



Political Risk Analysis

- Turkey -

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Abstract

In this report, I will examine the pros and cons for the North American based company Smart Technologies to continue with Foreign Direct Investment (FDI) into the Turkish Education Market. There have been many studies done on the impact of country and political risk on FDI. The majority of these studies, such as one conducted by the *Economic Research Institute for ASEAN and East Asia*, show a strong correlation as countries with low political risk often have higher FDI inflows.¹

I will explore the numerous components of political risk in Turkey including government stability, socioeconomic conditions, investment profile, internal & external conflict, corruption, military in politics, religious and ethnic tension, law and order, democratic accountability, and bureaucracy quality. These political risks are defined by the International Country Risk Guide (ICRG), which monitors many developed and emerging markets. In addition to political risk, the ICRG identifies financial risk components of the countries they evaluate and monitor. With the political (societal) and financial factors determined by ICRG, they assign a scale to varying factors within each component of consideration. They assign ten points to a variety of components, so they can give a precise quantitative assessment of the political and financial risk of a country. All of these factors must be considered when determining whether to invest in Turkey and more specifically, the Turkish education market.

Industry Overview – Turkish Education Market

Technology has always played an important role in moving toward educational progress in Turkey. The Ministry of National Education (MONE) holds the responsibility of ensuring and promoting such progress in the education system. The general objectives of MONE are to increase student achievement and quality of learning and teaching, to improve teachers' professional qualifications, to increase the productivity of the use of resources, and to encourage the efficient use of technology in education.² For the purposes of this political risk analysis, we

¹ Hayakawa Kazunobu, Kimura Fukunari, and Hyun-Hoon Lee, "How Does Country Risk Matter for Foreign Direct Investment?," Accessed Jan. 1, 2013

² Buket Akkoyunlu, "Education Technology in Turkey: Past, Present and Future," Accessed Dec. 23, 2012

especially care about how the advancement of technology in the classroom has been promoted in Turkey.

In the 1980's, the Turkish government (through MONE) placed a special emphasis on the utilization of computers in schools. In 1984, computers first came into use in the Turkish Education System. Between 1985 and 1987, a total of 2,400 computers were purchased for secondary and vocational schools. In-service computer training was given to 225 teachers, and the use of computers was integrated into the core curriculum. The movement of technology into Turkey's education system continued in 1995, when educational software was produced for geography, history, Turkish, and science. In Turkey, MONE declared that their policy is to meet the national need for "catching up with the age of technology."³

Currently, the Ministry of education in Turkey is determined to improve access to technology in Turkish schools. They plan on carrying out a major initiative, titled the Movement to Increase Opportunities and Technology (FATIH) project. As part of this project, several high schools around the country have been equipped with smart boards, and 12,800 tablet PCs and the interactive PCs have been distributed in 52 schools within the pilot program. Once this project is finalized, the technology is expected to be used in 570,000 classrooms in 42,000 schools all around Turkey. According to the government's plans for this initiative, teachers will be able to instantly access any document they may need for their class and be able to project it on the interactive smart board.⁴

Company Overview – Smart Technologies

Smart Technologies, Inc. (SMART) is a "leading provider of collaboration solutions that changes the way the world works and learns."⁵ They are a company incorporated in 1987 that seeks to stir innovation in the classroom and meeting rooms globally. Their education product lines include SMART Board interactive whiteboards, projectors, interactive learning centers, classroom software, and classroom audio amplification systems.

³ "Educational Technology in Turkey," Accessed Dec. 23, 2012

⁴ "Turkey Launches Ambitious FATIH Project in Public Education," <http://www.todayszaman.com/>, Accessed Jan. 4, 2013

⁵ SMART Technologies, "SMART Wins Large Education Tender in Turkey," <http://www.smarttech.com/>, Accessed Dec. 23, 2011

They have had tremendous global success in recent years, with their SMART board technology being used by over 40 million students and their teachers in more than 175 countries. They attribute their global success to the results educators have received using their products in the classroom. The company is the pioneer and leader in the interactive white board market, creating the world's first interactive whiteboard in 1991.⁶

Smart Technologies recently announced that the private education group FEM, has chosen SMART for a large scale installation of over 5,000 SMART Board interactive white boards in Turkey. This was completed in the fall of 2012, and the FEM group aims to install an additional 2000 interactive white boards in the coming months.⁷ This installation in Turkey represents SMART's continued growth in the Europe, Middle East, and Africa region. Their products, according to their official web site, are sold through a "global network of fully trained authorized resellers." These resellers help educational institutions and businesses in places such as Turkey decide upon the most appropriate SMART product for their need.⁸

