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## **THE EFFECT OF GROWTH STRATEGIES ON DEGREE OF INTERNATIONALIZATION. A STUDY ON TURKISH EXPORTERS**

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### **Abstract**

Globalization is the free movement of goods, services, and people across the world in a seamless and integrated manner (Friedman, 1999). Due to its impact on all nations and economic organizations, it is inevitable to pass this topic for companies that want to grow in the global market. For this reason, it is important to consider the growth strategies of the leading companies for each country. Selecting a strategy mode for entering in a foreign market is a crucial strategic decision during globalization. Another important factor is measuring the Degree of Internationalization (DOI) by identifying the firm characteristics as they are affecting the internationalization level directly or indirectly. This study examines the growth strategies of the top 1000 exporting companies in Turkey and analyses the mediating effect of these strategies between the firm characteristics and the firms' DOI. Findings reveal that growth strategies have a mediating effect between firm characteristics and DOI. Another contribution of the study is the result that R&D has a positive effect on growth strategies and on DOI. This study offers a guidance for developing firms in Turkey for selecting the correct growth strategies and to form firm characteristics for their success in globalization process.

**Key words:** Growth Strategies, Degree of Internationalization (DOI), Firm Characteristics

**JEL Code:** M16, L10, L25

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## **1. Introduction**

Globalization has become a necessity in today's world due to its impact on the developing countries. The phenomenon of globalization, which has become widespread since the last quarter of the last century, is one of the most important elements that come to the forefront in the development and becoming hegemonic of neoliberal ideology.

Globalization is discussed through the international integration of goods, services and capital and the free market economy. While optimistic views towards globalization point to a new world order that eliminates economic disparities between countries, removes barriers to technology and information flow, and has no boundaries, globalization refers to a process that cannot be addressed as unilateral.

The current trade system is driving businesses into enormous competition. This competition requires enterprises to be opened to international markets as well as national markets. Moreover, the companies that are opened to international markets today can have cost advantages in terms of raw materials and can achieve more profitability by offering their final products to global markets. This is the key to the growth of businesses.

In general, companies go international because they want to grow or expand operations. More specific motives include generating more revenue, competing for new sales, investment opportunities, diversifying, reducing costs and recruiting new talent. Going international is a strategy that is influenced by a variety of factors and is typically implemented over time.

There are numerous reasons why companies consider going into international. There are those who find it appropriate when the domestic industry is too competitive; there are those who take this direction with the aim of expanding their businesses and many other reasons. With the help of globalization, companies can be more international-oriented with special characteristics and growth strategies.

Among the international growth strategies Entry Mode is a highly meaningful choice for all companies that are thinking of expanding their company to emerging least developed and even developed markets. The decision of how to enter a foreign market can have a significant impact on the results. These growth strategies that can be used by the companies are export, franchising, licensing, turnkey project, contractual manufacturing, merger, acquisition, joint venture and wholly owned subsidiaries (Root, 1994).

However, the growth of the business is related closely with firm characteristics and its behaviours. Firm characteristics such as firm size and firm image with international experience led to make the company more innovative, more R&D-oriented and make company keen to utilize the incentives given by government to increase the export. These properties of the company lead the company to internationalize and to grow.

The purpose of this thesis is to examine the relationship of firm characteristics and degree of internationalization and the mediating effect of international growth strategies of the greatest 1000 exporting Turkish companies in globalization process.

This study is based on three main subjects: firm characteristics, international growth strategies and degree of internationalization in globalization process. Thus, this thesis will be unique from the perspective of combining these three main subjects under one roof and identify the effect of selecting the right international growth strategy for companies which are trying to be global in the world.

## **2. Literature Review**

Various literatures have identified several factors that determine the choice of a specific foreign market entry mode such as micro-level (e.g., firm size, contractual risk, and asset value) and macro-level (e.g., country risk and market potential) (Agarwal and Ramaswami, 1992); cultural distance, tacit knowledge, strategic motivations, and global synergies (Kim and Hwang, 1992); industrial growth and advertising intensity (Kogut and Singh, 1988); international experience (Erramilli, 1991; Luo, 2001). Andersen (1997 cited in Sadaghiani et al 2011) has stated that a firm's entry strategy choice involves various factors, and one single theoretical perspective is not adequate to provide a comprehensive explanation.

