneurs often tapped into the expertise of outside consultants in areas such as human resources, information technology, procurement, law and accounting to assist them in successfully executing their restructuring strategies. Other common success factors among the surveyed entrepreneurs were a commitment to quality based on international standards, consistency, innovative design features, customer satisfaction, attention to continuous updating and improving technical and managerial knowledge and, particularly for companies focusing on exporting, access to relatively low cost labor.

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[83] Id. at 10.

With regard to the most significant constraints on their efforts grow their enterprises, the entrepreneurs in the survey mentioned difficulties in finding and retaining qualified and committed workers across all categories of employees, a situation that led many of them to launch their own intensive internal training programs and introduce comprehensive loyalty programs that included incentives, benefits and social packages; access to financing, particularly during the startup phase, and the unwillingness of banks to provide credit facilities to small and medium-sized enterprises that have a majority of their customers overseas or are operating in unfamiliar sectors such as information technology even when they have been successful in securing customers and have been enjoying a steady revenue stream; complicated and confusing procedures to obtain required business licenses; and a lack of information on business sectors in Egypt, market trends, production statistics and developments in international markets, a situation that the entrepreneurs felt might be addressed by developing a big Internet portal that collected and distributed the necessary information and the creation of more professional companies that could offer specialized market analysis services. The entrepreneurs called for new governmental institutions focused specifically on helping SMEs, promotional campaigns by the government to enhance the industrial image of Egypt and its domestic products and services and local products/services and reforms to the country's educational system to improve and expand Egypt's available human capital in various fields and functions such as IT, sales and management.

One of the hopes associated with the political changes in Egypt during the "Arab Spring" of 2011 was that there would finally be an overhaul of that country's economic system that would allow entrepreneurship to flourish. Economic progress is crucial in a country with a young population floundering under the highest youth unemployment rate in the world—25% as of August 2011—and observers warn that unless Egyptians begin to see real changes in their livelihoods the overall situation in the country will continue to be unstable. However, commentators have pointed to a significant number of issues and challenges with respect to the environment and infrastructure for entrepreneurship in Egypt: few sources of capital, a poor education system that is failing to produce anywhere near the level of skilled workers necessary to launch the economy, poor productivity and corruption among government bureaucrats and an unwieldy set of laws and regulations that are costly to comply with and result in excessive delays for new businesses and existing businesses looking to expand.[84]

Egypt is not alone among Arab countries in the Middle East when it comes to overcoming historical problems with respect to economic policies. Many countries in the region have been able to avoid dramatic structural problems with their economics because of the revenues from oil sales; however, they now find that they have fallen far behind other parts of the world, notably Asia, with respect to competencies necessary for global competitiveness and supporting larger numbers of entrepreneurs. Leaders in Arab countries have often been corrupt and ineffective and have embraced "state-dominated" economic models that favored only a select few and cut off opportunities for inbound foreign investment and development of a healthy private sector. In the meantime,

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[84] M. Schuman, "Seeking Growth After the Arab Spring", TIME (August 22, 2011), Business 1-6. http://www.time.com/time/magazine/article/0,9171,2088044,00.html

developing Asian countries, such as China and Korea, have vigorously pursued integration into global supply chains and invested in the human and other resources required to provide goods and services to industrialized countries.

The social and political crises that have followed the departure of former President Mubarack have dashed almost all hope that any gains could be achieved by the Arab Spring. The governments that have followed have shown no interest in dismantling long-standing systems in Egypt and instituting the tough reforms required to put Egypt on a new economic path. Among the more important areas of concern are the following:

- Engaging the small group of young and educated Egyptians interested in using their training to start and manage new businesses. This requires liberalization of governmental regulations and enlightenment among bureaucrats. In addition, establishing a safe and secure environment for foreign investors would provide these budding entrepreneurs with access to capital not currently available inside Egypt.
- Establishing programs that will quickly address the high levels of unemployment in Egypt, including infrastructure projects and initiatives that will provide the basic training necessary to begin improving the quality of the workforce to the point where Egypt can begin to compete with other countries for the interest of foreign investors.
- Addressing the issues that have made Egypt one of the lowest performers in the World Economic Forum's competitiveness survey—ranking below countries such as Guatemala, Kazakhstan and Rwanda—including "intrusive, inefficient bureaucracies, weak legal systems and feeble infrastructure".[85]
- Reforming an education system that has created a significant gap between the qualifications of graduates and the skills needed for the economy to develop. Local firms need to have access to engineers and others with the background needed to develop and manage technologically advanced manufacturing systems. As it stands now, companies doing business in Egypt need to spend large amounts on training for new employees, an expense that is particularly challenging new firms struggling to catch up with competitors in other countries.
- Leveraging "assets" that can provide much needed revenues and other resources from foreigners, including revitalizing the important tourism sector and opening opportunities for foreign investors to set up businesses in Egypt to tap into the 84 million members of the country's consumer market. This will require quick and aggressive steps to alleviate concerns about security and remedy the infrastructure problems mentioned above.

There is no doubt that Egypt faces significant hurdles to effectively reforming its economic system in ways that will benefits a larger segment of the population. Decades of past practices must be overcome and history predicts that it will take time, more time than protestors may be willing to provide, before changes can be observed. Other countries and regions that have gone through similar upheavals, such as Indonesia and Eastern Europe, struggled for years before they were able to get their economies on to a steady path for growth and development. It should be noted that global institutions such

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[85] Id. at 4.

as the International Monetary Fund have also counseled Egypt and other Arab countries to endorse trade liberalization and privatization and subsidies from these institutions will be accompanied by conditions on development plans that have been crafted with the input of local political leaders, a strategy that puts even more pressure on Egyptians to make the right choices regarding their political framework in the days to come.[86]

In a closer analysis of the results of the GLOBE survey in four countries that included Egypt, Javidan et al. argued: "Egyptian managers seem to have an elitist, transcendent view of their leaders. They view them as a distinct group and a breed apart. They want their leaders to be unique, superior, status- and class-conscious, individualistic, and better than the others in their group. They show strong reverence and deference toward their leaders."[87] As for Egyptian employees, however, Javidan et al. felt that their strong sense of in-group collectivism caused them to "respect group harmony, avoid group conflict, and take caution in decision making". Other interesting ideas for effective leadership in Egypt included the need for leaders to pay attention to forging loyalty to the group and to group values and fostering personal relationships: effective leaders in Egypt are seen as paternal figures that are expected to be both autocratic and benign and caring about the personal lives of their subordinates and their families. Javidan et al. encouraged Egyptian leaders to develop and communicate heroic and grand strategies and put them into the broader context of the company since subordinates have a high sense of individual collectivism and performance orientation and will work hard to successfully implement strategies that will help the company achieve competitive success. Finally, with respect to reward systems, Javidan et al. suggested that performance-based financial rewards would not be the best motivators among Egyptian workers and that the best reward systems would be group-based and included benefits for the employees of families such as tuition assistance and paid family vacations.

§1:9   Entrepreneurship in the Gulf Region

Bharadwaj noted that entrepreneurship has become an important issue in high income countries in the Gulf Region (i.e., the United Arab Emirates ("UAE"), Qatar, Kuwait, Bahrain and Saudi Arabia) since unemployment among the large numbers of young people in those countries is quite high: half of the people in the region are under 25, more than a quarter of them are unemployed and the youth unemployment rate was projected by the International Labor Organization to rise to 28.4% by 2017.[88] One of the problems for entrepreneurship in the region, however, is cumbersome government regulations that make it difficult for entrepreneurs to move quickly to take advantage of opportunities. Another concern is that young people in the region who do have jobs are generally quite happy with being employed and their appetite for risk, thought to be a necessary pre-

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[86] What Governments Should Learn from the Arab Spring: Economic Growth Is not Enough, Arabic Knowledge@Wharton, http://knowledge.wharton.upenn.edu/arabic/article.cfm?articleid=2694

[87] M. Javidan, P. Dorfman, M. Sully de Luque and R. House, "In the Eye of the Beholder: Cross Cultural Lessons in Leadership from Project GLOBE", Academy of Management Perspectives (February 2006), 67, 80.

[88] V. Bharadwaj, Promoting Entrepreneurship in the Gulf Region, NYTimes.com (October 10, 2012), http://www.nytimes.com/2012/10/11/world/middleeast/promoting-entrepreneurship-in-the-gulf-egion.html?pagewanted=all&_r=0 (accessed August 26, 2014).

condition for entrepreneurship, is not nearly as high as it was among people in the pre-oil era. Development of an entrepreneurial ecosystem in the region has been hampered by entrenched interests including larger companies that dominate local markets with assistance from the government. The advantages enjoyed by these incumbents make it difficult for smaller enterprises to access the capital and talent they need for their initial launch and long-term survival.

Entrepreneurs from the Gulf Region interviewed by Bharadwaj point out that local markets for innovative products and services are relatively limited in terms of size and it is not clear that local consumers, although generally well off, are prepared to accept new products and services from entrepreneurs operating from the region. They suggested that Gulf Region entrepreneurs must be more ambitious with the plans and look to develop products and services that can be distributed outside of their own countries and eventually into global markets. Local entrepreneurs also observed that it is expensive to establish and growth a business in cities such as Dubai where rents, living costs, wages and licensing fees can be quite high. They argued that these issues made it particularly important for policymakers to concentrate on finding ways to support the founders of technology startups such as financing the creation of accelerators and incubators and workspace. In addition, they hoped that the culture of entrepreneurship could be enhanced by greater media attention to startups and successful entrepreneurs and by taking steps to reduce "fear of failure" which has tended to drive young people toward safer education and career choices. For example, embarking on a risky new business venture is certainly a difficult choice in those countries, such as the UAE, where bankruptcy remains a criminal offense and bouncing a check can land you in prison. However, the UAE had more small- and medium-sized enterprises (SMEs) included in the 2012 Arabia Fast Growth 500 than any other country among the Gulf States and UAE officials have argued that the country is a leader in terms of providing support and encouragement for young entrepreneurs.[89] For example, steps have been taken to improve access to funding for SMEs including new opportunities for medium-sized companies to list their securities on the UAE stock exchange.

Ernst & Young ("EY") reported that Saudi Arabia was one of the best performing economies in the EY G20 Entrepreneurship Barometer 2013 and was particularly complimentary of the steps that the country had taken to continue to reform its overall business environment, noting that Saudi Arabia had improved its position among countries around the world in the World Bank's Doing Business Ranking from 38th in 2006 to 22nd in 2013.[90] EY noted that Saudi Arabia scored particularly well with respect to its taxation regime, which was considered to be favorable to entrepreneurs with low rates and light administrative burdens, and its regulatory framework, which EY described as "broadly friendly to business" and accommodating to the needs of entrepreneurs to set up their new businesses quickly and efficiently. Another interesting strength of Saudi

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[89] M. Ali, "UAE Leads Gulf in Entrepreneurship", Al-Shorfa.com (December 12, 2012), http://al-shorfa.com/en_GB/articles/meii/features/2012/12/12/feature-03 (accessed August 26, 2014).

[90] Ernst & Young, The EY G20 Entrepreneurship Barometer 2013—The power of three: Together, government, entrepreneurs and corporations can spur growth across the G20, Country Profile Saudi Arabia (2013).

Arabia was the relative ease of securing venture capital to fund innovative projects and EY pointed out that foreign venture capital firms had been showing increasing interest in providing funding to companies that were unable to receive local support. The government in Saudi Arabia has also been increasing its financial support for entrepreneurial ventures and has been making an effort to expand the country's innovation capacity through investments in research-oriented tertiary education.

EY reported on several challenges for the development of entrepreneurship in Saudi Arabia including the low level of bank lending to SMEs—reportedly just 2% of the total bank loans issued went to entrepreneurial businesses; the long-standing dependence on the country's oil resources that has hindered the development of productivity and innovation in the rest of the economy, a situation that EY referred to as the "diversification challenge"; the high proportion of family-owned businesses, rather than professional operated businesses focused on growth; and steadily rising levels of unemployment among Saudi nationals. In addition, although The World Economic Forum found that Saudi Arabia was second only to the US with regard to the ease of securing venture capital for risky innovative projects, EY pointed out that Saudi entrepreneurs still face significant difficulties in bridging the gap between seed and expansion stage funding. Saudi entrepreneurs surveyed by EY indicated that there had been some improvement in the availability of funding from angel investors and private equity firms; however, EY argued that more progress needed to be made with both of these groups and that progress depended, at least in part, on breaking down the aversion to risk among the wealthy Saudi families with the money to support both angel investing and private equity financing.

One of the biggest barriers to progress in the development of entrepreneurship in Saudi Arabia is the need to overcome long-standing aversions to risk in the local culture. Saudi Arabia has become a relatively wealth country because of its oil resources; however, there is a growing realization of the need for more diversification in the economy to improve general economic situation of those who have not fully enjoyed the prosperity of the oil boom and provide more employment opportunities for Saudi nationals. EY reported that Saudi Arabia ranked last among rapid-growth G20 economies with regard to investment in research and development as a percentage of GDP and that less than 1% of the countries manufacturing exports in 2010 could be classified as "high technology goods". Publication of scientific and technical articles by Saudi researchers and academics was well behind the average of the rapid-growth G20 economies, another indicator of a relatively poor innovation and research culture in Saudi Arabia. Saudi entrepreneurs interviewed by EY commented that locals remain very cautious about investing in new ideas and that cultural acceptance of entrepreneurship has been slow and difficult to develop. The high costs of business failure, including the expenses associated with resolving insolvencies, are another impediment to risk taking and increase the fear of failure among prospective entrepreneurs.