Political Risk Analysis – Turkey

Government Stability

The leading indicators of government and political stability are the nation's level of democracy, regime durability (years since regime change), restrictions on civil and political rights, restrictions on press freedom, and the level of corruption.⁹ In evaluating these factors for Turkey, I found that Turkey is currently a secular democracy with a majority Muslim population. Its current Constitution was adopted in 1982, and it provides for a parliamentary form of government that includes a president, a prime minister and cabinet, and a legislature called the Grand National Assembly. The charter documents that makes up the Constitution protects state institutions against criticism and attack from its citizens but does not provide for full freedom of speech and other basic rights.¹⁰

⁶ SMART Technologies, <http://www.smarttech.com/>, Accessed Dec. 29, 2012

⁷ SMART Technologies, "SMART Wins Large Education Tender in Turkey"

⁸ SMART Technologies, <http://www.smarttech.com/>

⁹ Susan Ampleford, David Carment, George Conway, and Angelica Ospina, "Country Indicators for Foreign Policy," Accessed Dec. 23, 2012

¹⁰ *The World Book Encyclopedia*. Vol. 19. Chicago: World Book, 2007. Print.

In the last decade, Turkey has benefitted from a much more stable, single-party government that has helped them with stability. However, a long time single party government (the Justice and Development Party), has led to concerns about the lack of government opposition in Turkey. In a democratic state, opposition is widely viewed as a good thing because it keeps the pressure on the government and the policy makers that is necessary for further development in Turkey.¹¹

Socioeconomic Conditions

The ICRG risk rating for socioeconomic conditions is a rating that considers three components: unemployment, consumer confidence, and poverty. These factors are essential because these rate the potential pressures at work in society that could cause social dissatisfaction and lead to government action.¹²

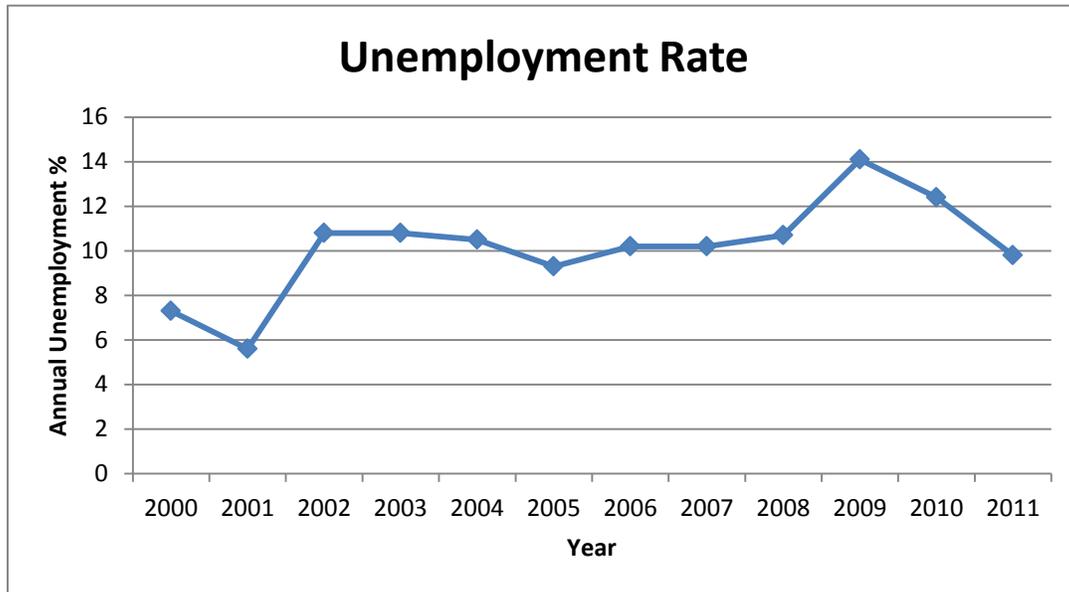
The 2011 unemployment rate for Turkey was at an estimated 9.8%. In 2010, it was estimated at 12%.¹³ Turkey has a population of 75 million and a labor force of over 27 million, which ranks them as the 4th largest labor force in relation to European Union (EU) countries.¹⁴ For 2012, Turkey has reached its lowest unemployment level in 11 years, according to the Statistics Institute *TurkStat*. During the month of June, unemployment was reported at 8%, with a total of 676,000 new jobs created. The recent unemployment rates and the fluctuations in unemployment in recent years are captured graphically below.

