TURKEY

Running a Business in Turkey

New data from Enterprise Surveys indicate that firms in Turkey operate at least as well as the average EU-10‡ firm in terms of external finance and trade. First, the usage and cost of finance in Turkey are among the most favorable in the Eastern Europe and Central Asia (ECA) region. For instance, the value of collateral required as a percentage of the loan amount is the lowest in the region (figure 1). Second, 37 percent of firms export part of their sales, which is the fifth highest percentage in the region. However, the data also show that Turkish firms are more constrained regarding regulations than firms in the EU-10. Senior management spends 27 percent of its time in a typical week dealing with government regulations. This is more than twice the average time spent in ECA countries and almost three times as high as the average in the EU-10. Furthermore, the amount of time spent dealing with government regulations has increased over time.

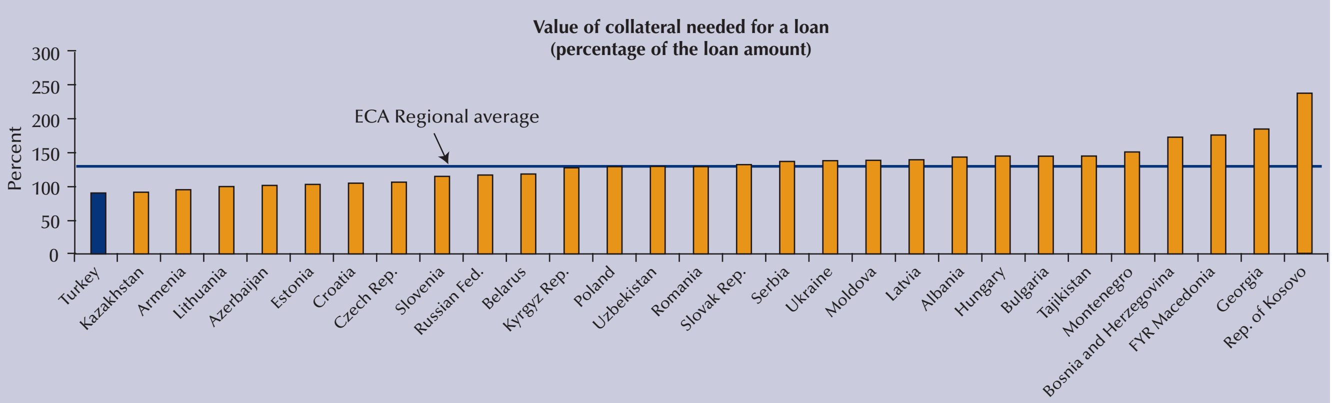
The Enterprise Surveys[1] use standard survey instruments to capture data on the business environment and its effect on competitiveness and firm performance, the relative importance of various constraints to employment and productivity, and the business perceptions of the biggest obstacles to enterprise growth. The survey is designed to be representative of a country's private nonagricultural economy, and firms sampled are stratified by size, location, and sector (figure 2)[2] to ensure that most major types of firms are covered. Only firms with five employees or more are included in the sample. The Turkey Enterprise Survey is a comprehensive firm-level database collected through 1,152 face-to-face interviews between April 2008 and January 2009. The information collected refers to the characteristics of the firm at the moment of the survey, or to fiscal year 2007.

What Is the Average Firm in Turkey?

Firms in Turkey[3] have a very low percentage of foreign ownership—close to one-third of the average in the ECA region. In fact, Turkey ranks second to last among ECA countries in the share of foreign ownership in private firms after Kosovo and followed by Russia. Not surprisingly, firms with more than 10 percent of foreign ownership add up to only 3 percent of all firms.