§1:10 Leadership

The GLOBE researchers found that societies in their Middle East (Arab) cluster, which included Egypt, Iran, Kuwait, Morocco, Qatar and Turkey[91], were high on in-group collectivism and low on future orientation, gender egalitarianism, and uncertainty avoidance. Societies in this cluster had high levels of devotion and loyalties to family and members of their other in-groups (e.g., people belonging to the same region or same school) and shied away from relying on strategic planning and rules and laws to control and order their current and projected future environment. In addition, gender inequality was higher in the societies in this cluster and it was uncommon to find women in positions of status that included the authority to give directions to men.[92] While political influences, notably colonialism, play an important role in societal culture in this cluster a fundamental influence is the domination of Islam given that more than 90% of the residents of this cluster are Muslims.[93]

Leaders in societies in the Middle East (Arab) cluster are most likely to be perceived as effective if they focus on ensuring the safety and security of the group or group members. Preferred leadership behaviors among these societies include being status- and class-conscious, ritualistic, procedural, normative, secretive, evasive, indirect, self-centered and asocial. Among the ten societal clusters identified and analyzed by the GLOBE researchers, societies in the Middle East (Arab) cluster had the strongest disapproval ratings for leaders who strove to inspire and motivate and expected high performance outcomes from others on the basis of firmly held core values (i.e., "charismatic/value-based" leadership), who involved subordinates in making and implementing decisions (i.e., "team-oriented" leadership), or who emphasized effective team building and implementation of a common purpose or goal among team members (i.e., "participative" leadership).[94] The leadership profile of the Middle East (Arab) cluster is moderately similar to the profile for the clusters such as Southern Asia, Confucian Asia and Latin America that also highly endorse the self-protective leadership style; however, there are other substantial differences in the remainder of the leadership profiles for all of those clusters. The leadership profile of the Middle East (Arab) cluster is strongly different than the profiles of the Sub-Saharan Africa, Nordic Europe and Anglo clusters. Leaders from the US and other societies in the Anglo cluster can expect substantial difficulties in deploying their preferred leadership styles in the Middle East (Arab) cluster.

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[91] For further information on this cluster, see H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54. They noted that the results and commentaries on the included countries would likely also be applicable to other Middle Eastern countries that did not participate in GLOBE such as Algeria, Tunisia or Bahrain. See also various articles in Volume 50 of Applied Psychology: An International Review published in 2001 that include specific findings regarding several of the countries included in the Middle East cluster.

[92] P. Northouse, Leadership: Theory and Practice (4th Ed) (Thousand Oaks, CA: Sage, 2006), 312.

[93] For further information on this cluster, see H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54, 44.

[94] Among the ten societal clusters the Middle East (Arab) cluster had the strongest disapproval ratings of charismatic/value-based, team oriented and participative leadership; however, the mean scores within the cluster with respect to those leadership styles of 5.35, 5.47 and 4.97, respectively, were still well above the mid-point of 4 on the 1-to-7 measurement scale.

While, as noted above, their enthusiasm for team-oriented leadership was decidedly less than any of the other societal clusters, societies in the Middle East (Arab) cluster gave it and charismatic leadership the strongest endorsements among the various leadership styles. Consistent with the region's family orientation and in-group orientation, Arab leaders "are expected to be team integrators and to engage in collaborative team-orientation" and "exhibit characteristics that are collaborative, loyal and consultative". Charismatic leaders, such as Ataturk from Turkey and Nassar from Egypt, are visionary, transformational and future oriented risk takers who are also decisive, logical and performance-oriented. Kabasakal and Bodur caution, however, that the GLOBE results appear to indicate that the contribution of leaders in the Middle East to effectiveness is more modest than in other societal clusters.[95] This contrasts to the research of others who found that leadership is perceived as an important concept that is vital to the welfare of society and organizations.   It has also been noted that the aforementioned transformational leaders also "retained their patrimonial and paternalistic styles of leadership", which included an organizational style in which the leader remained the center of all important ideas and strategies and the initiator of all programs and policies. Kabasakal and Bodur concluded that "[t]he outstanding leader is the person who is able to bring in paternalism with the capacity to generate change".[96]

Muczyk and Holt suggested that the autocratic leadership style was generally recommended in the Middle East combined with "heavy doses of concern for production and consideration". They noted that "[i]n the Middle East, with the exception of Israel, there are no democratic traditions" and that "the touchstone of good leadership in that part of the world seems to have revolved around the concept of justice, not democracy".[97] As far as rewards are concerned, Middle Eastern cultures are probably more receptive to recognition based on group and organizational performance measures rather than on individual performance. Muczyk and Holt also commented that leaders should include family members of subordinates in organizational social functions in the Middle East.

Taleghani et al. commented that "[l]eadership behavior in Arabic societies is influenced by tribal traditions on the one hand and Western methods on the other hand".[98] They declared traditional leadership in the Middle East to be based on a "paternalism system" in which leaders behaved like fathers toward their subordinates and directed with an

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[95] H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54, 51. They explained that "[n]one of the leadership styles received very high or very low scores compared to other clusters". For example, among the ten societal clusters the Middle East cluster had the lowest approval ratings of charismatic/value-based, team oriented and participative leadership; however, the mean scores within the cluster with respect to those leadership styles of 5.35, 5.47 and 4.97, respectively, were still well above the mid-point of 4 on the 1-to-7 measurement scale.

[96] H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54, 51.

[97] J. Muczyk and D. Holt, "Toward a Cultural Contingency Model of Leadership", Journal of Leadership & Organizational Studies, 14(4) (May 2008), 277-286, 283. They noted that the region had a history of autocratic rule and that "[a]n autocrat ruled so long as he was on good behavior . . . [i]n other words, if he treated his subjects in an evenhanded way, honored their traditions, did not publicly flout the Koran, and did not levy onerous taxes, he was expected to rule for life". Id.

[98] G. Taleghani, D. Salmani and A. Taatian, "Survey of leadership styles in different cultures", Iranian Journal of Management Studies, 3(3) (January 2010), 91-111, 104.

authoritative style. Tribal relations were strong and important and leaders were reluctant to trust and work with persons outside of their extended families. In that regard, nepotism played a big role in recruiting and promotional decisions. Organizational structures were hierarchical and while regulations and rules may be implemented they were generally diluted by exceptions based on personalities.

Turkey is one of the more interesting members of the Middle East cluster. While Turkey has accommodated a wide range of Western values and practices, as well as implementing a secular democracy that is unique among Muslim cultures, it cannot be forgotten that 99.8% of the population is Muslim and religion is still a fundamental influence on all facets of life in Turkey including the way that business is conducted and the manner that leaders and subordinates interact in the workplace.[99] Hofstede's study of the cultural profiles of a number of countries around the world found Turkey to be relatively collectivistic, hierarchical (i.e., high power distance) and uncertainty avoiding[100]; however, subsequent studies indicated that the socio-cultural environment in Turkey was changing such that the country was becoming less extreme with respect to each of the aforementioned cultural dimensions.[101] The GLOBE researchers found that Turkey scored above the average among the surveyed countries with respect to in-group collectivism, power distance and assertiveness and below the average scores of the other surveyed countries on the remaining dimensions tested in that survey.[102] In Schwartz's study of cultural values in 34 countries Turkey ranked above the average on several dimensions including, from highest to lowest, hierarchy, conservatism, egalitarian commitment and harmony.[103]

Pasa et al. described business life in Turkey as being "dominated by private holding companies that are run by family members as well as state economic enterprises" and noted that the family members selected to lead private firms are given the important responsibility of establishing and maintaining good relations with state officials who are in a position to allocate financial incentives and establish and change important

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[99] See also M. Arslan, "A Cross-Cultural Comparison of British and Turkish Managers in Terms of Protestant Work Ethic Characteristics," Business Ethics: A European Review 9(1) (2000), 13-21.

[100] G. Hofstede, Culture's Consequences: International differences in Work-related Values (Beverly Hills, CA: Sage, 1980)

[101] M. Goregenli, "Individualist-collectivist tendencies in a Turkish sample", Journal of Cross-Cultural Psychology, 28(6) (1997), 787-94 (less collectivistic); Z. Aycan, R. Nanungo, M. Mendonca, K. Yu, J. Deller, G. Stahl and A. Khursid, "Impact of culture on human resource management practices: a ten country-comparison", Applied Psychology: An International Review, 49(1) (2000), 192-220 (less collectivistic and hierarchical); and H. Kabasakal and M. Bodur, "Leadership values and institutions: the case of Turkey", Paper presented at Western Academy of Management Conference, Istanbul, June 1998 (less uncertainty avoiding).

[102] H. Kabasakal and M. Bodur, "Leadership, values and institutions: The case of Turkey" (Bogazici University Research Papers, Istanbul, 1998) (as cited in S. Pasa, H. Kabasakal and M. Bodur, "Society, Organisations and Leadership in Turkey", Applied Psychology: An International Review, 50(4) (2001), 559-589, 568).

[103] S. Schwartz, "Individualism-collectivism: Critique and proposed refinements", Journal of Cross-Cultural Psychology, 21 (1990), 139-157.

governmental policies.[104] Other researchers have noted that businesspeople in Turkey are expected to adhere to core Islamic values such as honesty, respect and obedience to elders; avoid practices that are dishonest, fraudulent, deceptive or coercive; and refrain from engaging in hoarding, speculation and collusion among producers.[105] Studies of characteristics of organizational structure within Turkish companies have often found that such companies tend to be hierarchical with centralized decision making and little in the way of delegation of authority.[106]

As to organizational culture, Pasa et al. found that the most prevalent values among the Turkish firms they surveyed were collectivism, performance orientation and uncertainty avoidance, with collectivism being the most dominant organizational value.[107] In the same study, collectivism was found to be strongly correlated with "paternalistic-considerate" leadership behaviors. Interestingly, power distance, which was strongly correlated with "hierarchical-autocratic" leadership behaviors, lagged well behind the aforementioned values with respect to the number of times it was reported. This was perhaps an indicator of changes in leadership behaviors that might be required in order for leaders to be more effective and align their styles and actions to the organizational cultures in which they operated. As noted below, respondents in the survey conducted by Pasa et al. indicated that while "hierarchical-autocratic" leadership was the more prevalent style there was a preference for "paternalistic-considerate" behaviors.

Several studies of leadership styles in Turkey have been conducted; however, the results have been mixed. Aycan and Kanumgo found relations between superiors and subordinates in Turkey to be paternalistic[108], which Aycan later explained as meaning that "people in authority assume the role of a parent and consider it an obligation to provide support and protection to those under their care . . . [and] [s]ubordinates, in turn, reciprocate such care, support and protection of the paternal authority by showing loyalty, deference and compliance to him/her".[109] In contrast, Dilber described the leaders of

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[104] S. Pasa, H. Kabasakal and M. Bodur, "Society, Organisations and Leadership in Turkey", Applied Psychology: An International Review, 50(4) (2001), 559-589, 568 (citing H. Kabasakal and M. Bodur, "Leadership, values and institutions: The case of Turkey" (Bogazici University Research Papers, Istanbul, 1998)). Other researchers have also described Turkish organizations as "family-type". See, e.g., F. Trompenaars and C. Hampden-Turner, Riding the waves of culture: Understanding cultural diversity in global business (2nd Ed) (New York: McGraw-Hill, 1998).

[105] A. Zapalska, D. Brozik and S. Shuklian, "Economic System of Islam and Its Effect on Growth and Development of Entrepreneurship," Problems and Perspectives in Management, 1/2005.

[106] See, e.g., S. Ronen, Comparative and multinational management (New York: John Wiley & Sons, 1986); F. Trompenaars and C. Hampden-Turner, Riding the waves of culture: Understanding cultural diversity in global business (2nd Ed) (New York: McGraw-Hill, 1998).

[107] S. Pasa, H. Kabasakal and M. Bodur, "Society, Organisations and Leadership in Turkey", Applied Psychology: An International Review, 50(4) (2001), 559-589, 571-574. Items particularly valued among the surveyed firms included love and respect, maintenance of harmony, "doing the job well" and behaving in accordance with work rules. Self-sacrifice and being devoted were also considered to be important. Id. at 573.

[108] Z. Aycan and R. Kanungo, "Paternalism: towards conceptual refinement and operationalization", Paper presented at the 14th International Congress of Cross-Cultural Psychology, USA, August 1998.