¹¹ Weak political opposition impedes further political development in Turkey,” <http://www.todayszaman.com/>, Accessed Jan. 1, 2013

¹² “How Does Country Risk Matter for Foreign Direct Investment?” Accessed Jan. 1, 2013

¹³ CIA World Factbook, “Middle East: Turkey,” <http://www.cia.gov/>, Accessed Nov. 28, 2012

¹⁴ “Demography and Labor Force,” Invest in Turkey. <http://www.invest.gov.tr/>, Accessed Jan. 3, 2013



This chart illustrates the relative steady level of high unemployment in Turkey over the past decade. There is a period of about six years, from 2002 – 2008 in which the unemployment rate hovered around 10%. The unemployment rate went on average as high as 14.1% for 2009, and as low as 5.6% in 2001.¹⁵

As of November, 2012, Turkey has a Consumer Confidence Index (CCI) of 89.2.¹⁶ Simply put, this number is an indicator of how optimistic consumers are about the future state of the economy. This has a likely effect on consumers’ purchasing decisions and their spending and saving decisions. For perspective, consider that the United States has averaged a CCI of 93.03 from 1967 until 2012.¹⁷ Turkey is an emerging market with consumer confidence in the ballpark of a developed nation such as the United States.

Investment Profile

The risk component “Investment Profile” considers the viability of contracts, any potential delays of payment, and repatriation of profits. The enforcement of contracts is essential to the development of business relationships. With effective and efficient contract enforcement

¹⁵ “Turkey-Population-Historical Data Graphs per Year,” <http://www.indexmundi.com/>, Accessed Dec. 20, 2012

¹⁶ Tukiye Cumhuriyet Merkez Bankasi, “Consumer Confidence Index November/2012,” Republic of Turkey Turkish Statistical Institute, Accessed Jan. 2, 2012

¹⁷ “United States Consumer Confidence,” <http://www.tradingeconomics.com/>, Accessed Dec. 21, 2013

firms are more likely to engage with new customers, and have greater access to credit. According to the *Doing Business 2012* report by the World Bank, enforcing a disputed contract in Turkey requires 36 procedures, takes 420 days, and costs 27.9% of the value of the contract claim. For perspective, consider that Turkey stands at 51 in the ranking of 183 economies in terms of the ease of enforcing contracts.¹⁸

The sum of profits repatriated between 1990 and 2002 reached a total of \$3.1 Billion. Profit repatriation continued after 2002 because of the increasing foreign bank participation in the Turkish banking system through the acquisition of domestic banks. The total profit repatriation totaled \$8.7 billion between 2003 and 2008. In 2007 and 2008, the repatriation of profits and dividends from Turkey rose by 87 and 22 percent, respectively. It is expected that this upward trend will continue in the coming years as foreign banks transfer their profits to home countries.¹⁹ There is currently no limitation for repatriation of profits in Turkey, unless the company is monitored by an upper supervisory board (i.e. The Capital Market Board or the Banking Regulatory and Supervisory Board). In these cases, it would require the board's approval. For the most part, foreign investors in Turkey are free to transfer dividends and profits to abroad, in accordance with Turkey's Foreign Direct Investment Law.²⁰

Internal & External Conflict

In assessing Turkey's internal conflict, we should consider the threat of terrorism, political violence, and civil disorder. External conflict measure is an assessment of the risk to the incumbent government from foreign action. This rating is broken in the following subcomponents: war, cross-border conflict, and foreign pressures.

Currently, there are several conflicts going on in Turkey. One of the most significant is their engagement in armed conflict in Afghanistan. Turkey has armed forces in Afghanistan for a number of reasons. According to the *Turkish Weekly* journal, these reasons include Turkey's

¹⁸ "Doing Business in a More Transparent World," The World Bank, Dec. 20, 2012

¹⁹ Yasemin Yalta, "Uncovering the Channels Through Which FDI Affects Current Account: The Case of Turkey," Department of Economics TOBB University of Economics and Technology, Accessed Jan. 1, 2013

²⁰ "Transfer of Dividends Outside Turkey," <http://www.inlawco.com/>, Accessed Jan. 4, 2013

historical ties to Afghanistan, the lack of stability in Afghanistan, and Turkey's international responsibility to provide support to that area of the world.²¹

The relationship between the Turkish and Afghan people has always been strong, evidenced by the Afghan volunteers standing by the Turks during times of difficulty such as during Turkey's independence war. This strong bond between the two allies leaves Turkey with a responsibility to help the growth of Afghanistan. While in Afghanistan, Turkey has trained more than one thousand Afghan soldiers, and has helped their country grow in the areas of agriculture and vocational training. Furthermore, the Turkish have provided a lot of financial aid to Afghanistan, and have helped them by building hospitals, schools, roads, bridges, and water channels. Though only a few Turkish soldiers have actually been killed in Afghanistan, the war more closely resembles an internal conflict, as the Turkish are divided on whether their presence in Afghanistan is merited.²²