Some scholars, relying on the loosely structured or even unstructured inductive frameworks of the instrumental approach, try to infer the degree of internationalization of a firm by examining the evolution, structure, and processes of relationships among its demographic, strategic, market, organizational, product, and attitudinal characteristics of international expansion [Johanson and Vahlne 1977; Forsgren 1989; Welch and Luostarinen 1988].

The literature in recent years has focused on studying the degree to which the Degree of Internationalization influences the performance of the firms. There are several studies that have focused on thoroughly to research this relationship (Li, 2007; Hennart, 2007). Though different authors have researched significantly on entry modes; numerous questions may be found as unexplained regarding this topic.

Although there are several studies under these main subjects there is no investigation on the effect of the growth strategies in the relationship between firm characteristics and internationalization degrees.

In the national and international literature, there are no studies examining the relationship and interaction between the growth strategies used by export companies in Turkey and their degree of internationalization.

Firm characteristics is the first thing that comes to mind when talking about the degree of internationalization, because these factors affect directly the DOI. These factors are mostly known and mostly used factors in the studies about the DOI.

Since firm size is the main firm characteristic, this is mostly used factor when studying about the degree of internationalization. When categorizing companies according to its size, usually the size of the place of establishing, the number of the employees, production and sales volume, capital, profitability, and net operating profit are being considered (Wolf & Pett, 2000; Chelliah, Sivamurugan, Sulaiman, & Munusamy, 2010).

The second thing that must be considered as the firm characteristic is the number of employees in the foreign trade department. This is usually representing the size of the foreign trade department. It makes sense to think that if the company have lots of employees in the foreign trade department, then the company operates in many countries, have many customers in different countries etc. Segaro (2012) and Segaro, Larimo and Jones (2014) used this factor in their study to determine the degree of internationalization. This factor also used in another way as the ratio of foreign employees to total employees. Duran, Kostova, van Essen (2017) used this factor as an affective factor of the degree of internationalization in their study.

The company's age is other determinant of the firm characteristics. The age of the company indicates when it was established and how many years it operates. This is another factor that affects the degree of internationalization (Jung & Bansal, 2009: 715).

International experience is another determinant of the firm characteristics and indicates when the company started and for how long it operates in the international markets. However, international experience of the top manager can also be thought when talking about the international experience factor that affects the DOI. This factor is used in Sullivan's Degree of Internationalization Scale (DOIINTS) (Sullivan, 1994).

Another factor that affects the degree of internationalization is the physical distribution of international operations. This factor indicates the number of countries where the company operates. The higher the number of countries where the company operates, the higher the degree of internationalization. This factor is used in the Transnational Activities Spread Index (TASI) (Ietto-Gillies (1998).

As seen above, these factors are directly affecting factors of degree of internationalization, which are in control of the company.

Firm behaviour is the final one of the factors effecting the degree of internationalization. Firm behaviours are consisting of global orientation of the top managers, innovation orientation and having utmost intention on R&D activities. These factors usually effect the DOI either directly or indirectly.

Global orientation is the first factor that effects the degree of internationalization as firm behaviour. Top management intention to internationalize is affecting the degree of internationalization because the more willingness of top management to become internationalize, the more likely the company increases its efforts to become international (Nummela, Saarenketo, & Puumalainen, 2004).

While R&D is allocating resources to research for producing the current product in a more efficient way or for producing a totally new product, the intensity of R&D efforts of a company effects the degree of internationalization. If the company allocates more resources to R&D efforts or investments, it is more likely to have competition advantage in the foreign markets, in which it will make sense to become international or increase the degree of internationalization (Filatotchev & Piesse, 2009).

Innovation is very important in business, either for large firms or Small and Medium Enterprises (SME). For large firms, new innovative business development and the ‘training/ educating’ of their organizations on innovation is significant for their firms’ strategic competency (Vanhaverbeke & Peeters, 2005).

The last factor to be analysed is the innovation motivation of the companies. Innovation is the process of making changes, large and small, radical and incremental, to products, processes, and services that results in the introduction of something new for the organization that adds value to customers and contributes to the knowledge store of the organization (Sullivan, 2008).

An important range of literature sources refer to innovation efficiency measurement criteria, which are in most cases related to product/service, process, marketing and organizational innovation.

