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Human resource practices of an emerging-market multinational: Implications for enhancing organizational innovation

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Abstract

How human resource policies and practices influence organizational innovation at emerging-market firms is an area of scarce research. This exploratory study aims to provide an overview of how human resource practices of Turkey's leading white goods manufacturer and patent champion Arçelik help the company foster and sustain innovation, with implications for companies in other emerging markets.

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1. Introduction

Human resource policies and practices are important in stimulating organizational innovation. While the relationship between human resource management and innovation is well-documented (see for example Damanpour, 1991, for a review of organizational determinants that include several HRM-related variables), most of the research focuses on developed-country MNEs, and the topic of how the human

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resource practices of companies in emerging markets help encourage innovation remains relatively under-researched. This study aims to provide an overview of the human resource practices of Turkey's leading white goods manufacturer Arçelik to be able to draw some inferences about effective human resource management that fosters innovation, with implications for other companies in the emerging-market context. We have chosen to study Arçelik because as Turkey's patent champion for years this is a company that has embraced innovation as an integral part of its growth and internationalization strategy.

The remainder of the paper is organized as follows: First, we provide a review of the theoretical background and literature on the relationship between human resource management and innovation. Next we describe our methodology. We then offer an overview of Arçelik's innovation-oriented human resource practices based on face-to-face interviews with some key company executives and an examination of archival data. Finally, we discuss the implications of the study, along with possible future directions for research.

2. Literature review and research framework

Human resource management literature contains a large body of evidence that enlightened human resource policies and practices foster an environment conducive organizational innovation (see for example Damanpour, 1991). "Organizational innovation" is defined here as "the process of profitably creating innovation within an organizational setting," which is the definition used by Kuratko and Hodgetts for corporate entrepreneurship (2007: 77). Among the organizational antecedents of innovation, rewards, management support, resources (such as time availability), supportive organizational structure, and risk taking have been cited (e.g., Kuratko and Hodgetts, 2007). Two of the conclusions reached by a comprehensive review of structural variables as a potential source of innovation are specialization and high inter-unit communication (Damanpour, 1991). Related to specialization is the retention of specialized workers; retention of key research and development experts is a critical managerial challenge for many technology-based companies (Farris and Cordero, 2002, as cited in Chang et al., 2008). Selective hiring, extensive training and development, embracing creativity as a core company value, rewarding creativity, use of cross-functional teams, and a practice of internal recruitment that provides management continuity and reduces employee turnover have also been cited as important structural elements that foster a corporate environment conducive to innovation (see for example Scarborough, 2011: 61-64).

Innovative organizations actively promote the training and development of their members (Robbins & Judge, 2007: 661). These organizations have various mechanisms that facilitate interaction across departmental lines, especially among research, manufacturing and sales and marketing departments (Daft, 2008: 351-352). They also tend to have a procedure for capturing ideas (Scarborough, 2011: 63) and establishing reward systems that sustain organizational innovation (Ireland et al., 2009). Managerial tenure has also been found by some researchers as having a positive impact on organizational innovation as managerial longevity provides legitimacy and knowledge of how to accomplish tasks and achieve desired outcomes within the corporate structure (Kimberly & Evanisko, 1981: 696). The importance of intrinsic work values for knowledge workers such as the satisfaction derived from the work itself, autonomy, and opportunities to acquire new knowledge (e.g., Chang et al., 2008) suggests that increasing the organizational commitment of these employees may be contingent upon extensive training, autonomy, and meaningful and challenging assignments. Some of these human resource practices such as selective

hiring, extensive training, information sharing, and contingent rewards are considered to belong with “high-performance work systems” (Zacharatos et al., 2005, as cited in Dessler, 2008: 15).

While there is ample research on the human resource policies and practices of companies from developed countries as they relate to organizational innovation (for example Kuratko et al., 2001), relatively scarce research exists on the human resource policies and practices of companies from emerging countries specifically with reference to organizational innovation though this research stream is growing (see for example Zhang and Jia, 2010; Kaya, 2006). Those policies and practices that foster innovation carry a special interest for emerging-market firms as in the internationalization of emerging-market companies innovation has been shown to play an important part (see for example Zhu et al., 2011; Tsai & Eisingerich, 2010; Duysters et al., 2009; Liu and Buck, 2009; Sun, 2009; Yiu et al., 2007; Cho et al., 1998). This paper aims to add to the growing body of literature linking emerging-market firms’ human resource practices with innovation.