In addition, there is a major conflict in Turkey with the Partiya Karkerên Kurdistan (PKK), or Kurdish Workers' Party. The Kurdish is a group of people that make up an ethnic minority of about 15% of the Turkish population. Recently, they have been fighting for Kurdish independence and hoping for greater improvement of right for Kurdish people in Turkey including the right to teach their language in schools.²³ According a recent report on CNN, the war with the Kurdish has escalated over the past year, reaching much higher death tolls over the past year. The International Crisis Group, a conflict resolution organization group, revealed to CNN "Turkey's Kurdish conflict is becoming more violent, with more than 700 dead in fourteen months, the highest casualties in thirteen years."²⁴ Most of the war has taken place in southeastern Turkey, though the Turkish government has periodically launched ground assaults and air strikes on PKK camps along the northern borders of Turkey.²⁵ Below you will find a population distribution map of the Kurdish population.

²¹ Ihsan Bal, "Why is Turkey in Afghanistan?" <http://www.turkishweekly.net/>, Accessed Dec. 12, 2012

²² "Why is Turkey in Afghanistan?" Accessed Dec. 12, 2012

²³ "Turkey – Current Conflicts," <http://www.geneva-academy.ch/>, Accessed Dec. 29, 2012

²⁴ Ivan Watson and Yesim Comert, "Report says Turkey's Kurdish conflict has turned more violent," <http://www.cnn.com/>, Accessed Jan. 3, 2013

²⁵ "Turkey – Current Conflicts," Accessed Dec. 29, 2013



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Corruption

There is empirical evidence that suggests that corruption permeates many of Turkey’s key sectors. The Global Corruption Barometer (GCB) is a tool utilized by the organization *Transparency International* to measure corruption in countries around the world. According to GCB data from 2010, public administration, education, and the private sector are most affected by corruption.

Turkish politicians have recently been vocal about combatting corruption, which has resulted in the signing of numerous international anti-corruption conventions. In 2002, the government adopted the “Action Plan on Increasing Transparency and Enhancing Good Governance in the Public Sector.”²⁷ This plan includes disciplinary actions against public officials involved in corrupt activities. In February 2010, the government of Turkey launched a strategic plan on reducing corruption in Turkey that focused on enhancing transparency in business. According to the GCB, 57% of people believe that from 2007-2010 the level of corruption in Turkey has increased, while only 26% believe it has decreased. With this revelation, it is surprising to find out that GCB shows that the majority (59%) of people believe that the government’s efforts to fight corruption has been effective.²⁸ This dichotomy illustrates that the government recognizes the increasing need to combat corruption and they are certainly acting appropriately.

²⁶ Dimitris Rapidis, “Turkey in 2030,” <http://www.rapids.blogactiv.eu/>, Accessed Dec. 20, 2012

²⁷ Marie Chene, “Overview of Corruption and Anti-Corruption in Turkey,” Transparency International, Accessed Dec. 29, 2012

²⁸ <http://www.transparency.org/>

Military in Politics

The role of the military of Turkey has always been to guarantee the republic's Constitution. Historically, the Turkish military and its officers have not backed down from the government and have shown the willingness to intervene in the political process. In 1960, for example, the senior officers in the Turkish military perceived that the government policies were deviating from the Kemalism (secularism) principles. Thus, the military overthrew the elected government and set up a military regime. In 1971 and 1980, the military again intervened for similar reasons. A brief look at history will show the Turkish military has been willing to step into the political process if the government or political process veered from their constitutional principles.²⁹

The military's role in politics is evident today in the ongoing conflicts with the Kurdish people, as discussed earlier in this report. According to the news source *East Day*, Turkey's intelligence services have "launched fresh talks with jailed Kurdish leader Abdullah Ocalan in order to disarm the outlawed Kurdish Workers' Party (PKK)." The National Intelligence Organization officials met with Ocalan on December 23, 2012, pleading with the PKK to lay down their weaponry.³⁰

Religious and Ethnic Tension

Turkey is predominantly Muslim, with approximately 99.8% of the population identifying themselves as Muslim.³¹ Although the majority of the Turkish are Muslim, Turkey considers themselves be a secular nation. In the past several years, religious tensions have been growing in Turkey as the nation has struggled with managing its long Islamic tradition with its current secular state.³²

This religious tension has been evident in the divisive attitudes toward education in Turkey. Although Turkey is a secular country, the government has recently started turning secular schools into religious institutions under controversial education reforms, according to a

²⁹ John Pike, "Political Role of the Military," <http://www.globalsecurity.org/>, Accessed Dec. 22, 2012

³⁰ "Turkish Gov't Launches Fresh Talks with PKK Leader," <http://english.eastday.com/>, Accessed Jan. 3, 2013