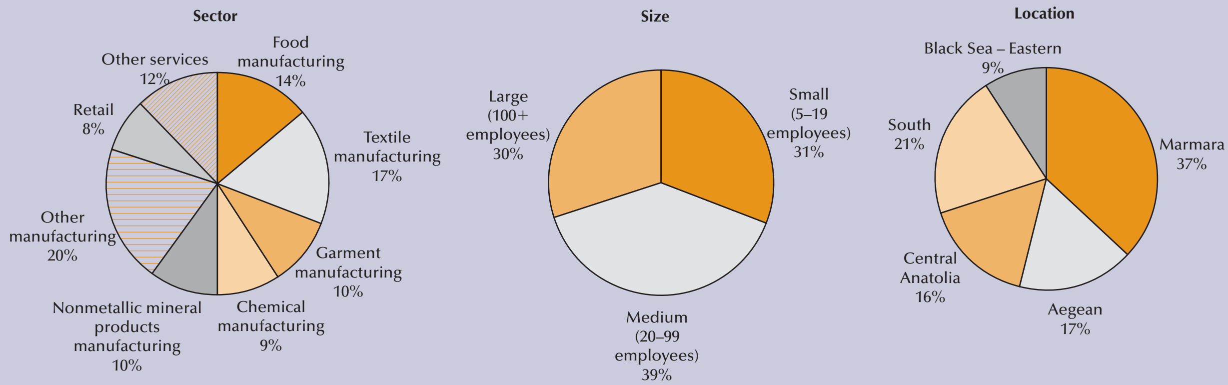
Firms in Turkey are older than firms in the rest of ECA. The average firm in Turkey has been in business for about

Figure 1 Turkish Firms Need Less Collateral Than Elsewhere in the Region



Source: Enterprise Surveys.

Figure 2 Characteristics of the Firms Interviewed



Source: Enterprise Surveys.

16 years (table 2). Moreover, only 8 percent of firms in the sample began operations less than five years ago. Large firms are older: The average age of large firms is 21 years, while small and medium-size firms are close to 16 years. With age comes experience. Turkish firms have more experienced managers, on average, than other countries in the region—36 percent of firms have a top manager with at least 30 years of experience in the firm's sector.

Turkey ranks second to last among ECA countries in the share of foreign ownership in private firms.

On average, firms in Turkey hire more permanent full-time workers than the average firm in ECA or EU-10 countries. However, the distribution of full-time workers is not equally spread among firms. Only 11 percent of firms hire more than 100 full-time permanent workers. Firms that are globally engaged through exporting are more likely to be larger than firms serving only domestic markets. In fact, exporters are nearly 2.5 times as large as

Table 1 How Does Turkey 2008 Compare with Eastern Europe and Central Asia?

Ranking 1 assigned to the largest value	Descending ranking (out of 29 countries)
% of Firms Formally Registered When Started Operations in the Country	26
Private Domestic Ownership (%)*	1
Private Foreign Ownership (%)*	28
Government/State Ownership (%)*	26
% of Firms with Female Participation in Ownership	12
Bank Finance for Investment (%)	2
% of Exporter Firms	5
Domestic Sales (% of Sales)	27
% of Firms with Internationally Recognized Quality Certification	4
% of Firms with Annual Financial Statement Reviewed by External Auditor	4
Capacity Utilization (%)	25
% of Firms Using Their Own Web Site	3
% of Firms Using Email to Communicate with Clients/Suppliers	9
Ranking 1 assigned to the smallest value	**Ascending ranking (out of 29 countries)**
Value of Collateral Needed for a Loan (% of the Loan Amount)	1
Number of Power Outages in a Typical Month	23
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	29
Average Number of Visits or Required Meetings with Tax Officials	12
Incidence of Graft Index **	12
Losses Due to Theft, Robbery, Vandalism, and Arson against the Firm (% of Sales)	15

Source: Enterprise Surveys.

Table 2 The "Average Firm" in Turkey 2008

	Turkey	ECA†	EU-10‡
Age (years)	16.3	14.0	14.1
% of Firms Formally Registered When Started Operations in the Country	94.1	96.8	98.7
Most Common Legal Form	Closed Shareholding Co.	Closed Shareholding Co.	Closed Shareholding Co.
Private Domestic Ownership (%)*	97.6	91.3	90.2
Private Foreign Ownership (%)*	1.9	6.2	7.5
Government/State ownership (%)*	0.1	1.2	0.5
% of Firms with Female Participation in Ownership	40.7	36.7	39.1
% of Firms with Female in Top Management Position	12.4	19.1	22.7
Experience of the Top Manager (years)	23.6	16.1	17.1
Average Number of Temporary Workers	1.7	5.7	3.4
Average Number of Permanent, Full-Time Workers	64.8	44.0	37.3
% of Full-Time Female Workers	24.9	38.7	40.5

Source: Enterprise Surveys.

nonexporting firms, as measured by size of their workforce.

