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**INDUSTRIAL SUBCONTRACTING AND  
PARTNERSHIP EXCHANGE**

TURKEY

**Report of the evaluation mission\***

Prepared by:

Quality Assurance and Evaluation Branch  
General Management

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\* This document has not been edited.

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### **UNIDO support project**

The subcontracting exchange was established in Turkey for the first time in the early 1970s but its operation was discontinued after two years (1973-75).

The current SPX in Istanbul was established in 1991. The establishment and operations of the SPX in Istanbul were supported by one project:

	<i>Original budget (US\$)</i>	<i>Actual Expenditure (US\$)</i>
UC/TUR/89/198	63,500	116,262

There were a number of budget revisions. The highest expenditure of approximately US\$ 87,000 was used for consultants (BL 11). Study tours for purposes of training and participation at fairs accounted for US\$ 21,000 and the cost of equipment (mainly PCs) amounted to approximately US\$ 7,000. The project was completed in 1994.

### **Institutional framework**

The initiative to re-establish the SPX was taken by the ICOC staff. The SPX was established as a unit within the Istanbul Chamber of Commerce (ICOC) and directly associated with its Department of Industry.

Membership in the ICOC is compulsory for all businesses with over 5 employees. It is estimated that out of 220,000 members more than 30,000 are engaged in industrial activities with approximately 4,000 registered by the Department of Industry.

There is also a Chamber of Industry in Istanbul but due to weak relations between these two organizations, there is no institutional linkage between the SPX and the Chamber of Industry.

The SPX does not have full autonomy and, therefore, many decisions on its activities which have budgetary implications (such as participation at fairs, fees to be collected from seminar participants, etc.), must be approved by the ICOC Executive Board. However, the working relationship between the SPX management and the ICOC Board are smooth and do not cause operational problems.

The Advisory Committee of the SPX which meets monthly has 13 members, comprising primarily of representatives of sectoral associations and a few institutions outside of ICOC such as Eximbank and the Small and Medium Industries Development Centre (KOSGEB). The Chamber of Industry is not a member of the Advisory Committee.

Establishment of a Technical Committee was recommended by the UNIDO consultant, however this recommendation has not been followed up.

In 1995 a UNIDO IPS office was established in Istanbul. At the time of the evaluation mission no contacts existed between the SPX and the IPS.

### **Project output produced (SPX)**

#### *S t a f f*

The Unit has three full time staff (one female) with background in economics and management. The manager is an industrial engineer. There is no mechanical engineer among the staff. General service is provided by the staff of the ICOC Department of Industry.

With the exception of one staff member all of them have participated in a study tour.

The staff is dedicated and the manager is a dynamic and efficient person.

#### *E q u i p m e n t*

The SPX has two PCs and a fax-modem. It does not have a car but a budget for taxi services is available. A home page on the Internet is under preparation by the ICOC.

#### *T o o l s   a n d   p r o c e d u r e s*

##### **i) UNIDOSS**

UNIDOSS was installed but it is not used at the present time. There were considerable problems with the installation and operation of the software and it took a long time to become operational. This was partly due to problems with the hardware procured by UNIDO (a PC-clone). Because of the time spent by the consultant on repairs hardly any time was devoted to proper staff training.

The installed version is not considered user-friendly. The SPX planned to buy and customize local software to support SPX operations but the decision was deferred pending the finalization and demonstration of the new version of UNIDOSS.

##### **ii) Databases**

The UNIDOSS database contains 291 companies, of which approximately 70 are non-members of ICOC (companies located in Bursa, Izmir and other cities). The database covers primarily the metal-working and the plastic & rubber sectors and a few companies represented the electrical/electronics sectors. The registered companies represent less than 25% of the companies in the sector. 10-25% of companies did not provide all the data required by the UNIDOSS questionnaire. However, as this database is not used, it has not been updated since 1994.

There is a separate database (DB III) on these companies with information on the Name, Address, Product, and Number of Workers. This elementary information is updated continuously on the basis of contacts with the companies.

An additional database of 850 companies contains addresses only and is used for mailing purposes.

### iii) Procedures

The SPX does not have a manual. It has some standard forms (letters acknowledging and answering inquiries, questionnaire on results achieved at a fair), instructions for the subcontractors participating at a fair and standards for calculating the participation costs at fairs. The services are free of charge with the exception of seminars. The fee is proposed on a case-by-case basis by the SPX and approved by the Executive Board.

### iv) Brochures, promotional materials

A promotional leaflet about subcontracting and the Istanbul Subcontracting Exchange is available in English. In addition, the SPX has produced promotional leaflets for every international fair, presenting the participating Turkish companies.

### *Financing*

The SPX is financed by the ICOC with marginal income generated through organization of seminars. On average, the participants' fees cover approximately 40% of the costs of the seminars.

### **Level of activities**

#### *Promotional activities*

The SPX conducted a number of seminars. At the time of the evaluation mission a seminar was conducted in cooperation with Centre for the Promotion of Imports from Developing Countries (CBI) in the Netherlands on the European market, its quality and ecological regulations and international cooperation modalities, including subcontracting. (Approximately 150 participants.)