³¹ "Turkey Demographics Profile 2012," <http://www.indexmundi.com/>, Accessed Jan. 3, 2013

³² Rosemary Pennington, "The Tensions Between Islam and Secularism in Turkey," <http://www.muslimvoices.org>, Accessed Dec. 28, 2012

recent Turkish news report. One school of thought says that Islam should be taught in schools because the majority of the students come from Muslim families. However, since Turkey is a self-proclaimed “secular nation,” many believe that religious education should take place in homes and not in the schools.³³

As of 2008, there are two primary ethnic groups: the Turkish (70 – 75%), and the Kurdish (18%).³⁴ As I discussed in the “Internal & External Conflict” section of this political risk analysis, the primary ethnic tension in Turkey exists between the Turkish government and the Kurdish population. According to a recent CNN report, the Turkey-Kurdish conflict has been Turkey’s longest and deadliest ethnic conflicts. The conflict has resulted in more than 30,000 deaths, and has continued with recent violent riots and protests by the Kurdish population.³⁵

Law and Order

The judiciary system of Turkey has undergone recent reforms, in an attempt by the Turkish government to attract investment into Turkey. The National Judiciary Network project, overseen by the Ministry of Justice, is speeding up the processing of commercial court cases by facilitating the sharing of documents and court records, and allowing for suits to be filed online. The Turkish government has also improved foreign investors’ access to judiciary alternatives, such as legal and alternative dispute resolution mechanisms supported by the U.S., the European Union, and the World Bank.³⁶

The United Nations Special Rapporteur on the Independence of Judges and Lawyers, Gabriela Knaul, remarked, “Turkey’s recent judicial reforms package bring improvements, in principle, to the judicial system but that should only be seen as a first step to effectively safeguard the independence and impartiality of judges, prosecutors, and lawyers.” She made these statements in 2011, after making a visit to the country, paying particular attention of the issue of justice, guarantees of a fair trial, and the availability of a legal defense and the legal profession. She continued, “In a democratic state, based on the rule of law, an independent and

³³ Dorian Jones, “Schools increasingly religious in Turkey,” <http://www.dw.de/>, Accessed Dec. 12, 2012

³⁴ “Turkey Demographics Profile 2012,” Accessed Jan. 3, 2013

³⁵ Ivan Watson and Gul Tuysuz, “Turkey police crack down on Kurds,” Cable News Network, <http://www.cnn.com/>, Accessed Dec. 28, 2012

³⁶ “2012 Investment Climate Statement – Turkey,” U.S. Department of State, <http://www.state.gov/>, Accessed Jan. 4, 2013

impartial judiciary is a fundamental guarantee for the society as a whole." In theory, the court system should be impartial and fair as guaranteed by the Constitution. This, however, does not mean this is true in reality as she notes that the relationship between judges and prosecutors in Turkey (among other things) raises concerns about the impartiality of the Turkey's judiciary system.³⁷

Democratic Accountability

Democratic accountability is simply a measure of how responsive a government is to its people. In the case of Turkey, there is evidence that the Democratic system in Turkey is flawed. Turkey is labeled a "hybrid regime" by the Economic Intelligence Unit (EIU) in their yearly publication of the Democracy index. This title reveals the state of the Turkish democracy as being somewhere between having an authoritarian regime and a full democracy. This democracy index provides an overview of the Democratic state of 165 countries, including Turkey. The EIU rates each country on the various aspects of a democracy, including the electoral process, political participation, political culture, and civil liberties. In their 2011 publication, Turkey received an overall score of 5.73 (out of 10). This ranks Turkey 88th out of 167 countries. In reviewing how they scored on the various aspects of democracy, they received a 7.92 for the electoral process, 3.89 for political participation, 5.0 for political culture, and 4.71 for civil liberties.³⁸ Perhaps the most important indicator of Democratic Accountability is political participation, which is the category that Turkey received its lowest score. The main method for a democratic nation to hold its government accountable is by participating in the process of voting for new government representatives when change is desired.