Female participation in the workforce is low compared to the rest of the region, but with significant differences across regions and firm types. Half of the firms in the manufacturing sector have less than 16 percent female participation in their full-time workforce. Within Turkey, the region with the highest percentage of full-time female workers is the Marmara region, at 29 percent. The region with the lowest percentage is the South region, at 18 percent. Interestingly, the Central Anatolia region has the highest female participation in ownership at 47 percent and among the lowest female participation in workforce at 20 percent. Moreover, female participation in ownership varies significantly across firm size (figure 3).

Female ownership does not imply female participation in management. In fact, female participation in top management positions is much less common than female participation in ownership. There are also sectoral differences worth noting: In the manufacturing sector only 8 percent of firms have a female top manager, while in the service sector (excluding retail) three times as many firms have a female top manager.

How Do Businesses Operate in Turkey?

The use and cost of financing for the average firm in Turkey are among the most favorable in the ECA region: The average firm gets 38 percent of its investment financing from banks, which is 14 percentage points above the regional average (table 3). In fact, on this indicator, Turkey ranks second highest among all ECA countries.

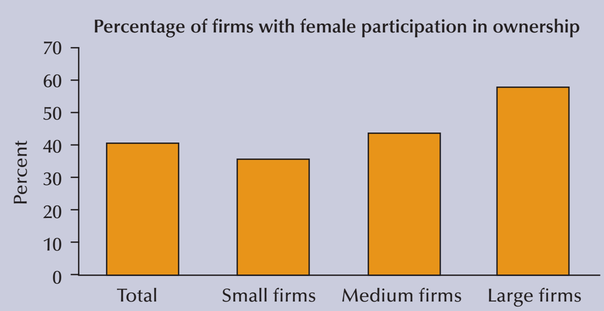
Both the amount of collateral needed and the frequency with which collateral is requested from Turkish firms are among the lowest in the region. First, when it comes to securing a loan, the average firm in Turkey needs to provide 90 percent of the loan value as collateral. This is the lowest value of collateral needed to secure a loan among the 29 ECA countries (table 1). However, collateral requirements also vary considerably across regions within the country (figure 4). Second, the percentage of loans requiring collateral is low in comparison to the rest of the region. Turkey is ranked fourth in this indicator. Only Slovenia, Serbia, and Poland have smaller percentages of loans that require collateral.

Collateral requirements are more demanding for medium-size firms. These firms typically have to provide more collateral as a percentage of loan value than small and large firms (104 percent for medium-size firms versus 83 percent and 82 percent for small and large firms, respectively). Furthermore, the percentage of loans requiring collateral is also higher for medium-size firms than for large firms. Unsurprisingly, 36 percent of medium-size firms identified access to finance as their main obstacle to firm operations compared to roughly 22 percent of small and large firms.

Collateral requirements are more demanding for medium-size firms.

In Turkey, the percentage of firms exporting is fifth highest in the ECA region. The distribution of sales across market destination varies by size. Only 3 percent of small firms

Figure 3 Female Ownership Is More Common in Large Firms



Source: Enterprise Surveys.

Table 3 Choices by the "Average Firm" in Turkey 2008

	Turkey	ECA†	EU-10‡
Internal Finance for Investment (%)	56.0	62.2	62.3
Bank Finance for Investment (%)	38.5	23.8	26.7
Value of Collateral Needed for a Loan (% of the Loan Amount)	89.9	132.8	124.6
Loans Requiring Collateral (%)	65.1	81.1	74.3
% of Firms with a Checking or Savings Account	90.6	88.9	85.2
% of Exporter Firms	36.9	21.8	28.3
Domestic Sales (% of Sales)	82.8	91.0	88.6
Sales Exported Directly (% Sales)	10.4	7.0	9.2
Sales Exported Indirectly (% Sales)	6.8	2.0	2.2
Sales That Are Prepaid (%)	14.5	22.9	10.9
Sales Sold on Credit (%)	65.8	49.4	66.5
% of Firms with Internationally Recognized Quality Certification	30.0	19.9	25.6
% of Firms with Annual Financial Statement Reviewed by External Auditor	54.9	37.9	38.7
Capacity Utilization (%)	65.1	73.7	81.3
% of Firms Using Their Own Web Site	74.9	48.5	63.4
% of Firms Using Email to Communicate with Clients/Suppliers	88.7	73.2	88.5