3. Methodology

We have tried to explore the issues involved through personal interviews and an examination of published records. We have undertaken a comprehensive examination of published company records, and we have also, on a historical basis, conducted 25 face-to-face interviews from April 2009 through February 2012. Among the Arçelik executives that we interviewed we tried to make sure as much as circumstances permitted to select long-serving company executives with the aim of throwing light on some of the strategy choices of the past with the evidence from the closest witnesses. Furthermore, we tried to obtain also the perspective of outside observers to develop an understanding of the trends in the industry.

For reasons of confidentiality, we do not identify the individual managers and the senior industry representatives that we interviewed beyond their titles. Our respondents included 19 senior Arçelik executives (four of whom were assistant general managers), one manager from the foreign trade arm of the Koç Group (Ram), a former country manager (Beko UK), and two industry body representatives. Two respondents – both of whom were Arçelik executives – were interviewed twice. Though not all of the above-mentioned sources have been referred to in the following discussion, they were largely responsible for informing it. Prior to the interviews, we identified the relevant senior executives and made appointments to see them. The interviews each lasted one-and-a-half to two hours. Twenty-two interviews were tape-recorded, and three interviews were documented by written notes. For the tape-recorded interviews we hold the full evidence and have used this in the research material. The respondents are designated by title.

4. Research evidence on Arçelik

4.1. The company

Arçelik is the leading manufacturer in Turkey’s white goods market (Koç Holding Annual Report 2011, p. 49), with over a 50% market share with its three brands (Arçelik, Beko, and Altus) combined

(interview material). In fact, the company's two main brands, Arçelik and Beko, have maintained a combined market share of around 50% for well over a decade (Ghemawat & Thomas, 2008: 1). The company's total revenues in 2011 were 5.05 billion US dollars (Koç Holding Annual Report 2011, p. 49). Turkey's sixth largest industrial organization (Istanbul Chamber of Industry, 2012), the company has 14 production facilities in five countries, a sales and marketing organization in 20 countries, and ten brands (Arçelik Annual Report 2011, p. 21). Considered the flagship company of Turkey's biggest conglomerate Koç, Arçelik is owned 40.5% by Koç Holding, 16.7% by other Koç Group companies; 17.6% by the Burla Group while 25.2% of shares are publicly traded (Arçelik Annual Report 2011, p. 15).

Founded as Turkey's first white goods manufacturer in 1955 and enjoying the largest share of the white goods market in Turkey, Arçelik is also Europe's third largest (Koç Holding Annual Report 2011, p. 49). The company has 14 production plants in five different countries, operates a sales and marketing organization in 20 countries, and offers its products and services to more than 100 countries (Arçelik Annual Report 2011, p. 21). In 2011 the company purchased Defy Appliances in South Africa (Arçelik Annual Report 2011, p. 7) from Franke Holding AG ("Arçelik Franke'nin," 2011, July 22). In 2011 international sales made up 53% of consolidated sales (Arçelik Annual Report 2011, p. 10). The company's Beko brand is a leader or numbers within the top three brands in various home appliance product segments in the UK, Poland, France, Romania, and Lithuania (Arçelik Annual Report 2011, p. 22), just to give an indication of the brand's standing in various European markets. Besides Arçelik, Beko, and Altus, the company has Blomberg, Grundig, Arctic, Flavel, Leisure, Elektribregenz, and the most recent acquisition of Defy.

In 2010 Arçelik was ranked 95th in the World Intellectual Property Organization's top PCT international applicants list (World Intellectual Property Organization, 2011), the first company from Turkey to make it to the top 500 (Arçelik, 2012). In fact, the company's international patent applications to the WIPO has been following a largely steady increase since 1996 (Company records). In 2011 the company was again among the top 500 PCT applicants worldwide (World Intellectual Property Organization, 2012).

Arçelik has 21,960 employees, with nearly 15,000 of them located in Turkey (or, about 66.6%) and the remaining 33.4% abroad (Arçelik Annual Report 2011, p. 61).