What method to use in determining the degree of internationalization of an enterprise is also a matter of discussion. The main point that should be emphasized regarding the degree of internationalization is to determine the weight of the work done for foreign markets within the business activities (Cengiz et al., 2007: 7).

The simplest method used for this is to ratio the foreign sales of the enterprise to its total sales. The higher the proportion of foreign sales within the overall sales of the business, the greater the degree of internationalization of the business. Although this measurement is very simple, it has the disadvantage of giving little information about the structure and capacity of the international activities of the enterprise (Mutlu, 2008: 84).

The most common calculation method in measuring the degree of internationalization is DOIINTS developed by Sullivan (1994), by using five indicators: Foreign Sales to Total Sales (FSTS), Foreign Assets to Total Assets (FATA), Overseas Subsidiaries to Total Subsidiaries (OSTS), International

Experience of Top Management (TMIE), and Geographic Dispersion of International Market (PDIO).

$$\text{DOIINTS} = \text{FSTS} + \text{FATA} + \text{OSTS} + \text{TMIE} + \text{PDIO}$$

By calculating DOIINTS, the final score of the company's degree of internationalization should be found. At the end of the calculation, DOIINTS takes a value between 0,00 and 5,00, where 0,00 means that the company has no intention to internationalize, while 5,00 means that the company utmost intention on internationalization.

### **3. Methodology**

This study was carried out to measure the relationship of firm characteristics and degree of internationalization and the mediating effect of international growth strategies of the top 1000 exporting Turkish companies in globalization process. For this purpose, following hypotheses were created and tested:

H1: Firm characteristics have a significant effect on the degree of internationalization.

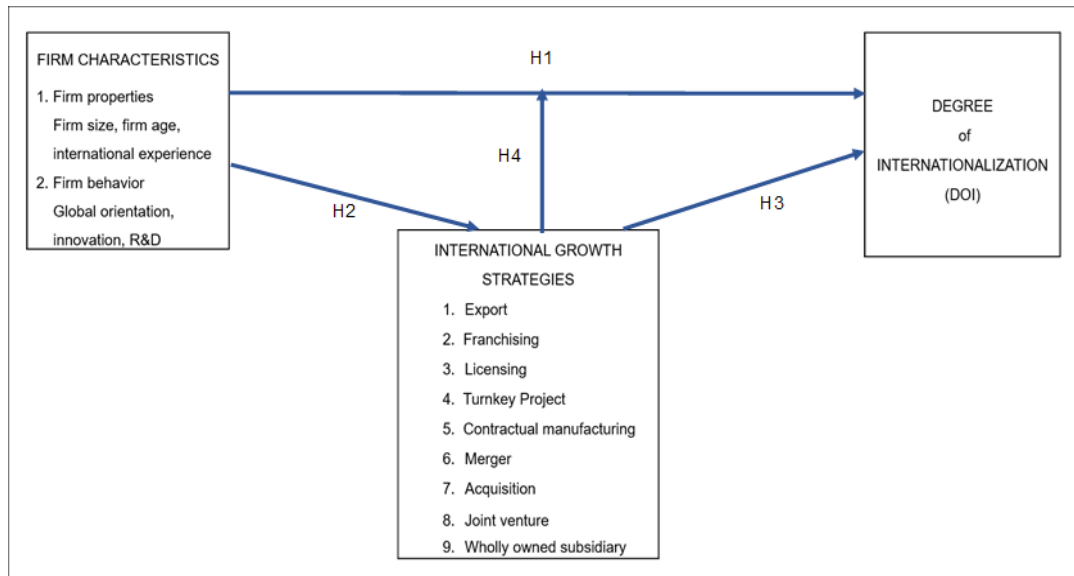
H2: Firm characteristics have a significant effect on the international growth strategies.

H3: International growth strategies have a significant effect on the degree of internationalization.

H4: There is a mediator effect of international growth strategies on the relationship between firm characteristics and degree of internationalization.

The following model has been tested to confirm the research hypotheses. In the model, the independent variable is "Firm Characteristics", the dependent variable is "Degree of Internationalization", and the mediator variable is "International Growth Strategies".

**Figure 1. Research Model**



If the direction and severity of the relationship between firm characteristics and the internationalization degree changes when the mediating variable (international growth strategies) is included in the model; it can be mentioned that international growth strategies have a mediation effect.