[109] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 252.

business organizations in Turkey as "authoritarian" and urged an attempt to transition toward "benevolent paternalism" as an effective alternative.[110] Fikret-Pasa actually concluded that the dominant leadership style in Turkey was "benevolent paternalism", which was based on a combination of "granted authority" (i.e., which means tacit influence afforded leaders due to the high power distance in Turkish culture) and "sharing of responsibility" of the followers.[111] In the GLOBE survey Turkey showed a strong preference, in fact highest among the countries in the Middle East cluster, for team-oriented and charismatic leadership styles.[112]

Pasa et al. collected and analyzed responses from employees and middle managers in several Turkish organizations in order to determine the dominant observed leadership values and behaviors (i.e., "leadership style") in Turkish organizations and create a profile of "perceived ideal leader behaviors" in Turkish culture.[113] The researchers found evidence of four observed leadership styles within the surveyed organizations and determined that the "autocratic and hierarchical" leadership style was identified significantly more often than the other three. The second highest responses were given for the "paternalistic and considerate" style while the remaining two styles—"transactional and team oriented" and "laissez-faire" lagged substantially behind. Pasa et al. explained that "autocratic-hierarchical" leaders "kept the hierarchy of the organization and controlled the work to make sure it was done well" while a "paternalistic-considerate" leader was someone "who cares for the subordinates, helps out with their problems, and wants to be popular among them".

Pasa et al. also collected information, using focus group and in-depth interviews, to identify the attributes of "ideal leaders" in the eyes of the respondents. Highlights of the leadership profile that emerged included the following[114]:

- Leaders should display "paternalistic" characteristics as evidenced by a concern for the private problems of followers, a willingness to take the initiative in making decisions on behalf of employees with respect to the private problems, attendance at social events related to employees' families, acting like one of the employees at organizational social events and, in general, creating a "family-like" atmosphere in the workplace. In summary, it was believed that leaders should act like a father and take of followers in the same way as a parent would tend to his or her children.[115]

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[110] M. Dilber, Management in the Turkish private sector industry (Ann Arbor, MI: University Microfilms, Inc., 1967).

[111] S. Fikret-Pasa, "Leadership influence in Turkey: The case of a high power distance and collectivist culture", Unpublished manuscript cited in S. Pasa, H. Kabasakal and M. Bodur, "Society, Organisations and Leadership in Turkey", Applied Psychology: An International Review, 50(4) (2001), 559-589, 567.

[112] H. Kabasakal and M. Bodur, "Arabic cluster: A bridge between East and West," Journal of World Business, 37(1) (2002), 40-54, 50.

[113] S. Pasa, H. Kabasakal and M. Bodur, "Society, Organisations and Leadership in Turkey", Applied Psychology: An International Review, 50(4) (2001), 559-589, 569 (description of methodology).

[114] Id. at 575-582.

[115] Pasa et al. noted that leader intervention in "private matters" of his or her employees, while apparently an important behavior in Turkish culture, might be seen as too intrusive in many Western societies regardless of the good intentions of the leader. Id. at 575.

- Leaders should act as effective "team integrators", which calls for communicating and sharing information with followers and creating an environment in which everyone feels comfortable openly sharing ideas. In addition, leaders should be accessible, empathetic, possess good human relations and listen carefully to communications from followers.

- Leaders should be an effective administrator, which means knowing what is going on within the organization at all times and delegating tasks with clear instructions. As an administrator the leader should allow subordinates to carry out his or her instructions and not interfere in the execution phase unless and until a mistake has been made or some other problem arises.

- Outstanding leaders are expected to have "collaborative team-orientation" and "encourage participation, install a corporate/team culture in followers, seek acceptance and try to increase acceptance of decisions".[116] As part of this process a leader is expected to be a good listener who serious take into account the opinions and ideas of others regardless of their status or position. It should be noted, however, that in Turkey "participation" does not mean that leaders are obligated to take the opinions of followers into account when make decisions or achieve a consensus before issuing directions. In fact, a person is perceived to be an outstanding leader in Turkey if he or she is "decisive". It is sufficient if leaders are willing and able to make followers feel like they are part of a group.

- Outstanding leaders have many characteristics normally associated with "charismatic-transformational" leadership such as being "action-oriented, assertive, and non-procedural; carrying qualities of equanimity and integrity, being diplomatic, self-confident; and development-oriented, inspirational, and visionary".[117]

§1:11 Management styles and practices

Badawy[118] surveyed need deficiency, fulfillment and job satisfaction among 248 respondents characterized as "mid-management" personnel from six countries in the Middle East. Badawy measured various managerial and organizational variables such as classical versus democratic managerial attitudes toward the capacity to lead and initiative, sharing of information and organizational objectives, participation, internal controls and communications. The data collected and analyzed by Badawy uncovered a range of significant differences between Western and Middle Eastern management styles as measured using a variety of dimensions including the following[119]:

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[116] Id. at 575-580.

[117] Id.

[118] M. Badawy, Managerial attitudes and need orientations of Mid-Eastern executives: An empirical cross-cultural analysis. Paper presented at the annual meeting of the Academy of Management, Atlanta (August 1979). Information regarding the variables used in the study and survey procedures that were followed is derived from S. Ronen and O. Shenkar, "Clustering Countries on Attitudinal Dimensions: A Review and Synthesis", The Academy of Management Review, 10(3) (July 1985), 435-454 (Table 1 – "Variables Used in the Studies Reviewed").

[119] Adapted from M. Badawy, "Styles of Mid-Eastern Managers", California Management Review, 22 (Spring 1980), 51-58, 57. Note that while Badawy included observations on Western management styles for contrast his survey did not include Western countries. With respect to management styles in the Middle East generally, see also U. Yucelt, "Management Styles in the Middle East: A Case Example",

- Leadership: Middle Eastern management styles featured a highly authoritarian tone, rigid instructions and too many management directives. In contrast, leadership styles in the West placed less emphasis on the leader's personality and considerable weight on the leader's style and performance.

- Organizational Structures: Organizational structures in the Middle East tended to be highly bureaucratic and centralized with power and authority vested firmly at the top of the organizational hierarchy. This led to vague relationships and ambiguous and unpredictable organizational environments. Western organizational structures were generally less bureaucratic and more decentralized with greater delegation of authority.

- Decision Making: Middle Eastern organizations operated based on ad hoc planning with decisions made at the high level of management by managers who were generally unwilling to take high risks. In contract, Western organizations typically made use of model decision making tools and sophisticated planning techniques supported by elaborate management information systems.

- Performance Evaluation and Control: There was a lack of vigorous performance evaluation systems and internal control mechanisms in the Middle East and control was exercised informally using routine performance checks. Western organizations tended to have fairly advanced control systems that focused on organizational effectiveness and control and reduction of costs.

- Personnel Policies: In the Middle East there was heavy reliance on personal contacts and getting individuals from the "right social origin" to fill major positions; however, in the West organizations relied on sound personnel management policies with decisions regarding hiring and promotion made on objective factors such as the qualifications of the candidates.

- Communication: In the Middle East the tone of communications depends heavily on the communicants with factors such as social position, power and family influence being extremely important. In the Middle East the chain of command must be followed rigidly, people relate to each other tightly and specifically and friendships are intense and binding. In contrast, in the West equality and minimization of differences are generally stressed, people relate to each other loosely and generally and friendships are not intense or binding.

In a subsequent study and analysis of managerial work value systems among Arab managers, Ali suggested the following "Arab stereotype" with respect to a wide range of workplace-related dimensions, activities and processes[120]:

- Leadership style: Egalitarian, emphasis on peer approval and gaining personal acceptance.

Management Decision, 22(5) (1984), 24 – 35. Studies of individual countries have also become more prominent such as, for example, A. Al-Jafary, A. Aziz and A. Hollingsworth, "Leadership styles, Machiavellianism and the needs of Saudi Arabian managers", International Journal of Value-Based Management, 2(1) (1989), 103-111.

[120] A. Ali, "A Cross-National Perspective of Managerial Work Value Systems", in Advances in International Comparative Management (Vol. 3), 1988, 151-169.

- Decision style: Consultative.
- Negotiation style: Ritualistic; stress on establishing a long-term relationship; affective, appealing to emotions and feelings; and concession seeking.
- Work orientation: Hard work is perceived to be a virtue in light of the needs of man and the necessity to establish equilibrium in one's individual and social life; family and work are the centers of life.
- Organizational authority: Authority vested in organizational leaders is necessary in order to avoid chaos and to build the desired and approved family-type environment.
- Business conduct: Highly personalized with an emphasis on honesty, moral aspects and verbal commitments; written contracts and documentation are not highly regarded.
- Communication systems: Face-to-face, informal and urgent communications are favored and the most effective communications emphasize human interest and provide examples of how programs have benefitted the people.
- Reward systems: Longevity and seniority are the primary factors in awarding pay increases; emphasis on recognition by the superior for a good job by the group and personal growth as a part of humanity.
- Motivational systems: Motivation comes from social relationships, interpersonal transactions, egalitarian values and opportunities to be rewarded for helping others.
- Performance appraisal: Informal and generally based on subjective judgment of superiors rather than formal performance evaluations; appraisals emphasize the human relations aspect of the performance of the individual.
- Recruitment and promotion: Recruitment and promotion decisions are highly subjective with decisions based primarily on personal contacts, nepotism, regionalism and family name.
- Management consultants: Management consultants are used only in crisis situations since such a move is seen as a sign that something is going wrong.

While exploring the relationship between societal culture and managerial styles and practices in Saudi Arabia, Harris and Moran suggested that notice should be taken of several fundamental culture values in that country: tribal and family loyalty, Arabic language, close and warm friendships, Islam, honor and shame, an "idealized self", polychromic use of time, independence, and male domination.[121] They argued that these values contributed to the portfolio of styles, practices and behaviors typically employed by Saudi Arabian managers such as work group loyalty, nepotism, management by walking around, Theory Y management, sensitivity to Islamic values, clear guidelines and conflict avoidance, training and defined job duties, centralized decision making, sensitivity to control, interest in the individual, and separation of sexes. Harris and Moran also cautioned foreigners seeking to engage in personal and business relationships with Saudis to avoid certain behaviors that would like be perceived poorly in the context of Saudi societal culture: bringing up business subjects until you get to know your host; raising colloquial questions that may be common in your country but possibly misunderstood in Saudi Arabia as an invasion of privacy; engaging in conversations

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[121] Adapted from P. Harris and R. Moran, Managing Cultural Differences (4th Ed) (Houston TX: Gulf Publishing Company, 1996).

about religion, politics, or Israel; bringing gifts of alcohol or using alcohol, which is prohibited in Saudi Arabia; requesting favors from those in authority or esteem, for it is considered impolite for Arabs to say no; and pointing your finger at someone or showing the soles of your feet when seated.[122]

As part of a cross-cultural study of internal work culture in ten countries, Aycan et al. found Turkey to be highly paternalistic, moderately collectivistic and hierarchical and non-fatalistic.[123]   Further details on the study later reported by Aycan noted: ". . . managers held favorable assumptions and beliefs regarding employee malleability, responsibility seeking and participation. On the other hand, it was a common belief that employees were not proactive. In HRM practices, Turkey scored high on job enrichment and empowering supervision, but low on performance-reward contingency."[124]

Another survey conducted in 2000 of senior business students from different universities all around Turkey provided support for charismatic leadership as the preferred style of leadership, followed by the participative and paternalistic leadership styles.[125] Respondents indicated that the factors that would provide the highest motivation for them in the workplace would be having power and authority, a peaceful work environment, opportunities for career advancement and pay. On the other hand, respondents indicated that close supervision and guidance, praise from supervisors, feedback on performance and a sense of belonging would be the least motivating. The researchers concluded that the trend among an increasingly younger and more educated workforce in Turkey is toward "aspirations and preferences that are more aligned with those prevalent in 'Western' industrialized societies".[126]

The studies describe above provide interesting insight into the challenges confronting those who are designing human resources management practices throughout Turkey as it seems clear that, using the words of Aycan, "Turkish societal and organizational culture is a blend of 'Western' and 'Eastern' values".[127]   As a result, one sees business organizations in Turkey that are adapting and using Western style human resources practices such as job enrichment and empowering supervision; however, the effectiveness

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[122] Adapted from P. Harris and R. Moran, Managing Cultural Differences (5th Ed) (Houston TX: Gulf Publishing Company, 2000).

[123] Z. Aycan, R. Nanungo, M. Mendonca, K. Yu, J. Deller, G. Stahl and A. Khursid, "Impact of culture on human resource management practices: a ten country-comparison", Applied Psychology: An International Review, 49(1) (2000), 192-220.

[124] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 253.

[125] Z. Aycan and S. Fikret-Pasa, "Leadership preferences, career choices and work motivation in Turkey: a national profile and regional differences", Paper presented at the 15th International Congress of the International Association for Cross-Cultural Psychology, Pultusk, Poland, July 16-21, 2000 (cited and described in Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260).

[126] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges", International Journal of Manpower, 22(3) (2001), 252-260, 254.

[127] Id. at 253.

of these strategies is often muddied by the impact of long-standing traditional cultural values which, while changing, still remain influential.[128]

§1:12 Organizational design

Societal culture in Turkey is high on power distance, which explains the traditional preference among organizational structures in Turkey for hierarchy, centralization, selective vertical communications—downward but not upward--and benevolent autocracy as the leadership style.[129] Turkish managers have tended to rely heavily on directions from, and decisions by, their superiors and control within organizations has been exercised through formal rules and procedures. Turkey is also considered to be a relatively collectivistic society and great emphasis is placed on membership within "in-groups", group loyalties and group harmony. Relationships are more important than completing tasks and communications and feedback are indirect. Consensus and avoidance of conflict is consistent with Turkey mid-range score on the masculinity-femininity dimension of societal culture. A final, and extremely important, characteristic of Turkish societal culture is extreme uncertainty avoidance which leads to strong and continuous reliance on rituals, rules and procedures.