What was the role of human resource policies and practices in the achievement of these results? To explore the answer we now use the evidence from our research interviews and company records.

4.2. Human resource policies and practices that foster innovation

In the following section, we explore the use of such innovation-oriented human resource practices as selective hiring, extensive training, rewarding creativity, managerial continuity, inter-unit communication, and specialization at Arçelik.

Selective hiring: The company is described as a magnet for Turkey's best-trained engineers (Assistant General Manager / Finance, interviewed in March of 2010). "It has always been preferred by graduates of good universities," (Human Resource Director, interviewed in September of 2011). "Flexibility,

differentiability, and creativity” are the words used by the human resource director to describe the principal qualities looked for in new recruits. Arçelik’s annual report states that it employs graduates of 81 different universities (Arçelik Annual Report 2011, p. 81), which indicates workforce diversity in terms of the educational institution graduated from.

Training and development: Those who are hired appear to be given a lot of training. The company’s 2011 annual report includes the following policy statement: “Arçelik A.Ş. aims to make an effective and productive use of its resources when creating plans for both the current and future professional development of its employees” (p. 61). In 2011 the company provided its employees with 292,208 hours of training, or around 20 hours of training on average per employee, which represented an increase of 30% compared to the previous year (Arçelik Annual Report 2011, p. 61). Here are some of the training programs available: When it comes to sales and technical service personnel, an Arçelik Academy provides product training for all product categories, which in 2011 amounted to 220,000 man-hours of product training in 35 countries in addition to Turkey (Arçelik Annual Report 2011, p. 43). Arçelik employees may also take part in the training offered by the Koç Academy (Human Resource Director), an educational and developmental platform where activities that support the development of Group employees are implemented and through which each employee is able to monitor his or her own progress (Koç Holding Annual Report 2011, p. 21).

Training opportunities cater to different career stages. For newly appointed managers there is a Management Skills Development Program; for preparation for senior management positions is a program called “Leader and Strategy/Leader and Individuals”. Future overseas assignees take part in an “International Management Development Program” while overseas managers complete an “Overseas Leadership Program.” The two training programs within the International Development Program that are offered to those employees with potential for overseas assignments are prepared and implemented jointly with Koç University (Arçelik Annual Report 2011, p. 87), a non-profit foundation university established in 1993 by the Vehbi Koç Foundation (Koç University, 2012), a private foundation bearing the name of its founder Mr. Vehbi Koç, also the founder of the Koç Group. For professionals in various functions (such as marketing, finance, IT, etc.) there are functional development programs. A mentoring program brings together employees with the “potential to fill senior management positions in the future and current senior managers,” where senior managers are expected to help those that they are mentoring by sharing their experiences and in the process to help a coaching culture take root (Arçelik Annual Report 2011, p. 87).

Training may be so extensive that the human resource director of the company related an anecdote where a management trainee replied to the question of “What could we do for you?” with the following response: “I have gone to so much training that this closet is full of files. Arçelik has really supported me a lot in that, but now it is my turn to focus on how I should turn so much training to application.” Another indication of the importance that training and development receive at the company is the establishment of a new department within the company’s human resources organization to ensure that employee capabilities are improved “in accordance with Arçelik’s vision” (Arçelik Annual Report 2011, p. 87).

Rewarding creativity: The company’s 2011 annual report includes a clear statement regarding the company’s policy of rewarding individual creativity: “Arçelik A.Ş. seizes upon, rewards and promotes every kind of achievement, discovery and/or proposal in order to boost the motivation, loyalty, and productivity of its employees, and encourage them to make their own contributions to the success of the company” (p. 61). Standard assessment methods such as performance management, competency

assessment, potential assessment, and leadership assessment are used to provide input for development and talent management, career management, and salary management (Arçelik Annual Report 2011, p. 86). Employees are encouraged to be creative through an annual “Invention Day” celebrated since 1999 (Arçelik Annual Report 2011, p. 32), and creators of innovative ideas are rewarded. In addition, innovative idea generation is promoted through a reward system called “Pyramid Climbers Awards” (Arçelik Annual Report 2011, p. 86). These awards appear to help foster an innovative culture, considered critical in improving a firm’s capacity to innovate (e.g., Tellis et al., 2009; Wang et al., 2010).