The SPX co-sponsored a local exhibition and organized the participation of local SMEs at foreign fairs (60 companies during the last two years). This has been the core activity of the SPX. Every year it organizes participation of Turkish companies at 3 fairs at least. The Hannover fair is considered to be the most useful for Turkish SMEs. There is constant interest in the fair which equals 250 m<sup>2</sup> of stand area.

#### *Matchmaking*

Approximately 250 inquiries have been received in the last year, almost all of them from abroad. Most of the inquiries (90%) resulted from participation at foreign exhibitions and only a small part was received on the basis of advertising or through embassies or other institutions.

The number of contracts resulting from matchmaking activities is not monitored. However, the SPX sends out a standard form to participants of the fairs to inquire about their business results. For example: after Hannover 1995 a questionnaire was sent to 17 participants, all of them replied. Only in one case was the company "disappointed". The others reported contracts concluded in the total value of US\$ 12,87 million and an additional US\$ 23 million value of contracts expected to be concluded. However, these expectations tend to be somewhat optimistic. The later the inquiry is sent, the lower is the expectation.

A special case is matchmaking for partnership projects. No inquiries explicitly targeted at partnership projects have been received so far but the SPX submitted a project for the EU-supported Istanbul Partnership Days at the end of 1996 or beginning of 1997. IPS Istanbul has not been involved so far in the preparation of this project.

### *Government procurement*

The SPX has not promoted participation of SMEs in the procurement programmes of Government organizations and companies. (Large programmes of Government organizations are implemented through tenders announced in the newspapers.)

### *Advisory activities*

The SPX staff provides advice on problems related to the participation of companies at fairs (design and production of promotional materials, presentation of products, etc.) They also can provide some advice on quality certification procedures.

### **Feedback from company visits**

#### *Companies visited*

Three subcontractors were visited. The subcontractors are in the metal working and plastic sectors, all of them in the category of SMEs (40-100 employees). For all of them subcontracting is very important (more than 90%). In one case a company tries to reduce the share of subcontracting in order to lessen its dependence on the economic performance of other producers.

All visited companies were supported by the SPX to participate at international fairs. Their views, therefore, may represent primarily the group of companies (approximately 40) which have benefitted, some of them repeatedly, from this support.

#### *Benefits*

The companies learned about the SPX either through advertising, ICOC circular or plant visits. The companies appreciate in particular the advice on and support in the organization of their participation at fairs. There are meetings with the companies prior to the event, explaining what should be done, calculating the cost, advising on catalogues, decorations, facilities required, etc. SPX undertakes all logistical activities such as purchase

of the stand area, ordering of services, making transport arrangement, etc. It also organizes the Government support (repayment of 25-40% of the cost).

During the fair the SPX staff organizes meetings with different people such as from embassies, Turkish organizations, etc. The SMEs feel they are more visible if exhibiting under the umbrella of the SPX.

A number of the contacts established at the fairs resulted in business deals. The companies provided information about the value of contracts which was a bit lower than what had been reported by them to the SPX, but in general they confirmed significant increase of their export performance as a result of the concluded contracts.

Only some of them participated at seminars organized by the SPX. There is a feeling that there is a surfeit of seminars and awareness raising activities.

*Critical remarks, suggestions*

- Efficiency of participation at fairs can be improved if a more even distribution of contacts with customers during the fair is achieved. Usually most of the contacts are established during the first day. (This, however, depends heavily on the customers.)
- The importance of quality is well understood by the companies; most of them undertake measures to introduce quality management and to upgrade the quality of products and services. Sometimes the company staff is assisted by a hired consultant. In general, the companies do not need assistance from SPX in this field.
- Some companies suggested that the SPX provides information about product-related technical requirements and patent regulations prevailing in the target countries and about possibilities to access sources of financing. (At the time of the evaluation the SPX planned a presentation by the Eximbank about the possibilities to finance subcontracting operations.)
- Involvement of the SPX in local subcontracting is not considered necessary by the visited companies. In their view everybody knows "who is who" in their sectors (automotive; TV) and all the potential contractors have been contacted. (Example: a subcontractor working for the TV sector is serving one big contractor [70% of the subcontractor's turnover], 7-8 medium-scale and approximately 400 contractors with very small jobs.)

While this may be true in the above mentioned sectors (the Head of IPS Istanbul also confirms that subcontracting in the automotive sector is well established), there may be scope for increased local subcontracting in other sectors, including industrial services.

- One company suggested that the SPX should help the SMEs in obtaining information about the items to be imported for the Government financed projects. The SPX argues however that such information is available through the tenders announced in the newspapers. The potential role of the SPX in screening the information and



channelling it to the relevant SMEs deserves to be discussed and clarified with those concerned.