Berkman and Özen emphasized the enduring influence of the Ottoman socio-political system on Turkish societal culture and, in turn, the structure and culture of Turkish organizations.[130] Noting, in particular, that the Ottoman political system was "a highly centralized and autocratic system where the ruling class was extremely dominant and whose subjects had no say or control in this structure except to fully obey to their rulers" Berkman and Özen argued that it is therefore little surprise that Turks came to accept high power distance, prevalence of autocratic and paternalistic leadership styles, lack of individualism and criticism.[131] They then went on to provide the following summary of the some of the basic assumptions about life, social structure and the human that have formed the basis for traditional values in Turkish society[132]:

- "The universe is extremely complex and humans can neither understand nor control events (which may explain "the external locus of control" of individuals, which is dominant in Turkey);
- Therefore, fate and destiny should be accepted (which may explain "the lack of long term orientation");
- Therefore change is not desirable (which may explain the "high uncertainty avoidance" commonly seen in Turkish managers and employees);

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[128] Id.

[129] The discussion of elements of Turkish societal culture in this paragraph is based on The Hofstede Centre, What About Turkey? (2013). An extensive analysis and assessment of societal culture in South Africa can be found in P. van den Bergh, South Africa: A Study in Conflict (1967).

[130] U. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel : approches, problématiques, pratiques et plongées (2008).

[131] Id.

[132] Id. (citing D. Cüceloğlu, *Yeniden insan insana* (1997) 241).

- Therefore traditions and customs should be closely followed; conformity is the golden rule (which may also explain "high power distance", submission to authority and the reliance on excessive formalities in Turkish organizations); and
- Individuals are expected to behave in a manner set for them, which basically does not tolerate differences, individualism and competition (which may explain the "collectivist" nature of Turkish culture)."

Schneider and Barsoux observed that the "traditional bureaucracy", or "pyramid of people", organizational structure would be suitable for a country such as Turkey, meaning that Turkish organizations are likely to adopt hierarchical, highly formal structures with specific characteristics that included centralized decision making and coordination at the top of the hierarchy; less delegation; "cloisonne" highly specialized; strong role of staff; a value of analytic abilities; informal relationships; elitist (power and authority); and input controls.[133] Berkman and Özen noted that historical factors, as well as the long-standing domination of family-controlled business groups, contributed to the creation and preservation of organizational structured centered around paternalism, collectivism and uncertainty avoidance; however, they commented that "recent studies indicate that as Turkey and its companies have become more internationalized, Turkish managerial culture has gradually become less paternalistic and collectivistic, and more masculine and risk-taking".[134]

Various factors appear to impact the structure and function of organizations in Turkey. For example, larger private organizations, as well as organizations that have greater exposure to strategic arrangements with foreign partners from the US, Europe and Japan (i.e., joint ventures or acting as local representative offices of foreign multinationals), tend to have more developed organizational structures. In contrast, family-owned businesses generally take an informal and paternalistic approach. In some cases, there may be no organizational chart and great emphasis is placed on ensuring and facilitating inter-generational transfers of control within the family although this does not necessarily preclude introduction and use of professional management techniques including managers from outside of the family able to provide specific skills and experience.[135] There are also variations among industries with respect to structure. Organizations in the finance and information technology industries tended to have the more Western-style organizational structures than other industries in Turkey.[136]

§1:13 Organizational culture

Turkey is an interesting study from a socio-cultural perspective. According to Berkman and Özen the Turkish Republic was established in the early 1920s on foundational principles of nationalism, secularism, republicanism, populism, reformism and etatism

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[133] S. Schneider and J.-L. Barsoux, Managing Across Cultures (2nd Ed.) (2002).

[134] U. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition 22-23, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel: approches, problématiques, pratiques et plongées (2008).

[135] A. Buğra, State and Business in Modern Turkey: A Comparative Study 214 (1994).

[136] Z. Aycan, Human Resource Management in Turkey: Current Issues and Future Challenges, 22(3) International Journal of Manpower 252, 255 (2001).

and has long enjoyed substantial social diversity including an emerging middle class, the rural upper class, artisans and religious groups.[137] The population is relatively young and nearly everyone is Muslim, although small and active Christian and Jewish communities can also be identified. Berkman and Özen observed that while the Turkish business system had traditionally been state dependent it has been gradually changing over the last several decades in response to liberalization policies. While it is true that big business groups, generally diversified conglomerates owned and controlled by large families, continue to be the main economic actors in Turkey the dominant characteristics of Turkish organizational culture are evolving toward less paternalism and collectivism and more masculinity and risk-taking. However, this evolution is slow for a variety of reasons including low levels of trust that inhibit cooperation among people that do not have primordial ties based on kinship and/or ethnicity.[138]

Berkman and Özen explored the roots and elements of Turkish culture in some detail, beginning by noting that Turkish culture reflects a mix of traditional and modern values. With respect to traditional values, the influence of the Ottoman socio-political system is an important factor and may explain tendencies toward a highly centralized and autocratic system with a dominant ruling class overseeing obedient, submissive and unquestioning subordinates who basic assumptions about life included an "external locus of control"; acceptance of fate and destiny, which explains the lack of long-term orientation in Turkey; a belief that change is not desirable; reverence for traditions, customs and conformity; and little tolerance for individualistic and competitive behavior.[139] At the same time, however, Turkish culture does include elements from attempts to import "Western values" and modernize Turkish society after the fall of the Ottoman Empire and the establishment of the Turkish Republic in 1923, although the consensus is that those efforts had no more than limited success.[140]

The Competing Values Framework (CVF) is a valuable tool for assessing organizational culture. The CVF is based on two major dimensions. The first dimension emphasizes the organizational focus (internal versus external), whereas the second one distinguishes between stability and control and between flexibility and discretion. These two dimensions create four quadrants, each representing a major type of organizational culture, as depicted in the table below.[141]

Competing Values Framework

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[137] Ü. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel : approches, problématiques, pratiques et plongées (2008).

[138] Id. (citing A. Sargut, Kurumsal alanlardaki örgüt yapılarının oluşmasında ve ekonomik işlemlerin yürütülmesinde güvenin rolü, in F. Erdem (Ed.), Sosyal bilimlerde güven, Ankara, Vadi Yayınları 89 (2003)).

[139] Id. (citing D. Cüceloğlu, Yeniden insan insane 241 (1997)).

[140] B. Lewis, The Emergence of Modern Turkey (1961).

[141] K. Cameron and R. Quinn, Diagnosing and Changing Organizational Culture: Based on the Competing Values Framework (1999). For further discussion of the Competing Values Framework and its uses in the assessment and study of organizational culture, see the chapter on "Managing Organizational Culture" in "Organizational Culture: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).
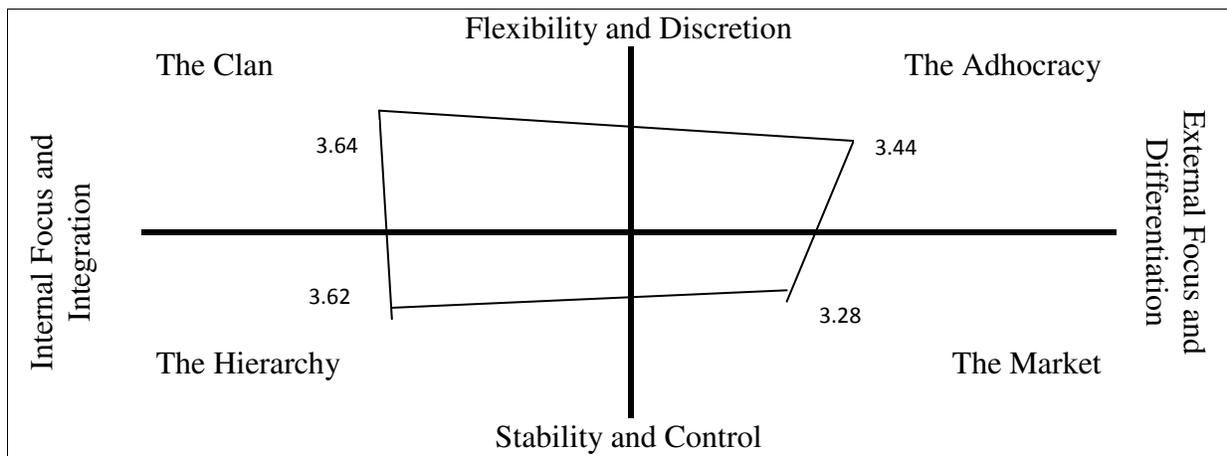
FLEXIBILITY and DISCRETION

CLAN	ADHOCRACY
• Family-type organization • Commitment to employees • Participation and teamwork	• Dynamic and entrepreneur organization • Cutting-edge output • Innovation
HIERARCHY	MARKET
• Competitive organizations • Increasing market chart • Productivity	• Formalized and structured • Smooth functioning • Stability

INTERNAL FOCUS and INTEGRATION — EXTERNAL FOCUS and DIFFERENTIATION

STABILITY and CONTROL

According to one study of Turkish organizational culture, the dominant culture in Turkey is the clan culture. Respondents identified hierarchy type as the next most dominant in their organizations. These predominant two cultures were followed by adhocracy and market, respectively.[142] Firms tend to have values consistent with flexibility and stability. They also have internal focus. Discretion (versus flexibility), control (versus stability), external (versus internal) orientation were less significant. The weight of these variables can be seen in the table below.

Turkish Cultural Profile

Flexibility and Discretion

The Clan

3.64

The Adhocracy

3.44

Internal Focus and Integration

External Focus and Differentiation

3.62

3.28

The Hierarchy

The Market

Stability and Control

These findings contribute to an understanding of the alignment between national and organizational cultures. Berkman and Özen summarized the conclusions of various researchers regarding the characteristics of Turkish societal culture beginning by noting that Hofstede had characterized Turkish culture as being high in power distance and

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[142] H. Giritli, E. Oney-Yazici, G. Topcu-Oraz and E. Acar, Organizational Culture: A Comparative Analysis from the Turkish Construction Industry, http://acare2.tripod.com/academic/Dubai_020_paper.pdf.

uncertainty avoidance, and low in individualism and masculinity.[143] Aycan et al. also found that Turkey, like several other developing countries (i.e., India, Pakistan, China and Russia), was high with respect to power distance[144], and several other researchers concluded that high power distance contributed to the prevalence of hierarchical organizational structures and relationships in Turkey.[145] In-group collectivism, as well as power distance, was identified as a dominant characteristic of Turkish societal culture by the GLOBE researchers[146] and other studies confirmed the importance of collectivism as an organizational value in Turkey.[147] All of this suggests that organizational cultures in Turkish firms are characterized by both unequal (or hierarchical) and harmonious, family-like (clan) relationships. The finding is also consistent with earlier observations of the Turkish society by Trompenaars and Hampden who found Turkey to have the steepest hierarchy in its organizations. Turkish organizations have also been described as the "Family-type".[148]

For their part, Berkman and Özen argued that Turkish societal culture influenced several aspects of observed organizational culture in the country including the high respect for authority and expectations of obedience[149]; reverence for customs and traditions; aversion to criticism and other actions that would disturb organizational harmony or be deemed to be a challenge to authority; highly centralized administrative and organizational structures, with decision making authority firmly vested at the top of the hierarchy and little or no participation by employees (other than perhaps to make them feel that they are part of an organizational group) and very limited delegation of authority[150]; autocratic

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[143] See G. Hofstede, Culture's Consequences: International Differences in Work-Related Values (1980); and G. Hofstede, Culture's Consequences: Comparing Values, Behaviors, Institutions and Organizations across Nations (2001).

[144] Z. Aycan, R. Kanungo, M. Mendonce, Y. Kaicheng and J. Deller, Impact of Culture on Human Resource Management Practices: A 10-Country Comparison, 49(1) Applied Psychology: An International Review 192, 207 (2000).

[145] F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (1998); S. Schwartz, Beyond individualism/collectivism: New cultural dimensions of values, in: M. Kim, H. Triandis, Ç. Kağıtçıbaşı, S. Choi and G. Yoon (Eds.), Individualism and Collectivism: Theory, Method and Applications 85 (1994); A. Danışman and H. Özgen, Örgüt kültürü çalışmalarında yöntem tartışması: niteliksel-niceliksel yöntem ikileminde niceliksel ölçümler ve bir ölçek önerisi, 3(2) Yönetim Araştırmaları Dergisi 91, 110 (2003); H. Kabasakal and M. Bodur, Leadership, Values and Institutions: The Case of Turkey (1998); S. Paşa, Leadership influence in a high power distance and collectivist culture, 21(8) Leadership and Organization Development Journal 414 (2000); and F. Erdem, İşletme kültürü (1996).

[146] H. Kabasakal and M. Bodur, Leadership, Values and Institutions: The Case of Turkey (1998).

[147] S. Paşa, H. Kabasakal and M. Bodur, Society, organizations, and leadership in Turkey, 50(4) Applied Psychology: An International Review 559, 574 (2001). Sargut also argued that individual goals were regarded as secondary to group goals in Turkey and that self-sacrifice and harmony were highly valued in Turkish organizational culture. See A. Sargut, Kültürlerarası farklılaşma ve yönetim (2001).

[148] F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Business (1998).