Source: Enterprise Surveys.

sell more than 50 percent of their output as direct exports, whereas 15 percent and 17 percent of medium and large firms, respectively, export directly more than 50 percent of their output. Exporters and nonexporters are different along dimensions other than firm size. For instance, 70 percent of exporters use foreign inputs, while only 44 percent of nonexporters do the same. Furthermore, the average exporter in Turkey buys a higher percentage of its inputs from outside the country than the average nonexporter (27 percent versus 19 percent of inputs are of foreign origin).

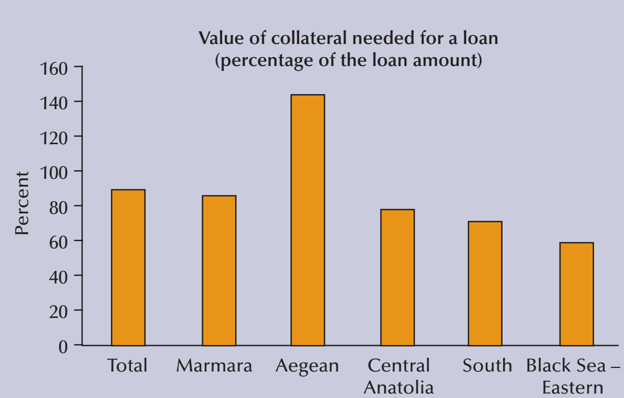
Senior management spends a large proportion of its time dealing with government regulation.

Turkish firms have more access to technology than most firms elsewhere in the ECA region. First, the percentage of firms with their own Web site is high in both the manufacturing and the retail sectors. Among the 29 countries in ECA, Turkey has the third highest percentage of firms with their own Web site (following Slovenia and the Czech Republic). Not surprisingly, medium and large firms are more likely to have their own Web site than small firms. Second, compared to the average firm in the ECA region, Turkish firms are more likely to have an internationally recognized quality certification and to have their financial statements reviewed by an external auditor. In fact, Turkey is ranked fourth highest among ECA countries on both of these indicators. Nevertheless, Turkish firms in the manufacturing sector have low capacity utilization when compared to the rest of the ECA region.

What Constrains Firms in Turkey?

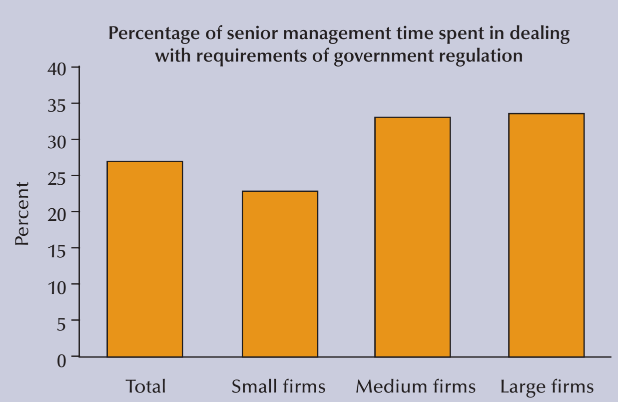
One of the most striking findings of the survey is that senior management spends a large proportion of its time dealing with government regulation (table 4). In Turkey this

Figure 4 Collateral Requirements Are Higher in the Aegean Region



Source: Enterprise Surveys.

Figure 5 More Cumbersome Regulation for Medium and Large Firms



Source: Enterprise Surveys.