Political participation and thus democratic accountability is limited in Turkey by the Turkish government's banning certain political parties and candidates from being represented in the process. One example of this is the Virtue Party (FP), which was banned in June of 2001 when the constitutional courts found it to be in violation of the law that prohibits the engagement of actions that are against the secular nature of Turkey. Throughout the past several years, the

³⁷ "UN Officials Calls on Turkey to Work Towards Impartial, Independent Judiciary," The Sofia Echo, <http://www.sofiaecho.com/>, Accessed Dec. 29, 2012

³⁸ "Democracy Index 2011: Democracy Under Stress," Economist Intelligence Unit, Accessed Dec. 20, 2012

Democratic Society Party (DTP) and numerous Kurdish and pro-Kurdish parties and candidates have either been banned or otherwise limited in their ability to engage in the political process.³⁹

Bureaucracy Quality

For the past several years, the bureaucratic process surrounding investment in Turkey was often long and cumbersome. For instance, doing something such as establishing a trademark registration or a firm permit could take many months or possibly even years. Although the government of Turkey seemed to favor Foreign Direct Investment (FDI) into Turkey, the bureaucratic climate often left the government with the sole power and ability to discriminate against certain FDI activities. For example, Article 1 of Law No. 6224 implied that the FDI activity had to result in a benefit to the economic development of the country. The government could use this to have complete authority over FDI matters since the law was written in such a vague manner.⁴⁰

According to a report by the World Bank, Turkey has shown little progress in implementing reforms to loosen the proverbial “red tape” to make it easier to conduct business. In the *2012 Doing Business* report, Turkey ranked 71st among 183 countries. This is slightly better than their ranking in the 2011 report, but it reveals that Turkey has a long way to go and has had minimal success in implementing reforms to help the bureaucratic climate.⁴¹

Case #1 – Smart Technologies Expand in Turkish Market

The case for Smart Technologies to move further into the Turkish market can be evaluated by looking at both the culture of the Turkish market and Smart Technology’s expansionary methods and history. Smart Technologies products are often sold via a global network of resellers. These resellers are authorized and certified by Smart Technologies as being proficient in the installation and repairing of the various Smart Technologies equipment. In Turkey, there already exists a Smart Technologies presence through resellers and with the large scale implementation of the SMART Boards by FEM as I alluded to earlier in this report. In the

³⁹ Agnes Czajka and Bora Isyar, “Turkish Democracy: A Flawed Model,” <http://www.opendemocracy.net>, Accessed Jan. 1, 2013

⁴⁰ Devrim Dumludag, “The Quality of Institutions and Multinational Corporations,” Accessed Dec. 23, 2012

⁴¹ “Doing Business Not That Easy in Turkey,” Hurriyet Daily News, <http://www.hurriyetdailynews.com/>, Accessed Dec. 28, 2012

case of the resellers, the expansionary efforts are largely in the hands of independent contractors. This greatly minimizes any potential negative effects of failed growth efforts since little investment would have been made by the company itself.

Turkey offers “an accessible, skilled and cost-effective workforce, providing the fourth largest labor force among EU members and accession countries.”⁴² The country has a large population of over 74 million people and boasts a labor force of over 27 million people, which ranks them as the 4th largest labor force in relation to EU countries.⁴³ The size and quality of the labor force is certainly a strong consideration when determining whether expansion into a country is feasible and appropriate.

Furthermore, the Turkish government provides investment incentives that help foster an investor friendly environment. The government provides an even playing field for foreign investors, as they offer various tax and non-tax incentives to foreign investors, including Value Added Tax (VAT) exemptions and free land and energy support. In addition, foreign investors benefit from R&D support from the Turkish government. According to Hasan Pehlivan, the Principal Advisor for the Investment Support and Promotion Agency of Turkey (ASPAT), the R&D incentives for foreign investors (with a minimum of 50 personnel) include a 100% deduction of R&D expenditures from the company’s tax base, income withholding tax exemption for employees up to 90%, and a 50% of social security premium exemption for employers for a period of five years.⁴⁴ These incentives can potentially ease the potential burden for Smart Technologies since they are in a research intensive industry.

Case #2 – Smart Technologies Cease Expansion in Turkish Market

The government of Turkey spends about 10 percent of its budget on public education. However, rising costs and shortages of teachers have prevented the nation from providing enough schools and teachers; especially in the rural areas.⁴⁵ With a fixed education budget, I have a slight concern that the implementation of SMART interactive white boards could prove too costly. With rising teacher and other education expenditures, the inherent risk here for

⁴² *Doing Business in Turkey*. Publication. HSBC, 2011. Accessed Jan. 15, 2013

⁴³ “Demography and Labor Force,” Invest in Turkey. <http://www.invest.gov.tr/>, Accessed Jan. 3, 2013

⁴⁴ Pehlivan, Hasan. "Investment Environment of Turkey." 16 Jan. 2013. Lecture.

⁴⁵ *The World Book Encyclopedia*. Vol. 19. Chicago: World Book, Accessed Dec. 19, 2012

SMART Technologies, inc. is a continued decline in the demand for education services in Turkey.

In addition, Turkey has had a steady but relatively high level of unemployment over the last several years. As my table earlier in this report reveals, the unemployment rate has hovered around 10% over the past decade. Though there are many encouraging signs about the prospects of the Turkish economy over the next decade, the high unemployment rate remains a cautionary red flag for Smart Technologies and other potential investors into the Turkish market.