- The companies are not ready to pay for SPX services. In their view it is the duty of the Government to support industrial development. Therefore, the Government should subsidize such services. However, the companies are ready to share the cost of additional services at the fairs such as translators.

## **Conclusions**

### *R e l e v a n c e*

- 1) Subcontracting in Turkey is a relevant instrument to improve the performance of the industrial sector; there exist a large number of industrial companies with sufficiently advanced technological capability to be able to perform the contracting and subcontracting roles. In some sectors the subcontracting among local companies is already well established.
- 2) Under these conditions the SPX Istanbul found a safe "market niche" for matchmaking services with contractors from abroad. These services definitely are relevant for a group of SMEs. However, the repetitive support to a limited number of companies raises the question about the possibility to extend the SPX services to a larger group of companies. This can be achieved through organization of seminars for the whole SME sector.

### *E f f i c i e n c y*

- 3) Establishment and development of the SPX functions is primarily an institution-building project. The most important factor of such an institution building output is the trained and experienced staff. In the case of SPX Istanbul the level of staff training and experience is satisfactory, the manager is competent and capable, and the number of staff is commensurate to the level of on-going activities. Extending the services beyond fair participation and seminars may require strengthening the engineering component in staffing.
- 4) The position of the SPX in the institutional framework is adequate. While co-operation with institutions such as KOSGEB and Eximbank is satisfactory, working contacts with some other potential partner organizations have been rather marginal (the Chamber of Industry) or not established (the IPS UNIDO).
- 5) Some written procedures and a number of standard forms are available, promotional material is also available and of good quality, working practices are well established. There is a system for monitoring feedback from fair participation and an incomplete system for monitoring inquiries (monitoring of follow up of inquiries is scanty).
- 6) The company database is not at the level of a standard SPX database (not updated; the working database containing very basic information only). However, the SPX developed its own mechanism thus reducing the need to use the company database: in case of an inquiry which requires searching suitable companies, the SPX asks the representatives of sectoral associations to indicate potential candidates for the subcontract. In the process of subsequent

screening by the SPX some of the companies may be visited. This approach reflects the strategy of the SPX Istanbul to focus on generation of demand with subsequent activities on the supply side rather than spending a lot of efforts to collect, store and update the information about the companies prior to generating demand (inquiries). Given the capacity of the ICOC to support the searching process, the strategy seems efficient.

7) The volume of external funds provided by the above mentioned project (approximately US\$ 116,000) is commensurate with the level of the developed SPX capability (project output) as described above. The SPX benefitted from some results of the regional projects (methodologies, software, etc.) but it has not received any direct support (consultants, study tours) from the regional projects. Thus this SPX seems to have achieved one of the best input/output ratios in the SPX programme.

### *Effectiveness*

8) The use of SPX services as expressed by the number of inquiries and number of companies participating at international fairs is satisfactory. However, in view of the SPX policy of focusing on international subcontracting the SPX Istanbul is hardly ever used by local contractors.

9) SPX support to participate at international fairs is used, often repeatedly, by a group of less than 40 companies. These companies represent the core of the SPX clients. Their satisfaction with the SPX services is high.

10) Seminars are attended by a larger number of companies, in most cases members of ICOC.

### *Impact*

14) The direct impact in terms of contracts concluded at international fairs and their value seems to be quite impressive if the business results of the Hannover 1995 fair can be considered as typical. The business results of the Hannover 1995 fair (approximately US\$ 12 million) look highly satisfactory in particular if compared with the cost of participation (approximately US\$ 150,000, excluding travel cost).

15) The impact of other activities (processing of inquiries) is not monitored and, therefore, difficult to assess.

### *Sustainability*

16) Operating the SPX as a commercial service or at least on a cost-recovery basis is not feasible at the present time in Turkey. Some of the companies might be ready to pay a small fee for specific additional services at international fairs but the general attitude of the industry stresses the developmental role of the Government and the need to support industry by Government-financed services.

17) The SPX will be sustained as long as the ICOC is ready to support it. Given the present support of the ICOC Executive Board the sustainability of the SPX is ensured at least

for the near future. However, the support may fade away if the SPX services deteriorate or if the ICOC finds the target group serviced by the SPX to be too small.

### **Recommendations**

As the UNIDO project was completed, the Organization has hardly any possibility to influence the operations of the SPX. However, the following recommendations may be offered for consideration by the SPX:

- 1) Analyze the possibility of the SPX promoting the participation of SMEs in the public procurement programmes; as a minimum, advise the SME how to access the information regarding public procurement.
- 2) Analyze the possibility of the SPX involvement in local subcontracting in selected sectors. In order to have this issue clarified, establish working contacts with the Chamber of Industry. Based on the results of the discussions, make a proposal on extending the Advisory Committee to include the Chamber of Industry.
- 3) Specify principles of cooperation with the UNIDO IPS office.
- 4) Consolidate the monitoring and reporting system; make use of the good business results of the clients for publicity purposes.
- 5) Once provided with the new version of the UNIDOSS software, formulate a strategy on plant visits and updating company data.

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