[149] Ü. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel : approches, problématiques, pratiques et plongées (2008) (citing Ç. Kağıtçıbaşı, Social Norms and Authoritarianism: A Turkish-American Comparison, 16 Journal of Personality and Social Psychology 444 (1970)).

[150] N. Bradburn, Interpersonal relations within formal organizations in Turkey, 19 Journal of Social Issues 61 (1963); C. Aldemir, The relationship between organizational structure and managerial styles: A

and paternalistic leadership patterns in which employees offer their loyalty to their superiors in exchange for fulfillment of their expectations that their superiors will act like "father figures" and show concern for protecting those who report to them[151]; and the prevalence of group goals and intolerance for individualistic differences and competition.

Berkman and Özen did concede that organizational culture in Turkey, while generally following the profile outlined above, varied between public and private sector organizations: they commented that "public sector managers resemble Hofstede's model, whereas private sector managers do not".[152] Moreover, researchers such as Aycan have argued that since Hofstede conducted his surveys Turkey has become less hierarchical and less collectivist[153] and Kabasakal and Bodur have expressed their belief that uncertainty avoidance is becoming less important.[154] In another paper Kabasakal and Bodur argued that while Turkish organizational values are changing they nonetheless remain different from those in Western firms even as Turkish firms have begun to adopt Western managerial practices more and more.[155] Berkman and Özen conclude, however, that although things may be changing slowly as the Turkish business system becomes more internationalized the "main characteristics of Turkish organizational culture still remain relatively collectivist, high in power distance, and paternalistic".[156]

§1:14 Strategic planning

contingency approach (1979); M. Dilber, Management in the Turkish private sector industry (1967); K. Kozan, Cultural Influences on Styles of Handling Interpersonal Conflicts: Comparisons among Jordanian, Turkish, and US Managers, 42(9) Human Relations 787 (1989); G. Lauter, Sociological-Cultural and Legal Factors Impeding Decentralization of Authority in Developing Countries, 12 Academy of Management Journal 367 (1969).

[151] A. Sargut and Ş. Özen, Çalışanların lider davranışlarına ilişkin beklentileri: Türkiye üzerine görgül bir araştırma (2001). Trompenaars and Hampden-Turner commented that Turkish organizations can be categorized as "family-type" organizations. See F. Trompenaars and C. Hampden-Turner, Riding the Waves of Culture: Understanding Cultural Diversity in Global Business (1998). Pasa noted that in Turkey the leader is regarded as a "caring father" and assumes "the role of a parent". See S. Paşa, Leadership influence in a high power distance and collectivist culture, 21(8) Leadership and Organization Development Journal 414, 423 (2000). Finally, Sargut argued that in Turkey loyalty to the superior is expected from the subordinate and in return the subordinate gets consideration from the superior, which means that performance becomes a secondary consideration and relationships prevail over tasks in organizational behavior. See A. Sargut, Kültürlerarası farklılaşma ve yönetim 195 (2001)). See also T. Ergun, Türk kamu yönetiminde önderlik davranışı, (1981) (describing studies of Turkish bureaucrats in the public sector indicating that they are largely consideration-oriented rather than task-oriented.

[152] Ü. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel : approches, problématiques, pratiques et plongées (2008).

[153] Z. Aycan, R. Kanungo, M. Mendonce, Y. Kaicheng and J. Deller, Impact of culture on human resource management practices: a 10-country comparison, 49(1) Applied Psychology: An International Review 192, 207 (2000); and Z. Aycan, Human Resource Management in Turkey: Current Issues and Future Challenges, 22(3) International Journal of Manpower 252 (2001).

[154] H. Kabasakal and M. Bodur, Leadership, Values and Institutions: The Case of Turkey (1998).

[155] M. Bodur and H. Kabasakal, Türkiye-Arap kümesinde kurumsal kültür: Globe araştırması, 2(1) Yönetim Araştırmaları Dergisi 5 (2002).

[156] Ü. Berkman and S. Özen, Culture and Management in Turkey: State-Dependency and Paternalism in Transition, in E. Davel, J-P. Dupuis and J-F. Chanlat (Eds.), Gestion en contexte interculturel : approches, problématiques, pratiques et plongées (2008).

Turkey has been the subject of several recent studies regarding the use of strategic planning techniques. For example, Glaister et al. found a strong and positive relationship between formal strategic planning and firm performance in Turkey.[157] When discussing the reasons for these findings the researchers noted that Turkey was a candidate for membership in the European Union at the time their survey was conducted and thus presumably Turkish firms felt more pressure to find ways, such as formalized strategic planning rather than improvised and ad-hoc attempts at planning, to improve the competitiveness of their products and services domestically and internationally.[158] Interestingly, however, while there was evidence of formality with respect to strategic planning in Turkey, Dincer et al. found in another study that there was a lack of strong interest in using specific strategic planning techniques among Turkish firms as evidenced by survey results that indicated relatively little use of a broad range of tools and techniques for strategic analysis among the surveyed firms.[159]

In 2006, Dogan et al. studied characteristics of strategic planning activities carried out within about 400 manufacturing firms operating in Kocaeli, the second largest industrialized region of Turkey.[160] The researchers were not only interested in the current situation as it existed at the time they collected their information in 2006, but also in how strategic planning activities had changed since 1995 when a comparable survey had been done by Eren and several of the researchers who were also involved in the 2006 study.[161] Some of their key findings included the following:

- Most of the Turkish companies (40.3%) adopt a one to three year planning horizon. 18.6% of the respondents used a three- to five-year planning horizon and 14.1% of the respondents planned out beyond five years. The remainder of Turkish companies (27%) use a planning period of less than one year; however, given that the comparable percentage in the 1995 study was 34.7%, the overall planning horizon in Turkey had been extended since the mid-1990s.[162]

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[157] K. Glaister, O. Dincer, E. Tatoglu, M. Demirbag and S. Zaim, "A Causal Analysis of Formal Strategic Planning and Firm Performance Evidence From an Emerging Country", Management Decision, 46(3) (2008), 365.

[158] Id.

[159] O. Dincer, E. Tatoglu and K. Glaister, "The Strategic Planning Process: Evidence from Turkish Firms", Management Research News, 29(4) (2006), 206.

[160] T. Dogan, L. Alpkan, M. Elci and S. Aren, "Strategic Planning Activities of the Manufacturing Firms in Kocaeli, Turkey", Journal of Global Strategic Management, 5 (June 2009), 97. The authors reported that 70% of the income generated with Kocaeli is industry-related and that the region contributes 14% of Turkey's total manufacturing output, primarily in sectors such as chemicals, metals, machinery and automobile manufacturing. Respondents to the survey were primarily "upper managers" working in firms drawn from a wide range of sectors including chemicals, metal works, machinery, food, automobile manufacturing, pharmaceuticals, plastics, energy and machine tools. Id. at 98.

[161] E. Eren, S. Aren and L. Alpkan, Isletmelerde Stratejik Yonetim Faaliyetlerini Degerlendirme Arastirmasi, Dogus Universitesi Dergisi, 1(1) (1995), 96.

[162] This was based not only on the reduction in the proportion of firms that did not plan out beyond one year, but also on the increase in the percentage of firms that planned for more than five years from 6.9% in 1995 to 14.1% in 2006. E. Eren, S. Aren and L. Alpkan, Isletmelerde Stratejik Yonetim Faaliyetlerini Degerlendirme Arastirmasi, Dogus Universitesi Dergisi, 1(1) (1995), 96, 99.

- While the planning horizon in larger firms (250+ employees) was significantly longer than in smaller firms (1-49 employees), 2.73 years versus 1.92 years, the average period of formal long-term planning in the larger firms was still not that long.

- The most common primary responsibilities for making strategy decisions were the general manager and/or vice general managers (28%) and the board of directors (27%). Authority and responsibility for decision making relating to strategic planning had become more decentralized since the mid-1990s and by 2006 the influence of general managers, vice general managers and centralized strategic planning department had been reduced in favor of more involvement from various stakeholders within the organization, such as operating units and outside consultants.[163]

- The typical experience and knowledge of those most prominently involved in strategic planning was manufacturing and purchasing (46.6%), followed by marketing/sales (32.5%) and accounting/finance (12.6%). Participation by specialists from research and development and human resources was far less prevalent.

- The most commonly used source of oral information for planning came from customers (28%). Since 1995, dependence on oral information from civil servants and politicians declined (21.2% to 14%), while there was an increase in the importance of information from customers (21.7% to 28%) and suppliers (8.1% to 13%). Distributors, retailers and dealers (15%) and competitors (14%) also remained significant sources of external information for planning activities.

- The commonly used source of written information for planning was the management information system (MIS) reports prepared internally within the firm (19%). Since 1995, there was a decrease in dependence on publications of chambers of commerce and industry (21.5% to 14%), governmental statistical compilations (23.9% to 10%) and journals and periodicals (16% to 8%); however, two new sources of information not used in 1995 grew in influence: official journal and regulations (10%) and consulting firm reports (10%).

- The most popular strategic goals (aggregating 45%) were growth related, including increasing total sales (15%), increasing market value (13%) and increasing market share (13%). Goals primarily related to operational and financial efficiency aggregated 35%, including cost reduction and total factor productivity (17%) and return on sales and return on equity (18%). Goals related to satisfaction were less important (aggregating 17%), including customer satisfaction (11%) and employee satisfaction (6%).

Efendioglu and Karabulut set out to extend the prior findings in the study conducted by Dincer et al. mentioned above by examining the nature and practice of strategic planning among 71 of the largest manufacturing firms in Turkey.[164] The researchers argued that it

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[163] The researchers noted that a comparison of their findings in 2006 with the earlier study carried out in 1995 showed that the "dominance" of the general manager/vice general managers fell from 45% to 28% and that of the strategic planning department fell from 20.6% to 11%. During the same period, however, comparable percentages for the board of directors increased from 17.5% to 27% and the involvement of managers farther down in the organizational hierarchy (i.e., functional and operational units) and consultants increased from 15% to 34%. E. Eren, S. Aren and L. Alpkan, Isletmelerde Stratejik Yonetim Faaliyetlerini Degerlendirme Arastirmasi, Dogus Universitesi Dergisi, 1(1) (1995), 96, 100.

[164] A. Efendioglu and A. Karabulut, "Acceptance and Use of Strategic Processes in Developing Countries", American Journal of Economics and Business Administration, 1(2) (2009), 150.

was important to study the evolution of strategic planning practices in a "developing transitional economy" such as Turkey since the results would provide important insights into how firms were coping with increased competitive pressures as the local economy was opened up to free market forces. They found that there had been a significant increase in the importance and use of strategic tools and processes in Turkey since the Dincer et al. study several years prior but that there were still key differences in the use of such tools and processes between local and foreign owned firms: "The findings clearly show that the foreign owned firms adopt a broader and deeper repertoire of tools and techniques of strategic planning than do local firms and they tend to believe that the strategy process is more deliberate than do local firms."[165] Efendioglu and Karabulut, who advocated expanded use of strategic planning tools and processes, were encouraged to find that there was increased involvement of top management in planning among the local firms and that those firms were allocating more resources to planning and approaching it in a more formal manner.

§1:15 Governance

One of the most important guidelines for corporate governance practices in Turkey has been the Corporate Governance Principles issued by the Capital Markets Board of Turkey ("CMB") with inputs from experts and representatives from the CMB, the Istanbul Securities Exchange and the Turkish Corporate Governance Forum as well as academicians, private sector representatives and various professional organizations and non-governmental organizations.[166] These Corporate Governance Principles ("Principles") mainly address publicly-held joint stock companies; however, it was hoped and expected that the Principles would also be implemented by other joint stock companies and institutions, active in both the private and public sectors. Unfortunately, as is typically the case with "best practices", implementation of the Principles was optional although annual reports must include an explanation concerning implementation status of the Principles, using a "comply or explain" approach; conflicts arising from inadequate implementation of the Principles; and an explanation on whether there is a plan for change in the company's governance practices in the future. The Principles were laid out in four main sections covering shareholders, disclosure and transparency, stakeholders and the board of directors and elements of each section were as follows[167]:

- "The first section discusses the Principles on shareholders' rights and their equal treatment. Issues such as shareholders' right to obtain and evaluate information, right to participate in general shareholders' meeting and right to vote, right to obtain dividend and minority rights are included in this section. Matters such as keeping shareholders records and free transfer and sales of shares are also covered.
- The second section discusses the Principles regarding disclosure and transparency issues. Within this scope, Principles for establishment of information policies in companies with respect to shareholders and adherence of companies to these policies are discussed.

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[165] Id. at 158.
[166] The Capital Markets Board of Turkey, Corporate Governance Principles (2005).
[167] Id. at 8.

- The third section is concerned mainly with stakeholders. A stakeholder is defined as an individual, institution or an interest group that is concerned with the objectives and operations of a company in any way. Stakeholders of a company include the company's shareholders and its workers, creditors, customers, suppliers, unions various non-governmental organizations, the government and potential investors who may consider investing in the company. This section includes the Principles regulating the relationship between the company and its stakeholders.
- The fourth section includes Principles concerning functions, duties, obligations, operations and structure of the board of directors; their remuneration, as well as committees to be established supporting board operations and its executives."[168]

§1:16 Finance

The Turkish banking system consists of the Central Bank and private banks, including foreign banks, divided between Ankara, where most state-owned banks are located, and Istanbul, the center for most privately owned banks. Turkey also had three state investment and development banks. The Development Bank is funded from the Treasury and invests in the private sector. The Export Credit Bank of Turkey (Türkiye Ihracat Kredi Bankasi) provides export finance. The Municipalities Bank (Iller Bankasi) supports local institutions. Merchant banks also operated in Turkey, both domestically and foreign owned.