Internal recruitment and managerial continuity: The average length of service of the Arçelik employees in Turkey is 7.6 years, and their average age is 33.2 years (Arçelik Annual Report 2011, p. 61). In a country where 50.50% of the population is below the age of 30 (Turkish Statistical Institute, 2012: 55), this statistic bespeaks the value placed on the experience gained within the company and points to the existence of policies and practices that encourage organizational commitment. One of those may be a tendency to recruit internally, as suggested by the following statement in the company’s 2011 annual report: “Arçelik believes that the company and its employees share responsibility for personal development and career management. Accordingly, Arçelik uses an ‘Internal Job Posting’ to inform its employees about vacancies and encourages them to take initiative concerning their career development plans” (p. 87). The human resource director explained: “We do not usually do go outside. We train our [management cadres] from within. ... They are trained here and appointed [from within] ... We do not lose people easily at the management level. At that level there is a very strong sense of belongingness”. There also seems to be some circulation between Arçelik and other Koç Group companies - in either direction. The annual employee turnover rate at Arçelik is around 10-11%, and the turnover rate tends to be lower for engineering staff and higher for sales staff (Human Resource Director). Organizational commitment is attributed to “job satisfaction” deriving from the many opportunities available in a growing company: “Here is a company that is constantly growing – a company where you are always learning something new and one that creates incredible opportunities” (Human Resource Director).

4.2.1 *Human resource policies and practices enhancing R&D-based innovation*

Innovation based on research and development derives from a two-tier research and development organization at Arçelik that incorporates core R&D and product-focused R&D (Gülsoy, Özkanlı & Lynch, 2011). The R&D Center celebrated its twentieth year in 2011 – an event marked by the publication of a book chronicling the history of the department (Arçelik A.Ş., 2011). Besides putting on record the growth stages, difficulties, and achievements experienced by the department over the years, the publication also celebrated the vision of the leaders that prevailed against obstacles, and as such it can be considered another cultural transmitter that pays tribute to innovation and thereby serves to sustain a culture of innovation at the company.

Some of the human resource policies targeted at fostering R&D-based innovation are designing the selection and performance appraisal criteria of R&D personnel to attract and maintain creative individuals. Patents, ability to complete a project on time, the resourcefulness in carrying out the project are some of the criteria used in appraising the performance of R&D personnel (Gülsoy et al., 2011).

Inter-unit communication: Encouraging innovation at a company that has around 22,000 employees worldwide presents a challenge. One means of dealing with that challenge appears to be the establishment of an R&D Innovation and System Development department within the central R&D function. The department aims to define the innovation process, set up the mechanisms that would more effectively generate creative ideas, ensure that the ideas emerging from various sources within the company work effectively together, and monitor and control the performance of the innovation process (Gülsoy et al., 2011). One of the ways in which the department tries to achieve these objectives is by facilitating inter-departmental exchange (R&D Innovation and System Development Manager, interviewed in October of 2011). The department brings together various groups from product management, research and development, product development, and marketing for exchanging information and ideas, and some meetings include advertising agencies and other outside consultants.

Another way in which interdepartmental exchange is encouraged is using cross-functional project groups at the research and development centers of the individual manufacturing plants. These groups are allowed to devote one day of the week to these projects, the outcomes of which are not pre-determined (Gülsoy et al., 2011), which indicates a certain amount of risk toleration on the part of the company. A stage-gate project approval system to manage the innovation process at Arçelik's research and development center, with its checkpoints at the end of each stage of the project, is designed to enable innovation while keeping financial and time costs under control (Gülsoy et al., 2011). Interdepartmental exchange is also fostered within the research and development function through the function's organization along engineering disciplines as opposed to product lines. Thus, a new technology may be used for a number of product lines (R&D Director).

Specialization: Two career tracks – a management track and a specialist track – with pay equity appear to prevent engineers from opting for management positions because of economic constraints (Human Resource Director).