Table 4 Constraints on the "Average Firm" in Turkey 2008

	Turkey	ECA†	EU-10‡
Number of Power Outages in a Typical Month	5.7	5.8	2.5
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	27.1	10.6	9.5
Average Number of Visits or Required Meetings with Tax Officials	1.3	1.7	1.1
% of Firms Expected to Pay Informal Payment to Public Officials (to Get Things Done)	17.7	16.8	7.4
Incidence of Graft Index**	5.7	9.9	4.7
Losses Due to Theft, Robbery, Vandalism, and Arson against the Firm (% of Sales)	0.4	0.5	0.4
% of Firms Paying for Security	46.1	57.7	62.0

Source: Enterprise Surveys.

amounts to more than twice the average time spent in all ECA countries. In this indicator Turkey ranks last in the region. In around 45 percent of firms, managers spend more than 10 percent of their time dealing with government regulations. The amount of time spent dealing with regulations varies across different regions within Turkey and firm sizes. In the Aegean region managers spend 36 percent of their time dealing with regulation, whereas in the Marmara region they spend 29 percent of their time on such tasks, and in the South Anatolian region only 19 percent. Senior managers of medium and large firms spend 10 percentage points more of their time than managers of small firms dealing with regulation (figure 5).

Bank financing has become an increasingly important source of funding in Turkey.

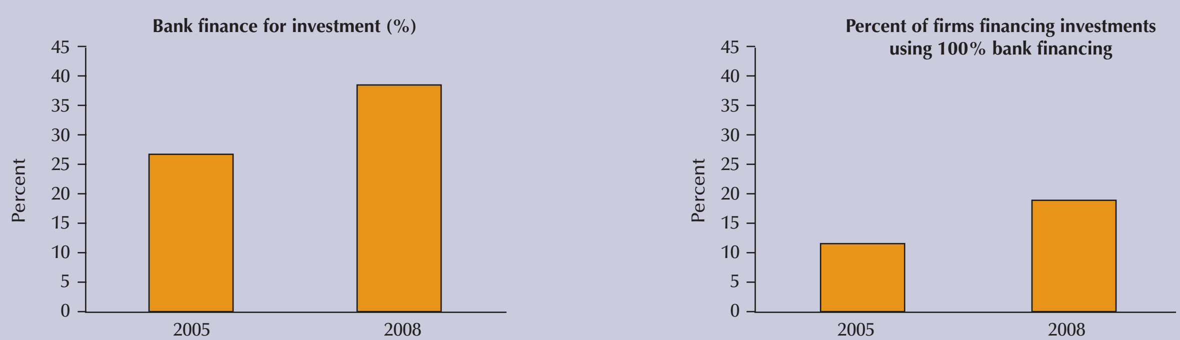
Electricity failures are another constraint for Turkish firms. In a typical month there are on average six power outages, more than twice the number of outages in EU-10 countries. Among 29 ECA countries, Turkey ranks 23rd—only 6 countries report more outages. The country experiences slightly more outages than Kazakhstan (5.2 outages) and fewer outages than Uzbekistan (6.3 outages). The duration of the outages varies across regions of the country. The Marmara region experiences an average power outage duration of 5.5 hours. The South region has the shortest duration of outages—a mere 1.3 hours. Outages last longer in the manufacturing sector than in retail and other service sectors, 5.7 and 2 hours, respectively. However, despite the long average duration of power outages in the manufacturing sector, over 70 percent of firms experienced two hours or less of power outage duration.

Another important constraint for Turkish firms is security. Security has been a more serious concern for domestic firms than for foreign-owned firms. Security expenses measured as a percentage of total sales were three times as high for purely domestic firms as for firms with foreign ownership.

How Has the Business Environment Changed over the Past Three Years?

The Enterprise Surveys data provide the tools to monitor business environment progress across different rounds of surveys. By looking at the answers provided by 425 firms interviewed in both 2005 and 2008, we can assess how businesses have changed over these three years.[4] Since the same firms are interviewed over time, this subset of data is more appropriate to evaluate the evolution of the busi-

Figure 6 Increasing Usage of Bank Financing in Turkey in the Manufacturing Sector



Source: Enterprise Surveys.

ness environment and the impact of business environment reforms than the full datasets for both years. The use of the full datasets would introduce effects that are the result of variations in the sample composition over the two years.[5] Therefore, the following analyses refer only to those firms that were interviewed in both rounds of surveys.