Many foreign investors and company continue to cite corruption as one of the major weaknesses for business growth and opportunities in Turkey. This major weakness in the Turkey business environment is captured by the Global Advice Network in their Business Anti-Corruption portal. "Foreign companies in Turkey encounter excessive bureaucracy, a slow judicial system, weaknesses in corporate governance, unpredictable decisions made at the local government level, and frequent changes in the legal and regulatory environment."⁴⁶

There are also industry specific concerns that Smart Technologies must review. According to the Corruption watchdog organization *Transparency International*, education is perceived as one of the top industries most affected by corruption. Transparency Internal also cites the 2010 GCB data that indicates that more than 30% of Turkish households perceive public officials to be extremely corrupt.⁴⁷ If the Turkish population perceives the government and educational system to be corrupt, it must be considered whether an expansion of Smart Technologies deeper into their educational system would be well received.

Moreover, the average age of the Turkish population is just 28.5 years old, and the average years of education is only 6.5 years. For perspective, consider that residents of the United States average over 12 years of education, and many European countries average around 10 years of education.⁴⁸ This relatively little educational exposure in Turkey is a challenge to increasing Smart Board implementation because it is more difficult to create organizational momentum and familiarity with the technology by the students. Also, this factoid means that the

⁴⁶ "Snapshot of the Turkey Country Profile." <http://www.business-anti-courruption.com/>. Accessed Jan. 27, 2013.

⁴⁷ Marie Chene, "Overview of Corruption and Anti-Corruption in Turkey," Transparency International, Accessed Dec. 29, 2012

⁴⁸ Ozlale, Umit. "An Overview of the Turkish Economy." 16 Jan. 2013. Lecture.

demand for Smart Technologies will be potentially more limited in that the number of students filling up classrooms at any given time is not as high as some other countries.

The Verdict: Recommendations

Based upon my field research and the perspectives of various Turkish businessmen, I strongly recommend that Smart Technologies, Inc. move forward with expansion into the Turkish market. Smart Technologies should expand by pushing their technology into the Turkish education market and in the business arena.

In considering expansion for Smart Technologies, Inc. into the education industry of Turkey, I thoroughly examined the educational culture and goals of the Turkish education system. Herein lays the strongest base for my education in terms of moving forward with plans for expansion. According to the *2011 National Report of Turkey*, a number of educational milestones and targets have been recently set forth in Turkey at the various education levels. At the primary education level (ages 6-14), Turkey would like to ensure that they are “integrating information and communication technologies in education.” At the secondary education level (ages 14-18), the government of Turkey would like to “increase the educational expenditures per person, transform educational institutions with internet connections into learning centers for all individuals, and improving digital literacy.”⁴⁹ In matching the prospective Turkish market with Smart Technologies’ value proposition it appears that there is a match. Smart Technologies, Inc. could be a vital tool to help the Turkish education system reach its technological and educational goals.

Nancy Knowlton, CEO of Smart Technologies sees growth beyond education in "accelerating the adoption of our products in the business and government segments and expanding our global focus." Their growth strategy encompasses acquiring new customers in the Education Market, accelerate adoption in business and government markets, maintain technology innovation leadership, and expand geographical reach.⁵⁰ In exploring the Turkish market in light of this organizational focus, I found that Smart Technologies could reach another sector of the Turkish market. Hotels in Istanbul often provide conference rooms for rental to schools and

⁴⁹ *Implementation of the Strategic Framework for European Cooperation in Education and Training*. Rep. 2011 *National Report of Turkey*. <http://ec.europa.eu/education/>, Accessed Jan. 29, 2013.