Data has been collected by using structured questionnaire which includes separate sections to measure the indicators of each variable within the conceptual framework. The study has been carried out with the top 1000 companies which are listed in 2018 at TİM (Turkish Exporters Assembly).

CATI method has been used with a total of 250 authorized people of exporter companies, listed in TİM (Turkish Exporters Assembly) for year 2018.

CATI (Computer Aided Telephone Interview) is a new technology-accelerated data collection technique that combines telephone, computer, and research experience. CATI method has advantages, because it provides the opportunity to monitor every step of the research online instantly and to follow the quota in the fastest way, to listen to the telephone conversations of the pollsters within the scope of the research, live or on record, to watch the environment where the interviews are held live and allows the supervisor to intervene at any time during the investigation.

In the first stage a questionnaire has been developed according to literature review, then a “Focus Group” of 7 people from Dikkan Group Companies Management are surveyed and accordingly the wording and understandability of the questionnaire has been examined and necessary revisions have been done.

The recommendations of thesis committee members have been taken into consideration and the questionnaire has been expanded and further developed to get a more comprehensive outcome. The revised questions are able to find answers for the process hierarchy, distinction upon the geographical distribution for each international entry mode, and the factors effecting the strategic choice for international growth.

Following to the implementation of the new items and developed questions, a “Focus Group” containing 10 businesspeople from EGIAD (Aegean Young Business Association) where surveyed and the results have been analysed again.

The questionnaire structure has been modified and online questionnaire has been prepared. Questions are shown to other academic instructors to take their advisements. As well the structure is examined by statistical academicians in order to prevent statistical failures at the end of the study.

A new distribution of the latest version has been applied as a “Pilot Study” to 20 exporting companies in Turkey and analysed for successful results. Minor revisions have been made and the questionnaire reached the final ideal offline and online version.

The distribution of the questionnaires has been started to be distributed to the companies which are listed as the Top Turkish 1000 Exporting Companies. Because of some companies who did not share their names or did not participate in the investigation, the total sampling size was 788 companies.

SPSS25 and AMOS21 statistical programs have been used SEM (Structural Equation Modelling) and covariance analysis for testing the model, Correlation and regression for the relationship between variables and Factor analysis, Cronbach Alfa method for validity and reliability tests.

Structural equation modelling (SEM): is a multivariate statistical analysis technique that is used to analyse structural relationships. This technique is the combination of factor analysis and multiple regression analysis, and it is used to analyse the structural relationship between measured variables and latent constructs. This method is preferred because it estimates the multiple and interrelated dependence in a single analysis.

## **4. Findings**

Demographic data of 250 company managers interviewed within the scope of the study are summarized as following:

The educational status of the interviewed people is examined; while 86.8% are graduates, 7.6% are undergraduates, 4.4% are high school graduates and 1.2% are associate degrees.



The experience of the interviewed people in the current sector where the companies' field of activity is analyzed; 33.6% is less than 5 years, 21.6% is 15 years and more, 18.0% is 11-13 years, 17.2% is 8-10 years and 9.6% is working for 5-7 years of experience.

The experience of the interviewed people in their current position is examined; 33.2% has less than 5 years of experience, 22.0% has 15 years and more, 16.4% has 11-13 years, 16.0% has 8-10 years and 12.4% has been working in the current position between 5-7 years.

94.0% of the interviewed people speak English. The most used languages after English are German and Arabic with 8.8%.

The average age of the participants is 37.4 and the standard deviation of the age distribution is 8.21.

The age distribution is analyzed in groups, 39.6% of them are 25-34 years old, 36.8% of them are 35-44 years old, 20.4% of them are 45-54 years old, 1.6% are 18-24 years old and 55-64 years old.

The fields of activity of the companies included in the research are examined; 13.6% is textile and raw materials, 10.0% is automotive industry, 8.4% is ready-to-wear and apparel, 8.0% is steel, 8.0% is iron and non-ferrous metals and 4.8% is operating in the grain, pulses, seeds sector.

The average year of establishment of the companies is approximately 1985. When the establishment years are analyzed in fifty years; 5.6% of companies were established between 1900-1950, 74.8% between 1951-2000 and 19.6% in the last 20 years.