When compared to 2005, Turkish firms performed better in at least three areas in 2008: size, bank financing usage, and exporting activity. First, firms are growing; among the firms interviewed in 2005 and 2008, the average size of manufacturing firms grew by 15 percent. Second, bank financing has become an increasingly important source of funding in Turkey. In the manufacturing sector, the use of bank financing for investment has increased by over 40 percent since 2005 (figure 6). Furthermore, the percentage of manufacturing firms that financed purchases of fixed assets using exclusively bank financing has more than tripled since 2005. The use of internal funds to finance fixed-asset purchases has not changed significantly. Third, the results of the survey for firms assessed in both rounds show that the share of large firms that export increased from 2005 to 2008. This may be the result of a customs modernization project that Turkey implemented during this period as described in the *Doing Business 2008* report.

However, the amount of time spent dealing with government regulations increased over time. In the manufacturing sector, it has more than tripled since 2005. A more detailed analysis of this constraint shows that the increase is high for all firms regardless of size. Furthermore, the increase in time spent dealing with regulations is not exclusive to exporting or foreign-owned firms that are more exposed to regulations; nonexporters and domestically owned firms also experienced a three-fold increase in time spent on dealing with regulations since 2005.

Despite improvements in the business environment over time as described above, firms in Turkey are still constrained by the regulatory burden. Streamlining regulatory requirements as well as improving the electricity infrastructure may result in a more productive and efficient private sector. With regard to most of the indicators on firm characteristics and operations, Turkish firms are already fairly in line with the EU-10 average. With improvements to the business environment, they may even fare better than firms in the EU-10.

Notes

1. The Enterprise Surveys, when implemented in Eastern Europe and Central Asia countries, are also known as Business Environment and Enterprise Performance Surveys (BEEPS) and in this region are conducted jointly by the World Bank and the European Bank for Reconstruction and Development.

2. This figure presents the unweighted distributions by size, sector, and location of the firms interviewed without any inferences to the whole economy. South region includes Adana, Gaziantep, and Kahramanmaras city; Black Sea-Eastern includes Erzurum, Malatya, Samsun, and Trabzon city.

3. The term "Average Firm" is used to convey the average firm characteristics from the Turkey 2008 Enterprise Survey. The sample of firms interviewed is representative of the manufacturing and services sectors of the economy. For more information on the survey methodology please consult http://www.enterprisesurveys .org/Methodology/.

4. The information collected in 2005 refers to the characteristics of the firm at the moment of the survey or to fiscal year 2004.

5. The firms surveyed in both years may not be representative of the Turkey's private nonagricultural economy since these are a subset of the full sample. Firms with fewer than five employees may be included among the firms surveyed in both years. The analysis presented is purely descriptive and does not aim at establishing causality between reforms and their intended effects.

* The ownership variables represent the average ownership composition within a firm. These variables do not represent the ownership composition across firms.

** Incidence of Graft Index is the proportion of instances in which firms were either expected or requested to pay a gift or informal payment over the number of total solicitations for public services, licenses or permits for that country. The Graft Index is defined in Gonzalez, Alvaro S., Ernesto Lopez-Cordova, J., and E. Valladares, Elio, The Incidence of Graft on Developing-Country Firms. World Bank Policy Research Working Paper Series, 2007.

† ECA includes Albania 2009, Armenia 2009, Azerbaijan 2009, Belarus 2008, Bosnia and Herzegovina 2009, Bulgaria 2009, Croatia 2009, Czech Republic 2009, Estonia 2009, Georgia 2008, Hungary 2009, Kazakhstan 2009, The Republic of Kosovo 2009, Kyrgyz Republic 2009, Latvia 2009, Lithuania 2009, FYR Macedonia 2009, Moldova 2009, Montenegro 2009, Poland 2009, Romania 2009, Russian Federation 2009, Serbia 2009, Slovak Republic 2009, Slovenia 2009, Tajikistan 2008, Turkey 2008, Ukraine 2008, and Uzbekistan 2008.

‡ EU-10 includes 2009 data from Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia.

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