The Turkish Central Bank, founded in the early 1930s, has the usual central bank responsibilities, such as issuing banknotes, protecting the currency, and regulating the banking system and credit. The Central Bank also finances the government's budget deficits and makes loans to public and private banks. Starting in 1983, however, the Central Bank began to reduce lending and stepped up its supervisory functions. In 1994, the Central Bank became an autonomous body but is not independent. Along with Banking Regulating and Auditing Commission ("BDDK"), the Central Bank supervises bank activities in order to guarantee that they meet liquidity requirements and operate in a responsible fashion. While the Central Bank's Bank Supervision Division acts as the government's supervisory authority, the Undersecretariat of the Treasury is responsible for the enforcement of banking laws. The BDDK also determines the disposition of insolvent banks.

The government, as well as international organizations such as the IMF, has taken an active role in providing access to longer-term finance for small and medium enterprises (SMEs) and exporting firms in Turkey. As a result, participants enjoyed both export and employment growth and gained advantages with respect to new product introduction, improved environmental management, adoption of cost-saving technologies and

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[168] Interestingly, under the board section, the board of directors should be composed of two different types of members—executive and non-executive members. An executive member bears has administrative duty as a managing member. A non-executive member is defined as an individual not having any administrative duties within the company. The Capital Markets Board of Turkey, Corporate Governance Principles (2005), 8-9. For further discussion of corporate governance in Turkey, see M. Ararat and M. Ugur, Turkey: Corporate Governance at the Crossroads, in C. Mallin (Ed.), Handbook on International Corporate Governance (2006), 193.

expanded client bases.   Other types of government loan programs provided SMEs in underserved areas with access to medium term finance. Participants came from a number of different sectors including printing, plastic processing, tourism and food processing.[169]

The Turkish banking system is organized according to international and European standards, with functional supervision, minimum capital requirements and market discipline. According to a report prepared by the Turkish central bank, the Turkish banking sector consists of deposit banks, development and investment banks and participation banks that operate according to the profit-/loss-sharing principle. The Banking Regulatory and Supervisory Authority ("BRSA") was able to improve its supervisory and enforcement capacity further, and was accepted as a member of the Basel Committee on Banking Supervision and Financial Stability board in 2009.[170]

The number of banks in Turkey decreased to 50 after the 2001 financial crisis. According to the Banks Association of Turkey, that number decreased further to 45 by January 2011. The banking sector plays less of a financial intermediary role than one would expect in an economy of Turkey's size and sophistication. Stress tests by the regulators have proved that Turkey's financial sector is sound. The banking sector has been able to extend its share of the entire financial sector to 78%. The share of total assets held by domestic private banks is 32.5%. Foreign banks were able to increase their share to 39.5%– this figure takes into account the investments of foreigners in the stock exchange. The stock exchange, in turn, represents 20% of the assets of the banking sector.

Although the government, public enterprises and private undertakings increased their use of stocks and bonds after 1970, capital markets in Turkey remained underdeveloped in the 1970s. After the passing of the Capital Markets Law ("CML") in 1982, a Capital Markets Board ("CMB") was established to issue regulations for institutions marketing bonds and other financial instruments. Based in Ankara, it is now responsible for overseeing the activities of capital markets. The reason for underdevelopment of the capital markets was that most Turkish corporations were closely held and tended to finance expansion through their own funds and from their small circles of stockholders. But in the 1980s, companies were allowed to issue profit-and-loss-sharing certificates with liability limited to the face value of the certificate.   At the same time, the government also took steps to revive Istanbul's stock market, which had closed down in the late 1970s. The Istanbul Stock Exchange ("ISE") reopened in December 1985, and has become a major player in the capital market. In 1995, the Istanbul Gold Exchange opened for trading.

With the rise of emerging market funds, trading on the ISE expanded rapidly in the early 1990s; indeed, it was the best performing of any market in 1993. Foreign investment accounted for 25% of the daily trading volume. In early 1994, however, the stock market crashed in the wake of the currency and balance of payments crisis. Plans for privatization of state-owned enterprises helped to revive the stock market, once foreign

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[169] The World Bank, Turkey: Country Brief 2010 (October 5, 2010).
[170] Bertelsmann Stiftung, BTI 2012—Turkey Country Report (2012).

investment and confidence in the government's attempts to stabilize the macroeconomic situation increased.

The legal and institutional framework for capital and securities markets in Turkey has improved, especially in the past few years, in parallel with the structural reforms carried out in cooperation with the IMF.[171] The improvement initially began with the passage of the CML and establishment of the CMB in the early 1980s, and more recently with the CMB's issuance of legally binding Communiqués on accounting and auditing standards and its issuance of the Corporate Governance Principles (Principles). At the same time, amendments were made to the Commercial Code, which addressed several crucial weaknesses in Turkey's corporate governance framework.

As is the case in many emerging markets, Turkey has an underdeveloped equity culture. In recent years, market capitalization has fluctuated at around 20 to 25% of GDP, which is significantly below the OECD average of 135%. Only 290 companies are listed on the ISE, and of the 500 largest Turkish companies by revenue, only about one-fifth are listed.[172] Free float is small, in the range of 20 to 25%. Market transactions are highly concentrated with the 25 most actively traded companies representing about three-fourths of the volume of the stock exchange. Also, most large Turkish companies are part of conglomerates, typically organized around a group-owned bank. The five largest business groups account for about half of the total market capitalization of the ISE. Frequently, when one or more companies in a conglomerate is listed, the holding company, which generally exercises control over members of the group, is not. Income shifting and transfer pricing has been a problem in pyramidal and cross shareholding structures. Mandatory consolidated reporting, which began recently, should improve the transparency of such abuses.

In general, companies that do not access the equity market have little incentive to provide protections for minority shareholders that lie at the heart of many corporate governance guidelines, including those proposed by the Institute of International Finance. Without a corporate finance culture that values these protections, strategic investors are less likely to see the equity market as a good way to invest their money. In Turkey the result is that low demand for equity finance means less emphasis on minority shareholder protection, which leads to a low supply of shareholder investment and high equity financing costs.

There are a number of reasons why Turkish companies have not embraced equity markets. First, a tradition of poor corporate structure had a negative impact on the demand for private corporate finance. Until the 1980s, the Turkish economy was dominated by the state, which included a complex system of state-owned companies and restrictions on market entry. Government contracts with private sector firms tended to maximize government control and minimize both competition and opportunities for

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[171] Corporate Governance in Turkey: An Investor Perspective, Institute of International Finance, Inc. (April 2005).

[172] Task Force Report, Institute of International Finance, Inc., Corporate Governance in Turkey: An Investor Perspective (April 2005).

investment by firms. This kept the need for private investment capital relatively low and allowed for related or careless lending by banks backed by state guarantees.

Second, the nation's macroeconomic policy did not encourage private investment. Persistent government deficits financed through central bank lending led to high annual inflation rates averaging 50% in the 1980s and 70% in the 1990s, high real interest rates which peaked at over 30% in 1996, and relatively low average economic growth during the 1980s and 1990s. This stifled opportunities for profitable investment by firms. In addition, high real interest rates on guaranteed government debt absorbed much of the available private capital. Unstable governments, coupled with frequent intervention by the military, added political uncertainty, which raised interest rates further and constrained private sector investment opportunities.

Third, as is the case in many emerging market economies, the largest domestically owned Turkish companies are mostly family-controlled. A single shareholder controls more than 50% of voting rights in 45% of the companies listed on the ISE. Although calculations vary, it is reported that at least three-fourths of all companies in Turkey are owned by families or a holding company controlled by a family. This is due in part to majority shareholders valuing unrestricted control of their companies over higher profit margins and less expensive forms of financing. By maintaining tight control, family members have been able in some instances to secure well-paid jobs or perks from the company even if they are not qualified. Also, controlling shareholders have had the opportunity on occasion to extract profits from minority investors, typically through the use of company assets or non-arm's length related party transactions.

§1:17 Human resources management

As of July 2012, Turkey had a population of approximately 79.7 million, which ranked as the 17th largest in the world, and its population growth rate of 1.2% was the 98th fastest in the world.[173] Projections call for the population of the country to increase to almost 100 million by 2050, making it the most populated country among members of the European Union if admission is secured by that time.[174] Turkey is a strikingly young country: as of 2001, 57% of the Turkish population was under the age of 30[175] and as 2012 approximately 43% of the population was 24 or under, almost 86% of the population was 54 or under and the percentage of the population in, or about to enter, their prime employment years—15 to 54 years old—was just under 60%.[176] While Turkey has accommodated a wide range of Western values and practices, as well as implementing a secular democracy that is unique among Muslim cultures, it cannot be forgotten that 99.8% of the population is Muslim and that religion is still a fundamental influence on all

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[173]   Turkey,   The   World   FactBook,   US   Central   Intelligence   Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html.
[174]   Anchors aweigh, The Economist, October 21, 2010.
[175] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252.
[176]   Turkey,   The   World   FactBook,   US   Central   Intelligence   Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html.

facets of life in Turkey including the way that business is conducted.[177] As with many other developing and emerging markets, urbanization has increased in Turkey and as of 2010 70% of the total population was urban and this trend was expected to continue.[178]

As of 2012, Turkey's labor force was approximately 27.11 million, which ranked as the 23rd largest in the world.[179] In addition, another 1.2 million Turks worked abroad in 2012. Since the early days of the Turkish Republic in the 1920s, the country has experienced a dramatic shift from a large agricultural-based economy—43% of GNP during the 1920s—to a service-based economy in which 57% of the GNP as of 2000 was contributed by the services sector and just 14% came from agricultural activities.[180] Turkey has recently enjoyed growth in its manufacturing sector due in large part by comparatively low labor costs in Turkey in relation to the European countries that have traditionally been the largest markets for Turkish exports—56% of the country's exports in 2002, but falling slightly to just below 50% by 2010; however, leaders within the Turkish government as well as businesspeople around the country realize that Turkey will not be able to compete effectively on cost much longer and most believe that a shift toward knowledge-based entrepreneurship with a focus on developing and exporting medium- and high-technology products and services will be necessary in order for the economy to continue to grow.[181]

The human resources profile for the Turkish workforce points to one of the interesting potential competitive advantages for the country: the availability of a relatively young and educated group. Another interesting human resource characteristic of Turkey is the active and increasingly important role of woman. In the late 1990s, for example, reports indicated that Turkish women ranked favorably in relation to global competitors with respect to their numbers in scientific, technical and professional-related jobs and their ascendency to high-level management positions.[182] While participation of women in the workforce is generally seen as a positive development, there are long-standing cultural values and expectations regarding the role of women in Turkish families—for example, women are expected to take primary responsibility for child rearing and maintaining

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[177] See also M. Arslan, "A Cross-Cultural Comparison of British and Turkish Managers in Terms of Protestant Work Ethic Characteristics", Business Ethics: A European Review, 9(1) (2000), 13.

[178] Turkey, The World FactBook, US Central Intelligence Agency, https://www.cia.gov/library/publications/the-world-factbook/geos/tu.html.

[179] Turkey, Background Notes, US Department of State, http://www.state.gov/outofdate/bgn/turkey/197882.htm.

[180] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252, 253.

[181] Anchors aweigh, The Economist, October 21, 2010.

[182] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252, 254-255. Specifically, the United Nations Development Programme, in its 1996 Human Development Report, ranked Turkey 73rd out of 210 countries with respect to the proportion of women in scientific, technical and professional related jobs and a 1997 report published by the International Labour Organization found that 4% of Turkish women were employed in top management positions, a ratio higher than what was found in the US (2.4%), the United Kingdom (2%), Germany (3%) and Japan (1%).

family integrity and harmony—that may impede development of their full potential as contributors to the economy.[183]

One of the most serious economic problems confronting Turkey as it attempts to continue its impressive progress is finding strategic to cope with and reduce what has become a "chronic" unemployment issue. Across the country the unemployment rate has hovered around 10% for several years and there are particular concerns about higher rates among specific important groups including young people, unskilled candidates, women and inhabitants of the eastern regions of the country. The Economist reported the results of a public opinion survey in October 2009 that found that 63% of Turks believed that unemployment was the most important issue facing the country and while the government has responded by announcing plans for creation of a substantial number of new jobs The Economist warned that "the labour market is too rigid: minimum wages are too high and do not allow enough regional variation, and temporary labour contracts are discouraged".[184]

In general, the number of Turkish universities is insufficient to meet the increasing demand for higher education and this has led to significant number of Turkish students leaving the country to study abroad and, in many cases, stay abroad after they have finished their coursework rather than returning to Turkey. Education and training in business management is still lagging in Turkey. While the country has a relatively well developed system of universities and other institutions of higher learning, access is still relatively limited and reports indicate that the participation rate of persons between the age of 18 and 21 in higher education was just 33% as of 2007.[185] Almost half of the university students (45%) were enrolled in one of the many majors falling under the general category of "applied social sciences". Since business management is just one of a large number of potential social sciences majors, and access to university training is limited, it has been suggested that perhaps Turkey's network of two-year schools should assume responsibility for offering a wider array of accounting and business courses, particularly since Turkish entrepreneur admit that their businesses suffer due an inability to create and maintain accurate and accounting records and keep up with regulatory reporting requirements in tax and other areas.[186]

Employment relationships in Turkey are regulated by the Labor Law Code[187] and its relevant regulations. The Labor Code applies to both Turkish and foreign employers and employees working for a Turkish entity in Turkey. Employment contracts are governed by the law chosen by the parties; however, mandatory provisions of the law of the

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[183] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252, 255 (citing Z. Aycan, Key Success Factors for Women's Career Advancement in Turkey, 6th European Congress of Psychology, Rome, July 4-9, 1999).