The average operating year of companies abroad is approximately 1995. When the foreign activity years are analyzed in fifty years; 0.8% of companies have been operating abroad between 1900-1950, 66.4% between 1951-2000, and 32.8% have been operating abroad for the last 20 years.

The average export time of companies is approximately 24 years. When the export periods are analyzed in ten-year sections; 12% of companies are between 1-10 years, 32.8% are between 11-20 years, 34.4% are between 21-30 years, 14.4% are between 31-40 years and % 6.4 of them export for a period of 41-50 years.

The average number of employees in companies is 962. When the number of employees is analyzed by size of enterprises, 1.2% between 1-10, 3.2% between 11-49, 3.6% between 50-99, 11.2% between 100-249 and 80.8% employ 250 or more workers.

The average number of employees working in the export departments of companies is 8 people. When the number of employees is analyzed according to the

size classification, 82% of them employ 1-10, 16% between 11-49 and 2% between 50-99.

The average number of foreign employees in the foreign trade processes of the companies is approximately 1 person. While 76% of the companies do not employ foreign workers in foreign trade processes, 10% is 1 worker, 6.8% is 2 workers, 3.6% is 3 workers, the remaining 3.6% is 4 or more employed workers.

The answers given to the questions measuring the reasons for internationalization of the companies and their averages are examined; the most common reasons for internationalization are the positive attitude of the managers towards exports, the company gaining prestige, the profitability in the foreign market, the technology / privileged information advantages of the company, the company's unique product advantage, while avoiding domestic legal regulations at least.

To investigate the hypothesized relationships among the theoretical frames, structural equation modelling analysis was utilized. AMOS 21 package program was used to analyse the structural equation.

There is no evidence that firm properties have a significant effect on Degree of Internationalization. In order not to affect the goodness of fit coefficients positively, the analysis was repeated by removing the firm properties from the model.

According to the empirical findings the hypothesis test results are as following:

1. R&D, global orientation and innovation have a significant effect on DOI.
2. There is no evidence that Innovation, Global Orientation and R&D interacts with international growth strategies IGS1 (Franchising, Licensing, Turnkey Project). However, R&D affects international growth strategies IGS2 (Acquisition, Wholly Owned Subsidiary) at the level of 0.05 significance, which proves that firm characteristics have a significant effect on international growth strategies.
3. International growth strategies have an effect on the DOI and the relationship between IGS and DOI are positive.
4. IGS1 has an effect on DOI but has no relation with Global Orientation, R&D and Innovation. However, IGS1 doesn't mediate the relationship of Global Orientation, R&D and Innovation with DOI.

IGS2 & R&D have an effect on DOI, but not with Firm Characteristics, Global Orientation and Innovation. IGS2 does not mediate the relationship of Firm Characteristics, Global Orientation and Innovation with DOI.

However, there is a mediator effect of IGS on the relationship between firm characteristics and DOI due to the effect of R&D on DOI indirectly, which is determined via IGS2.

The result of the hypothesis testing are reported as following;

H1: Firm characteristics have a significant effect on the degree of internationalization. Accepted.

H2: Firm characteristics have a significant effect on the international growth strategies. Accepted.

H3: International growth strategies have a significant effect on the degree of internationalization. Accepted.

H4: There is a mediator effect of international growth strategies on the relationship between firm characteristics and degree of internationalization. Accepted.

Firm behaviour analysis resulted as following;

1. Global orientation: top management wants to move the company to the international market and sees the world as one big market.
2. Innovation: Product/service & process innovation activities are more important than marketing & organizational innovation.
3. The average of the R&D expenditure is 6.76%. 16,4% of the companies spent 5%; 16% spent 10% and 12,8% spent 1%.

According to the international growth strategy analysis, Export is nearly used by all companies. Followed by Contractual Manufacturing and Wholly Owned Subsidiaries, Joint Venture and Merger is very less.

First practice of companies is Export, followed by Contractual Manufacturing, the least common activities are Acquisition, Joint Venture and Merger with foreign companies.

Efforts and activities spent in firms to increase exports have increased considerably. Contractual Manufacturing and Wholly Owned Subsidiaries efforts are important. The other activities are close and at very low levels.

Degree of Internationalization results are reported as following Foreign Sales to Total Sales (FSTS) is 69%, Foreign Assets to Total Assets (FATA) is 6,6%, Overseas Subsidiaries to Total Subsidiaries (OSTS) is 7,8%, Top Manager's International Experience (TMIE) is 52,8%.