Managerial continuity that appears to be a characteristic of the company has its counterpart in the R&D Center's team. Average tenure at the R&D Center is 10 years (R&D Director, interviewed in June of 2011). Furthermore, the Center's director explained that the "Central R&D" which was established in 1991 with the objective of creating Arçelik's own technology was allowed to "cut off its contact with other departments for its first five years." This both indicates the value placed on expertise and suggests that the company recognized the necessity of developing specialization without short-term economic benefit. The same point is made by another company executive in the above-referred book published to commemorate the 20th anniversary of the R&D Center: "We would be looking to work with the engineers and technicians that we trained for at least ten years so as to be able to do real research because we are talking about the founding team. We created a ranking and promotion management system to be able to keep those trained staff within the company for a long time," (Arçelik A.Ş., 2011: 35).

4.3. The role of leadership in fostering and sustaining organizational innovation

The opening pages of the book published to commemorate the 20th anniversary of the establishment of Arçelik's R&D Center contain the following statement by the chairman of the board of directors of Koç Holding: "We see the common point of the successes of countries and brands as the motivation of human

resources single-handedly towards innovation” (Arçelik A.Ş., 2011: 5). Research evidence suggests that the commitment of the company’s leaders to innovation goes beyond mere words. The R&D Center Director’s statement that for the first five years the R&D Center closed its doors and was allowed to operate in an isolated fashion has been mentioned above. Furthermore, the researchers at the Center were allowed to devote 30% of their time to self-development (Arçelik A.Ş., 2011: 20) and were given the opportunity to attend conferences and seminars (Arçelik A.Ş., 2011: 65). By the end of those first five years, the managers of the Center found themselves in the position of managing a group of experts “that knew more than we did,” (Arçelik A.Ş., 2011: 59).

Perhaps one of the most telling indicators of leadership commitment to innovation is the investments made in research and development. Arçelik spent around 60.5 million Turkish liras on R&D in 2010 (“Yüz şirket,” 2011, September 1), or around 30.4 million Euros, which amounted to nearly 1% of its net consolidated sales for that year. That even during the recessionary years of 2008 and 2009 the company did not refrain from investing in R&D was underlined by the General Manager: “That is because we know that the investments we make in R&D are investments in Arçelik’s future,” (Arçelik A.Ş., 2011: 89). In 2011 the Koç Group was the highest spending group in Turkey for R&D with around 298 million dollars, which represented a 40% increase over the past four years (Koç Holding Annual Report 2011, p. 22). According to a European Union Commission study, in 2010 Koç Holding ranked 562nd worldwide and 396th in the European Union with its consolidated R&D spending that year (Koç Holding Annual Report 2011, p. 22). A “Koç Technology Board,” established in 2005, aims to transfer technology management know-how within the Group and support the development of joint R&D projects among Group companies (Koç Holding Annual Report 2011, p. 22), indicating further leadership commitment to and support of innovation across Group companies.

5. Discussion and conclusion

This study aims to provide an overview of how human resource policies and practices influence organizational innovation in an emerging-market multinational. The evidence suggests that organizational innovation is tightly linked with specific human resource policies and practices. These include selective hiring, extensive training and development, performance evaluation that incorporates innovation-related criteria, use of a specialist career track aimed at preventing specialists from defecting to management positions, and managerial continuity. Also included among the elements that encourage and sustain innovation are the use of cross-functional teams that facilitate interdepartmental exchange, time availability for creative ideas to flourish, rewarding of creativity, and toleration of risk.

The critical function, however, appears to belong to leadership’s commitment to innovation. Also important to consider is the role played by the business group to which the company belongs: Group membership in emerging markets appears to enable swift transfer of human resources amongst member companies and facilitates inter-sectoral learning, as noted by Amsden (2009).

Of course, not all emerging-country firms have the backing of a strong business group or are market leaders with a dominant share. Therefore, some public policy implications emerge: For small and medium-sized enterprises or for start-up firms, incentive provision for R&D, technological incubators,

encouragement of university-business collaborations, etc., are needed for innovative capabilities to be developed and sustained.

Implications for further research may include a cross-country comparison of innovation-fostering human resource policies and practices involving several emerging markets. Research focusing on small and medium-sized firms in Turkey as well as in other emerging markets may provide invaluable insights into developing and sustaining innovation-oriented human resource management strategies with implications for other emerging-market firms.

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