

The Predictors of Sustained Competitive Advantage: A Study of Turkish Leasing Industry

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Abstract: *This study aims to identify the main determinants of sustained competitive advantage in Turkish leasing industry. In order to achieve this, a qualitative design that includes semi-structured interviews that were conducted on a sample of ten managers working at the middle or at the top level positions in five different leasing firms in Turkey. The data collected by ten semi-structured in-depth interviews revealed that competitive pricing, superior service quality, positive corporate image along with brand reputation, agility in responding to customer needs, networking skills and possession of experienced vendors could help firms to sustain competitive advantage in the industry*

Keywords: *Leasing industry, performance, qualitative study, sustained competitive advantage, Turkey*

1. Introduction

The capital requirement of firms increases in business arena in line with global economic crisis and financial instabilities that occur frequently. Given harsh economic conditions, obtaining sufficient external funding becomes more difficult for firms. Under these conditions many firms prefer financing themselves and continuing their operational activities through leasing of fixed assets. Leasing is defined as “an agreement between two parties, the lessor and the lessee, in which the lessee pays a rental fee and acquires the right to use the asset for a specified period of time, but the assets belong to the lessor” [1] According to the European Federation of Leasing Company Associations, “leasing is a deal that the lessor transmits to the lessee the right of usage of an asset for a certain period of time and for a certain amount of rent” [2]. The acquisition of fixed assets through leasing which is a medium-term financial method helps firms of solving their liquidity difficulties, thus leasing is considered as a popular financing method [3, 4].

Financial leasing can be used in almost every sector, so leasing industry contributes to economic growth, employment and tax savings for firms. The Global Leasing Report by White Clark Group [5] shows that the global leasing industry has a considerable potential reaching to an amount of 1.099 bn. USD in 2018. Obviously, its magnitude of business potential as well as its economic contribution to global wealth makes the industry worth studying. Yet, leasing is a relatively underexplored industry in the literature, particularly the leasing industry in Turkey. This paper aims to explore the main predictors of sustained competitive advantage in Turkish leasing industry through a qualitative study. The majority of the studies related to Turkish leasing sector examines the leasing process, legal and accounting aspects, the scope of the leasing contract, and tax practices. Therefore, there is a paucity on the research looking at the competitive factors in the industry and this study aims to address this gap.

2. Leasing Industry In Turkey

Leasing became a new form of funding in Turkey in the mid of 1980s when Turkish economy transmitted to open economy after the 1980 military recoup. The first regulations on financial leasing in Turkey took place in 12 December 1983. Yet, the legal infrastructure of the leasing which was established by the Financial Leasing Law No. 3226, was enacted on June 28, 1985, and the first leasing company of Turkey İktisat Finansal Kiralama was founded in 1986 [6]. Afterwards, the industry grew rapidly in the country.

Leasing is known as “financial leasing” in Turkey. According to Association of Financial Institutions (AFI), there are 25 leasing companies which employ 1,435 people in 2018 [7]. The number and volume of leasing contracts have an increasing trend as shown in table 1.

Table I: Leasing contracts between 2015 to 2017 in Turkey

Year	Number of contracts	Volume of contracts USD in thousands
2015	21.426	6.364.877
2016	24.880	6.129.771
2017	25.377	6.193.833

Source: AFI, 2018 Annual Report

Bank subsidiaries dominate the market. Only a few of the AFI member companies are independent and captive. Also, participation banks are allowed to lease but they are not a member of the AFI. In the third quarter of 2018, there are five participation banks in Turkey (AFI, Summary Report, 2018). The main competitive element in the market is considered as “pricing”.

Firms generally lease heavy equipment and construction machinery, real estate and other machines which have the biggest share in the market over 65 percent. Sale and leaseback are mainly used on real estates. Operational leasing which is rarely preferred is mainly used on road vehicles. Leasing volume by type of asset is depicted by table 2.

Table II: Leasing volume by type of asset in 2017 (in USD thousands)

Assets that are subject to financial leasing	Total	Sale and leaseback	Operational leasing
Road Vehicles	143.935	1.669	62.942
Air Transport Conveyance	65.140	12.727	-
Ships and Other Sea-Going Vessels	92.413	21.027	1.440
Railroad Transport Vehicles	2.743	561	-
Heavy Equipment and Construction Machinery	1.671.399	49.977	5.991
Health Industry	173.387	3.725	-
Metal Processing Machinery	458.871	27.466	-
Textile Machines	450.148	11.621	-
Electronic and Optical Devices	69.122	199	311
Information Technologies and Office Systems	109.988	3.749	430
Real Estate	1.279.812	950.945	-
Plastic Processing Machines	137.325	528	-
Tourism Equipment	62.664	309	-
Printing and Paper Processing Machines	78.302	9.907	-
Agricultural and Livestock Farming Machines	155.009	1.973	-
Other Machines and Equipment	1.243.576	35.957	-
Total	6.193.833	1.132.342	71.114

Source: AFI, 2018 Annual Report

3. Methods

A qualitative research method that comprises in-depth interviews conducted on 10 managers from 5 leasing firms which operate in Turkey was used. In line with the aim of the study, the main determinants of sustained competitive advantage in the industry were sought. Convenience sampling was selected at the beginning, however the researcher also used snowball sampling and asked interviewees about who else could be interviewed. Therefore, a few more managers were added to sample. In the end, the convenience sampling method along with the snowball sampling method were used and, a total of 10 managers from 5 leasing companies were interviewed. The names of the leasing companies are coded as A, B, C, D, and E. Table 3 provides information about the characteristics of the participants.