[184] The economy has had a bigger boost from much sounder management, The Economist, October 21, 2010.

[185] C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management, January 2009.

[186] C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management, January 2009.

[187] Labour Law Code, Law No. 4857, 2003.

employee's habitual workplace will override any choice of law clause.[188]   One of the biggest difficulties for managers and entrepreneurs in Turkey is the expense and burden related to hiring and firing employees.   Reports compiled by the Organisation for Economic Co-operation and Development ("OECD") and The World Bank indicated that labor laws in Turkey are among the most restrictive in the OECD and that Turkish firms may be disadvantaged by having to deal with relatively high minimum wage requirements and severance pay obligations that have been characterized as exorbitant. Taken together, all this means that entry costs of bringing on a new employee, when measured based on the ratio of minimum wage to the average value added per worker, are much higher in Turkey than in other OECD countries and that the risks associated with hiring incompetent or unqualified employees are significantly greater since it is so expensive to let those employees go once it becomes clear that a mistake has been made.[189]   In addition, restrictions including in applicable laws and regulations which respect to when, and how much, employees can work means that Turkish companies must be extremely careful during the recruiting process to be sure that the workers they select are efficient and productive and are able to quickly assimilate and apply the knowledge necessary in order for them to carry out their assigned duties.

Trade unions play a relatively minor role in the Turkish economy and estimates generally peg union membership at less than 10% of the workforce. In general, labor-management relations in Turkey have been good in recent years and employers adhere to laws that requirement them to negotiate in good faith with unions that have been properly certified as bargaining agents.[190]   When strikes have occurred they have typically been of short duration and conducted peacefully. Union membership cannot, as a matter of law, be used as the basis for discrimination in the employment relationship; however, as a practical matter there have been situations where discrimination has occurred against workers who have become union members. The right of association and right to strike has been limited with respect to civil servants (i.e., employees of central government ministries, including teachers) and key public employees such as members of the military and police.

In order to understand HRM in Turkey it is useful to recall that Hofstede's study of the cultural profiles of a number of countries around the world found Turkey to be relatively

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[188] Article 27, Act on International Private Law and Procedural Law, Law No. 5718.

[189] According to a 2007 report by The World Bank, the ratio of minimum wage to the average value added per worker in Turkey was 0.57 while the same ratio in France and Romania was just 0.14 and 0.27, respectively. The same report noted that Turkish firms are liable for 95 weeks of wages when firing an employee whereas the average in OECD countries was just 25.7 weeks. The World Bank, Explore Topics – Doing Business in Turkey 2008 (2008) (as described and cited in C. Benzing, H. Chu and O. Kara, "Entrepreneurs in Turkey: a factor analysis of motivations, success factors, and problems", Journal of Small Business Management (January 2009)). See also OECD, 2006 OECD Economic Survey of Turkey, OECD Policy Brief, OECD Observer (October 2006).

[190] The discussion in this paragraph is adapted from US Commercial Service: US Department of Commerce, Doing Business in Turkey: 2011 Country Commercial Guide for U.S. Companies, http://www.wtri.org/CCGTurkey2011.pdf   In order to be a bargaining agent, a union must have a membership of more than half of the workers employed in a work place and include at least 10% of the workers employed in that specific work branch. Id.

collectivistic, hierarchical and uncertainty avoiding[191]; however, subsequent studies indicated that the socio-cultural environment in Turkey was changing such that the country was becoming less extreme with respect to each of the aforementioned cultural dimensions.[192] The GLOBE researchers found that Turkey fell below the average scores of other surveyed countries with respect to performance and future orientation. Aycan and Kanumgo found relations between superiors and subordinates in Turkey to be paternalistic[193], which Aycan later explained as meaning that "people in authority assume the role of a parent and consider it an obligation to provide support and protection to those under their care . . . [and] [s]ubordinates, in turn, reciprocate such care, support and protection of the paternal authority by showing loyalty, deference and compliance to him/her".[194] Graafland et al. commented that Turkish entrepreneurs must incorporate several Islamic principles into their business practices, including the right to own property, freedom, justice, honesty, sincerity, truthfulness, exactness in weight and measurement, leniency, and servitude.[195] Another important tenant of Islamic law is the requirement that equal payments be made for equal work, which presumably can be cited as support for the proposition that discrimination based on gender or other personal characteristics should be frowned upon in Turkish society.[196]

In 2001 Aycan prepared a review of then-current issues and trends with respect to HRM in Turkey.[197] As part of that review a summary of the results of a survey conducted by Arthur Andersen was presented in order to shed light on how certain key HR issues—organizational structure and function, recruiting and hiring, performance evaluation and training and development—were handled among 307 private sector organizations in the finance, automotive, textile, health, information technology, fast-moving consumer goods, metal, mass-media, durable goods, and construction industries in Turkey.[198] Some

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[191] G. Hofstede, Culture's Consequences: International differences in Work-related Values (1980). For further discussion of Hofstede's studies of societal cultures see "Globalization: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[192] M. Goregenli, "Individualist-collectivist tendencies in a Turkish sample", Journal of Cross-Cultural Psychology, 28(6) (1997) 787 (less collectivistic); Z. Aycan, R. Nanungo, M. Mendonca, K. Yu, J. Deller, G. Stahl and A. Khursid, "Impact of culture on human resource management practices: a ten country-comparison", Applied Psychology: An International Review, 49(1) (2000) 192 (less collectivistic and hierarchical); and H. Kabasakal and M. Bodur, Leadership values and institutions: the case of Turkey, Paper presented at Western Academy of Management Conference, Istanbul, June 1998 (less uncertainty avoiding).

[193] Z. Aycan and R. Kanungo, Paternalism: towards conceptual refinement and operationalization, Paper presented at the 14th International Congress of Cross-Cultural Psychology, USA, August 1998.

[194] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252.

[195] J. Graafland, C. Mazereeuw and A. Yahia, "Islam and Socially Responsible Business Conduct: An Empirical Study of Dutch Entrepreneurs", Business Ethics: A European Review, 15 (2006), 390.

[196] Id.

[197] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252.

[198] Arthur Andersen, Human Resource Management Research towards 2001 (2001) (as cited and summarized in Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252. The discussion of the results of the survey included in the text is adapted from the Aycan article at 256-259.

of the most interesting and relevant findings are summarized in the following paragraphs; however, Aycan's basic conclusion was that Turkish organizations are still struggling to achieve the proper balance between "global" and "local" and that Western HRM techniques would be difficult to apply in Turkey without substantial and appropriate adaptation to local social, economic, political and cultural conditions.[199] In particular, Aycan noted that there was a relative dearth of serious research and formal academic training with respect to HRM in Turkey[200] and this had led to a proliferation of "consultancies" that were often ill-equipped to provide meaningful advice and seemed to generate ideas that were based on something other than tested and verified scientific knowledge. Aycan suggested that Turkey should follow the lead of the US and other industrialized societies and create and enforce specialization and certification requirements for HR professionals.

Aycan observed that the content and effectiveness of the HRM policies and procedures depended, to a large extent, on the "tone at the top"—the level of support provided by the senior management of the firm with respect to allocation of resources to HR activities and the attitude of senior managers regarding the role that employees play in the overall success of the business model. A minority of the private sector respondents in the Arthur Andersen survey claimed that their top managers were "full partners" with the HR department, meaning that they provided a high level of support to HR, included HR managers in the decision making processes regarding firm strategy and invited HR specialists to high management positions at the vice president level.[201] The majority of the private sector respondents reported that while senior management provided support, HR departments were generally seen as "showcases" that generally focused on routine personnel matters regardless of the name given to the functional unit. Among the public sector organizations surveyed the general finding was that support for HR activities, typically carried out by "personnel departments", was limited.[202]

With regard to the structure and function of the department vested with responsibility for HR matters, 65% of the respondents, generally including the larger firms in the finance, information technology and service industries, referred to the department that fulfilled the HR function as the "Human Resource Management Department". In 12.2% of the respondents, the senior manager of the HR department was also one of the vice presidents of the organization. Half of the respondents had taken the time to prepare written HRM

[199] S. Wasti, "Cultural barriers in the transferability of Japanese and American human resources practices to developing countries: the Turkish case", International Journal of Human Resources Management, 9 (1998), 609 (questioning appropriateness of Western style management practices in Turkish cultural context).
[200] In 2001, when the Aycan article was published, only five of the 75 universities in Turkey offered graduate programs in human resources management and related fields and organizations did not want to invest time and money in human resources research and simply turned to standardized "global" (generally Western) solutions for a "quick fix" that did not fit the local circumstances and which were poorly deployed due to lack of experience and knowledge within the Turkish organizations.
[201] Z. Aycan, "Human resource management in Turkey: Current issues and future challenges, International Journal of Manpower, 22(3) (2001), 252, 255. Aycan further explained: "There are organizations which consider every employee as a strategic partner and design [the] most effective HRM systems. These organizations tend to be highly successful and attribute their success to their partnership with employees." Id.
[202] Id.

strategies that were integrated with the overall business strategies adopted by the organization. It was reported that the main functions of the HR department, listed in descending order of importance as indicated by the respondents, were staffing, wage determination and compensation, training and development, health-related issues, performance evaluation, pay-roll design and maintenance, transfers and promotions, catering services, transportation services, job security and career planning.

Various factors appeared to impact the structure and function of the HR department among the survey respondents. For example, larger private organizations, as well as organizations that have greater exposure to strategic arrangements with foreign partners from the US, Europe or Japan (i.e., joint ventures or acting as local representative offices of foreign multinationals), tended to have more developed HR practices. In contrast, family-owned businesses generally took a more paternalistic approach and their HR departments were typically limited to routine functions. There were also variations among industries with respect to the structure and function of HR departments and the survey noted that organizations in the finance and information technology industries tended to have the most effective HR systems in Turkey.[203]

With respect to recruiting and hiring practices, less than half of the responding firms engaged in formal planning with respect to the HR requirements of the organization. Prospective new employees were generally identified through suggestions from current employees and other contacts, a finding that Aycan attributed to the collectivist nature of Turkish societal culture alluded to above. Another interesting finding, also perhaps driven by collectivism, was the overwhelming preference for one-on-one interviews, generally unstructured, as the means for evaluating and selecting new employees. Employment decisions were typically made based on what Aycan referred to as the "subjective evaluation and intuition" of the interviewer and very few respondents included "objective and standardized" tests as part of the vetting of employment candidates. In fact, when objective tests were used they were often simply translated from English into Turkish without any effort to adapt the contents to local conditions and/or present the questions in a standardized format.

Aycan reported that while almost three-quarters of the respondents claimed to have some form of performance evaluation system for assessing the work of their employees, including a "standardized" evaluation form, there were several problematic issues that undermined the effectiveness and utility of these systems. First of all, while one-third of the respondents reported that they relied on competencies and behavioral criteria to evaluate performance, Aycan noted that there was "no evidence of any scientific validity of the measures developed to assess these criteria" and that no formal training was given to the evaluators before they attempted to complete the assessment. Second, in 80% of the responding organizations the evaluation process was "one-way", with the only input coming from the superiors of the employees being evaluated. Aycan explained that this was to be expected given that Turkey is a high power distance society. In those instances where some form of "self-assessment" was incorporated into the evaluation process, the employees acted as might be expected in a collectivist cultural environment and rated

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[203] Id.

themselves lower than the ratings provided by superiors and peers. Finally, Aycan referred to potential problems with relaying negative feedback to employees in Turkey due to the tendency of people in that society to become "emotional" upon hearing "bad news" and it was noted that 11% of the organizations did not even bother to show the results of their performance evaluations to employees.

While two-thirds of the respondents claimed to have some form of system for rewarding employees based on "performance", Aycan commented that "the efficiency of this system is doubtful". Some 60% of the respondents reported using performance-based rewards, typically bonuses and/or salary increases, for white-collar employees while only 27% of the respondents offered such rewards to their blue-collar employees. Aycan noted that "intrinsic rewards" for exceptional performers, such as plaques or designation as "employee of the month", were generally discouraged out of concern that they might undermine group harmony.

White-collar managerial employees often received supplement benefits and allowances such as cafeteria benefits, health insurance, company automobiles or fuel allowance for managers commuting and mobile phones. The benefits provided to white-collar non-managerial employee and blue-collar employees included cafeteria benefits, health insurance, "pocket money" for religious holidays, fuel or firewood for heating and contributions to the educational expenses of employees' children—a menu of benefits that Aycan argued was reflective of the paternalism in Turkish cultural society.