Psychic dispersion examination has been made based on the IGS activities and international operation scores were calculated in 7 regions and the outcome is as following:

1. Export; European Union 88,8% Middle East and North Africa 76,4 %  
Central and South Africa 54,8 %

2. Franchising: European Union 3,4% Other Africa 1,6% Middle East and North 1,2%
3. Licensing: European Union 7,6%, Middle East and North 4,8% Other Africa & Far East 2,8%
4. Turnkey Project: Middle East and North 5,2% European Union 4,4% Other Africa 3,2%
5. Contractual Manufacturing: European Union 23,6% Middle East and North 13,2% North America 9,2%
6. Merger: European Union 2,8% Middle East and North 0,8% North America, Central and South America & Far East 0,4%
7. Acquisition: European Union 1,2% Middle East and North 1,2% Other Africa 0,8%
8. Joint Venture: European Union 5,6% Middle East and North 4,4% Other Africa 1,2%
8. WOS: European Union 11,6% Middle East and North 5,6% North America 3,2%

## **5. Conclusions**

Globalization is the free movement of goods, services and people across the world in a seamless and integrated manner (Friedman, 1999). Due to its impact on all nations and economic organizations, it is inevitable to pass this topic for companies that want to grow in the global market. That's why, it is important to consider the international growth strategies of the companies and determine the road maps used by the leading companies in each country.

However, the growth of the business is related closely with firm characteristics and its behaviours. Firm characteristics such as firm size and firm image with international experience led to make the company more innovative, R&D-motivated and global oriented which results the company to grow and internationalize.

The central goal of this study was to examine the relationship of firm characteristics and the degree of internationalization while analysing the mediating effect of international growth strategies of the greatest 1000 exporting Turkish companies in globalization process.

Within the scope of the research, different focus group studies have been met in order to get a well-designed questionnaire and after a pilot study and recommendations of academicians the distribution and collection has been completed in four months. In order to test the conceptual model of the study a cross-sectional survey was employed and CATI (Computer Aided Telephone Interview) method has been used with a total of 250 authorized people of exporter companies, listed in TIM (Turkish Exporters Assembly) for top 1000 exporters in Turkey in year 2018.

Findings reveal that among the international growth strategies 246 companies used export, 83 of them used contractual manufacturing and 49

companies used wholly owned subsidiaries to entry foreign countries. The international growth strategies were implemented in order as Export, Contractual Manufacturing, Licensing, Turnkey Project, Franchising and Wholly Owned Subsidiaries. On the other hand, the physic dispersion values have been analysed and resulted that international growth strategies are firstly used in European and Middle East at least in Far East countries.

Further findings collected from the questionnaire is that internationalization reasons of the companies are export intension, prestige and profitability. The recommended strategies of the interviewee for companies who want to globalize their firms are Marketing, Quality, Priority to export and R&D. Another outcome is that product/service & process innovation activities are more important than marketing innovation & organizational innovation. R&D has a positive effect on DOI and IGS. Companies expenditure avg. is 6.76%, and the incentives are mainly from the Ministry of Commerce, R&D support and Turquality application.

The result of the hypothesis testing that R&D has a positive effect on international growth strategies and degree of internationalization enlightens every person in the academic area, as well leaders and managers of companies, which are challenging to put forth their business activities in the global economy. This research can also be used as a guide to the developing firms in Turkey for selecting the correct international growth strategy to be successful. Besides, it offers a measurement tool for other studies in other countries.

It is believed that this study will contribute to the literature regarding the relation and interaction between internationalization degrees and growth strategies of the top 1000 exporter companies in Turkey. Besides, the mediating effect of international growth strategies between firm characteristics and degree of internationalization is also a high valued input for the literature gap in this field.

## **6. Limitations and Further Research**

This study explored the firm characteristics, implemented growth strategies and degree of internationalization of the companies which are located only in Turkey and among the top 1000 Exporters in this country. Further research can be applied on other countries and compared with each other. Besides, different categories like manufacturing companies, or sector based, and regional located companies can also be analysed in next stages.

Lastly, the effect of Covid-19 pandemic on international growth strategies and companies' degree of internationalization is also an important factor to be evaluated in future studies.

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