The interviews were conducted in the meeting rooms of the companies or in the interviewees' own rooms. All questions were open-ended. Interviews were recorded on a voice recorder by the consent of interviewees, yet 2 participants did not allow researcher to record their voice, thus 8 interviews were recorded during this study. The average duration of the interviews was approximately 45 minutes.

Table III: Characteristics of the participants

Company	Department	Title	Experience (Year)
A	Marketing	Manager	10+
A	Operations	Manager	15+
B	Marketing	Manager	10+
B	Treasury	Manager	15+
C	Marketing	Manager	15+
C	Operations	Manager	15+
D	Marketing	Executive Vice President	20+
D	Operations	Manager	25+
E	Marketing	Executive Vice President	25+
E	Operations	Manager	15+

4. Analyses and Findings

Price offering was seen as a determinant of competitive advantage in the industry. The marketing manager of company C states that the most important competitive element in the sector is the price:

“The most important issue for the investing companies is the cost issue and this is an important competitive element for this sector. Leasing sector which finances long-term investments with short-term funds, may be cheaper than banks in some periods depending on the competition in terms of price-interest rates. This causes leasing companies to have a limited market share to use low-interest rates in order not to lose the customer by not knowing the price quotations received from the competitors.”

The executive vice president of marketing of company E emphasizes that the key facts for competition are the price, term and collateral issues:

“The sector is particularly competitive in pricing. When it comes to a high amount of investment financing, almost all the leasing companies give price offer because the sector is operated in a narrow scope in terms of product and market. When customer preference is taken into consideration, competition criteria are price, term options and collateral flexibility.”

The Treasury manager of company B draws attention to the importance of service quality in addition to price:

“Surely it’s based on price. The customer gets perfect substitute goods, in other words, financing, and the first priority is the price. In this context, the company, who cheaply funds itself, goes one step further. On the

other hand, the quality of services is particularly important for financing complex projects. Speed, smooth workflow and the understanding the customer are the other important elements of choice.”

Executive vice president of marketing of company D suggests that the first determinant of competitive advantage is the price and the second is the credibility of the firm:

“The main competitive element in the industry is pricing. After that, credibility comes. The customer applies to many different leasing companies at the same time and collects offers from all of them. Some demand a high advance payment and offer a low-interest rate; some demand a low advance payment and a high-interest rate; some offer longer maturity options. These are all about the fund costs and credibility. While a high-segment customer chooses a low interest with high advance payment; the customer with a smaller amount of money chooses the less advance payment option, of course, this option charges a relatively higher interest rate.”

Operation manager of company C stresses the importance of giving quick responses to customers' demands:

“The price is quite important but submitting a quote within a day is also important for us. If the customer accepts the offer, the credit is approved on the same day. The customer may need the money to grow its business, or perhaps they may have urgent orders; customer needs the property as immediate as possible, so speed is very important for competition. You submit a quote on the first day, you confirm the credit on the second day, but the competitor company has not given an offer yet.”

Marketing manager of the company A expresses the strength of the branch network of the bank which is parent company as follows:

“Almost all leasing companies are subsidiaries of banks. Banks are also referring customers to their own company for leasing transactions. The number, or more precisely the effectiveness, of bank branches, is very important. Many customers tend to trade with their own bank's leasing company.”

In addition to this, executive vice president of marketing of company D emphasizes the importance of the brand reputation of the parent bank:

“However, keep in mind that brand reputation is also very important. The name of the parent bank that you are subsidiary of it often helps you get the job. Of course, the brand reputation of the leasing company is also important. Even if you are a bit behind in price competition, the customer may choose you just for brand reputation.”

Marketing manager of company B adds that vendor companies are other aspects of competition:

“You can provide that customers are referred to you by making a deal with the sellers. The seller wants to sell its merchandise. The buyer needs a source of fund. Thanks to your communication with the vendor, you can provide that seller refers the customer to you.”

Conclusions

The findings show that competitive price, service quality, corporate image and brand reputation, quick response to customer demands, performance of branch network and vendor companies are the main predictors of sustained competitive advantage in Turkish leasing industry. Given the results of this research, the firms which operate in the industry should adjust their priorities. Resources are scarce and managers should allocate firm resources accordingly. Yet, it should be noted that the findings of this research do not include every single factor that may influence sustained competitive advantage of leasing firms, thus the findings should be evaluated cautiously..

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