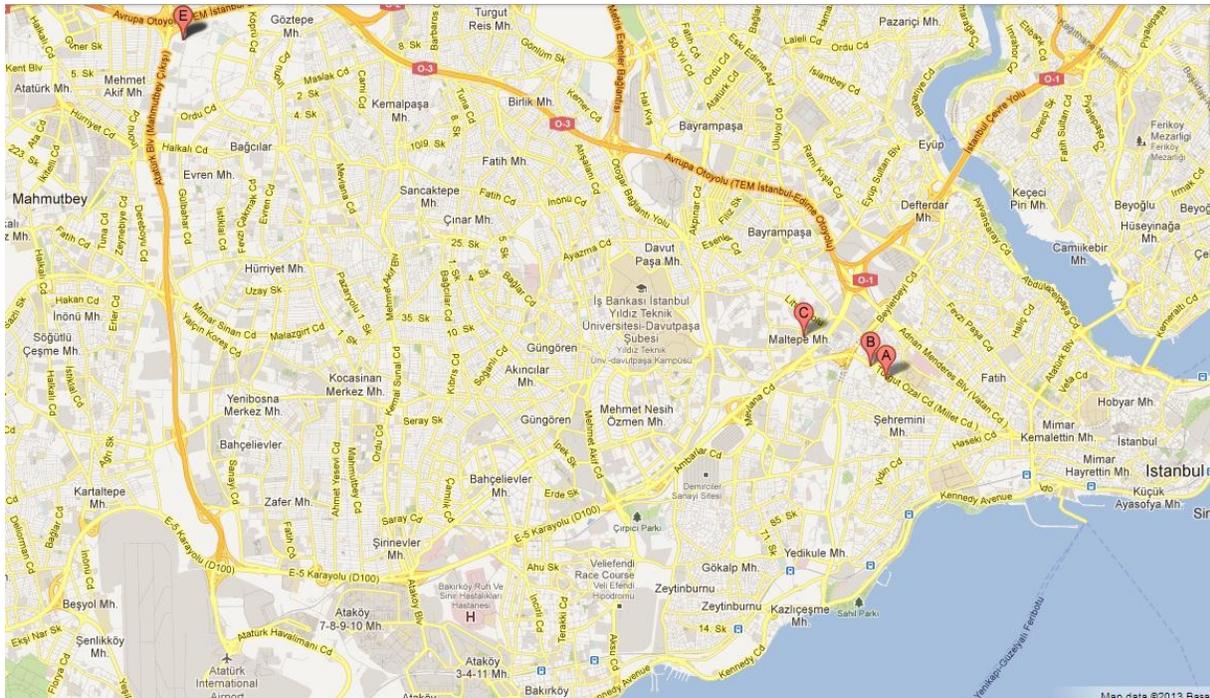
⁵⁰ Class Action Complaint for Violation of Federal Security Laws. <http://www.stanford.edu/>, Accessed Jan. 20, 2013

businesses to host workshops and seminars. According to Umut Ozkanca, a Bentley University alum and partner with the Sele Istanbul Restaurant Group, these hotels often provide technology to meet the presentation needs of the host business.⁵¹ In exploring conference options in Istanbul, I have found that many of these hotels, such as the Hilton Hotel in Istanbul provides businesses with technology that includes Wi Fi and full audio and visual support.

Mr. Ozkanca also stressed the importance of having a sponsor organization to help any Foreign Direct Investment project run smoothly. With a variety of American based hotel chains located in Istanbul, there is certainly a favorable condition for Smart Technologies to partner with one of these hotel chains. Smart Technologies could provide equipment for one of these hotels to rent out to businesses that use their conference rooms. Or, they could simply provide the equipment to businesses as an extra incentive to choose them. In partnering with an American hotel brand, this could theoretically be a seamless transition into the Turkish market.

Due to their various locations throughout Istanbul and its growing brand recognition, I propose that Smart Technologies partner with the Holiday Inn locations in Istanbul. The map on the following page shows some of the several Holiday Inn locations in Istanbul. The locations of these hotels are marked with the letters “A” through “E.”

⁵¹ Ozkanca, Umut. "Discussion on Investing into Turkey in Tourism." 15 Jan. 2013. Lecture.



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Aside from being an American presence in Turkey, joining with Holiday Inn in Istanbul has another significant advantage in that it is within close proximity to the Istanbul airport. The closest Holiday Inn (in driving distance) is less than ten kilometers to the airport. In the map, the Airport is on the lower left hand side and the closest Holiday Inn is marked with the “E.” Being close to the airport has two advantages when considering joining with Holiday Inn. First, it is indicative of a hotel that is established in Turkey, which is an important qualification for an effective sponsor organization. In addition, it makes the Holiday Inn an ideal hotel destination for visitors traveling from many different parts of the world. As businesses travel to host conferences and workshops, the Smart Technologies brand will begin to gain global traction and popularity as an innovative piece of technology.

Furthermore, Smart Technologies certainly could improve their efforts to increase the number of resellers in Turkey. They could achieve this by building a Smart Technologies office building in the city of Istanbul. Currently, they have office buildings in many locations including Japan, China, New York, and Paris. These offices are the center of the company’s marketing and

⁵² “Holiday Inn Istanbul, Turkey.” Map. Google Maps. <http://www.google.com/maps>, Accessed Jan. 20, 2013

product development efforts. With a location in a city such as Istanbul, a team can focus on a specific marketing strategy for that market.

After extensive field research which includes a visit to Istanbul, a large city in Turkey, I am confident that these recommendations are the best for Smart Technologies, Inc. and the education and hotel industries in Turkey.

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