Job evaluation was not a widely used practice among the respondents—less than half had a form system—and only one-third of the respondents factored job evaluation into the decisions that were made regarding initial salary and subsequent modifications. It was interesting to note that the initial entry level salary was generally determined by "negotiations". With respect to salary increases, the most important factor was the inflation rate and additional weight was given to the individual performance of the employee and the length of his or her tenure with the organization. At a small number of the respondents, 10%, "networking" also came into play as an important determinant of who got a salary increase and how much.

When asked about training and development, the respondents generally agreed that they were among the most important functions of the HR department; however, Aycan noted that Turkish firms appeared to be having difficulties in evaluating the effectiveness of their training and development initiatives. The most common strategy among the respondents, followed by 82% of the organizations, was to rely on the trainer's own evaluation of the effectiveness of his or her program and only 44% of the respondents bothered to try and use a more objective assessment based on tests given to participants before and after the program. Aycan reported that when participants are asked to evaluate programs that they attended they usually complete a "happy sheet" which seeks feedback on whether or not they were "happy" with the training and that the answer is, not surprisingly, more positive when the participant needs to complete the program for a promotion and less positive when the program is required in order to remedy some observed deficiency in performance. While many organizations observed that some form

of "return-on-investment" analysis would be useful for their training and development programs, Aycan noted that such an analysis would be difficult for what was referred to as "soft training" topics such as leadership, communication and teamwork.

Aycan noted that, in general, career management and planning was a significant issue in Turkey. One problem was that the education system was not organized and operated in a way that easily channeled students toward areas that were consistent with their interests and talents. When students applied for universities in Turkey they were required to sit for and complete a general entrance exam and could then provide information on a limited number of preferences regarding the schools they would like to attend and the course of study that they would like to pursue if they are admitted. Since only a small percentage of the applicants were able to attend their chosen university and pursue their preferred discipline, many graduates emerged with a formal education portfolio that did not necessarily match their true interests and, in effect, career management began anew once they began their employment with a business organization and it was incumbent on the HR professionals within the firms to provide consultation and guidance on career paths and the type of additional training that would be required in order to be successful. Career management or planning systems were in place at 58% of the respondents and 71% of the respondents claimed that their systems were adequate for identifying candidate to fill vacant positions within the organization. On the issue of whether career planning systems were aligned with organizational practices regarding promotions, respondents indicated that the following factors were important when deciding which employees to move forward to increased responsibilities: performance (72%), completion of required training (70%), tenure in a prior position (44%) and "competencies" (31%). Unfortunately, a relatively large percentage of the respondents (14%) still did not inform employees about the terms and conditions of promotion with their organizations.

Finally, while Aycan noted that Turkey had adopted a formal set of laws and regulations pertaining to the workplace and employees were allowed to form and join unions and enjoy certain basic rights as a result of their union affiliations, he was critical of the enforcement role of the government in this area and the widespread failure of organizations to effectively audit and monitor compliance. Among the areas of concern that Aycan mentioned were failure to provide employment opportunities for the disabled, reliance on "networks" rather than objective and non-discriminatory standards during recruitment and promotion activities and meager accommodations for women wishing to work while raising a family (e.g., short maternity leaves and reluctance to allow for flexible work schedules)[204]. Aycan recommended that Turkish organizations be subjected to public or private audits of their HR practices as a means for ensuring equal employment opportunities.

§1:18 Product development and commercialization

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[204] While it is generally true that participation by women in the workplace is viewed positively in Turkey and a significant percentage of women have achieved high management positions, strong cultural norms persist that often make lead to viewing a woman's pursuit of a career as "conflicting" with her proper and traditional role as a mother and anchor of the family and household.

A report released in 2012 by the Organisation for Economic Co-operation and Development ("OECD") on science, technology and industry in Turkey noted a sharp and rapid shift in that country from an economy based on agriculture and labor intensive industries such as textiles which took advantage of low-skilled labor towards an industrial economy with specialized product development and world-class skills in sectors such as automobile production, shipbuilding and manufacturing of electronics and home appliances.[205] However, the OECD Report cautioned that Turkey's science and technology innovation and product development system, including the number of researchers, remained small and that research and development expenditures by the business sector as a percentage of GDP was below the OECD median and concentrated in just a few medium-high-technology manufacturing industries and knowledge services. Other issues likely to create impediments to expanding innovation in Turkey included weak links to international research networks, weak skills in information communication technologies, a small number of top performers in the sciences and few graduates at the doctoral level focusing on science or engineering, poor entrepreneurship conditions and excessive product market regulations, particularly employment protection legislation, that the OECD believed hindered competition and product development.

One recent study of Turkish product development focused on medium- and large-scale automotive companies in Gebze and found that the most common methods used by Turkish firms to accelerate their product development processes and increase their product development performance were accelerating operations, involving lead users and suppliers, using concurrent engineering, simplifying operations and eliminating delays.[206] A study conducted among 28 Turkish companies representing 74% of the total sales of the electronic industry in that country provided evidence that the profitability of new products introduced by those companies was positively influenced by selecting growing markets; having sufficient financial resources to conduct activities (e.g., laboratory tests, customer tests and trial sales) that can reduce the risk of failure in the market; proficient business, market and competitive analysis; using a "follower" strategy and launching new products with major innovations into new markets (i.e., markets that were new to the company).[207] The results of the study also indicated that profitability of new product was negatively influenced by longer development times, deviations from planned project duration and budgets and attempting to launch new products with major innovations into current markets. With respect to new product development project performance the researchers found that the most successful projects occurred when firms established a computer-based collaborative work environment, product design was proficient, adequate attention was given to development and project management training; sufficient financial resources were available; core project teams were established and overseen by an identifiable and accountable project manager and development proceeded on the basis of

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[205] The discussion in this paragraph is adapted from OECD Science, Technology and Industry Scoreboard 2012: Turkey (2012).

[206] A. Yayla and A. Yildiz, "How Product Development Accelerating Approaches Influence Product Development Performance—An Empirical Study of Turkish Automotive Sub-Industry", European Journal of Social Sciences, 18(2) (2010), 268.

[207] B. Akova, G. Ulusoy, E. Payzın and A. Kaylan, An Integrated New Product Development Model for the Turkish Electronics Industry (2001).

a clear product definition that took into account customer needs, expectations and other market inputs and included specific product functions, features and specifications.

§1:19 Technology management

Analysts have reported that Turkey has been making good progress in the areas of science and research and development (R&D) including significant increases in funding for R&D, particularly industrial R&D, and announced plans for establishing new private-sector R&D centers and preparing a national science technology and innovation action plan.[208] Turkey considers technology development and management a key ingredient to its economic development. With this in mind, in 1991, it created the Technology Development Foundation of Turkey (TTGV), a nongovernmental organization that acts as an intermediary between public funds and the private sector in order to support the international competitiveness of Turkish industry through improved technology management. An example of how this emphasis on technology management applies to specific industries can be seen in the automotive industry. Since the 2001 crisis that struck Turkey, the industry has focused on technology and quality management, R&D, global competition and highly-skilled human resources. Under the coordination of the Ministry of Industry and Trade, an Automotive Industry Strategy Paper was prepared based on contributions from the private sector, as well as, relevant public institutions and organizations. According to the Paper, the main objective for the sector is "increasing competitiveness and managing the transformation."[209] With this in mind, the specific objectives were ensuring technological deepening in the sector, increasing added value in production, and transforming Turkey into the most competitive production and R&D center in the region.

The 2013 survey published by the Intellectual Property Rights Index ranked Mexico 55th out of of 130 countries worldwide (and 9th out of 24 countries in Central and Eastern Europe) with respect to security of intellectual property rights and noted modest improvements in protection and enforcement of intellectual property rights, an area where Turkey's performance still placed it a little below the middle of the global pack.[210] In 2013 the United States Trade Representative maintained Turkey's position on its Watch List, cited ongoing concerns of US intellectual property rights holders regarding exports from, and transshipments through, Turkey of counterfeit and pirated products (particularly luxury goods) and admonished Turkey to invest in additional resources and training for customs officials and judges on enforcement of intellectual property rights.[211]

§1:20 Globalization

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[208] Bertelsmann Stiftung, BTI 2012—Turkey Country Report (2012).

[209] "Turkey Creates Roadmap in Industry with Strategy Paper", Today's Zaman (January 6, 2011).

[210] Property Rights Alliance and Americans for Tax Reform Foundation, Intellectual Property Rights Index (2013 Report), http://www.internationalpropertyrightsindex.org/profile?location=turkey (overall rankings based on a combination of measures of protection of intellectual property rights, patent protection and copyright piracy and based on work performed by the Property Rights Alliance (www.propertyrightsalliance.org)).

[211] Office of the United States Trade Representative, 2013 Special 301 Report (2013), 54-55.

Turkey was praised for its efforts to establish a free market economy and open up its domestic market to international competition during the 1980s and 1990s using an export-oriented development strategy. Ercel pointed out, however, that "as a result of high inflation and political uncertainties, together with capital account liberalization in 1989, the Turkish economy experienced imbalances and severe financial crises in the years of 1994, 2000 and 2001, and because of that it never fully benefited from globalization".[212] Perhaps the most compelling, and often tumultuous, piece of the story for Turkey with respect to globalization has been the discussions relating to Turkey's candidacy for membership in the European Union (EU). Turkey first applied for full membership into what was then called the European Economic Community in 1987 and formal accession negotiations between representatives of the EU and Turkey were opened in October 2005 and have been ongoing since that time as the parties attempted to establish progress by Turkey in a variety of areas including political reforms, foreign policy, mobility and migration, trade, energy, counter-terrorism and Turkey's willingness and ability to accept and achieve specific requirements relating to its judiciary, the rule of law and respect for fundamental human rights of its citizens, particular protection of minorities. While talks broke down in 2010 it was announced in late 2013 that discussions would start once again.[213]

Turkey is one of the developing countries that has deliberately identified globalization as a key part of the country's long-term strategy for economic development and, in fact, the Ministry of Industry and Trade has pushed for making Turkey "the production base of Eurasia in medium and high-tech products" and "increasing the competitiveness and efficiency of Turkish Industry and expediting the transformation to an industry structure which has more share in world exports, where mainly high-tech products with high added value are produced, which has qualified labor and which at the same time is sensitive to the environment and the society".[214] Among the specific steps that have been undertaken to assist Turkish industries in competing globally are improving the institutional and legal infrastructure, reducing bureaucratic barriers at the central government and local administration levels, adopting regulatory impact assessment and improving competition laws; attracting foreign direct investments that provide high added value and create positive externalities for local companies; eliminating obstacles to investments and rigidities in the labor force market; developing alternative financing options and financial tools for small- and medium-sized enterprises; improving the technological infrastructure; improving logistics inputs including transportation systems and reducing the costs of inputs such as electricity; increasing environmental awareness and supporting and encouraging regional development.[215]

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[212] G. Ercel, Globalization and The Turkish Economy (November 2006).

[213] For full discussion of the current state of negotiations and the issues under discussion between the EU and Turkey see European Commission Staff Working Document on Turkey 2013 Progress Report (2013), http://ec.europa.eu/enlargement/pdf/key_documents/2013/package/tr_rapport_2013.pdf

[214] Republic of Turkey, Ministry of Industry and Trade, Turkish Industrial Strategy Document 2011-2014 (2010), http://www.sanayi.gov.tr/Files/Documents/TurkiyeSanayiStratejisiIngilizce.pdf.

[215] Republic of Turkey, Ministry of Industry and Trade, Turkish Industrial Strategy Document 2011-2014 (2010), http://www.sanayi.gov.tr/Files/Documents/TurkiyeSanayiStratejisiIngilizce.pdf.

Erdila noted that Turkey had moved to create an open market and export-oriented economy in the early 1980s and that the country had seen significant internationalization of the activities of its firms during the 1990s and 2000s in terms of greater participation in international trade, increasing levels of outbound foreign direct investment and expanding cross-border merger and acquisition activities.[216] Erdila reported that Turkish companies got their earliest experience with exporting during the early 1980s when the government implementing export incentive regulations that allowed domestic companies to begin expanding their activities to foreign markets in relatively close proximity including countries in the EU, the Middle East and North Africa. Increased participation in multilateral free trade agreements, as well as improved industrial production capabilities, led to a transition in the internationalization activities of Turkish companies in the early 1990s toward greater use of joint ventures and strategic alliances in neighboring countries, thus allowing those companies to build distribution channels in large European markets such as Germany, the Netherlands and the United Kingdom. In the 2000s Turkish companies shifted once again and became more active in their use of acquisitions and direct investments (i.e., opening new branches and subsidiaries) in foreign countries to seek and achieve quicker and deeper market penetration. Erdila summarized the results of various surveys regarding the reasons for internationalization by Turkish companies and the advantages those companies derived from their strategies and noted that the increased interest in outbound investment among Turkish firms was being driven by financial availability, proximity and a desire for diversification, reduction in labor costs, overcoming tariff barriers and reducing the costs of other inputs.

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[216] The discussion in this paragraph is adapted from T. Erdila, "An Analysis of Internationalisation Behavior of Firms Through Activities and the Case of Turkish firms", Procedia—Social and Behavioral Sciences, 58 (2012), 1247.