International Business Review xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Build-operate-transfer projects as a hybrid mode of market entry: The case of Yavuz Sultan Selim Bridge in Istanbul

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ARTICLE INFO

Keywords:
Build-Operate-Transfer projects
Mega projects
Infrastructure projects
Foreign market entry
Emerging markets
Global contractors
Turkey

ABSTRACT

BOT (Build- Operate-Transfer) projects are well known to sponsors and contractors of mega infrastructure projects around the world. The massive scale and long-term time frame of these construction projects require non-traditional business relationships among the sponsors, prime contractors, sub-contractors, and a host of other vendors. The BOT model is typically sought by local and national governments that cannot independently finance complex mega projects.

A BOT deal refers to a large-scale project where the sponsor (typically a governmental agency) contracts with a prime contractor, that assumes the responsibility for completing the construction and operating it for a pre-determined period, before turning ownership back over to the sponsor. During this predetermined period, the contractor can recoup its investment through its operations and/or through a guaranteed rate of return from the sponsor.

This paper reports on such a project – the case of Yavuz Sultan Selim Bridge, the third bridge linking Asia and Europe in Istanbul, a sprawling metropolis of roughly 15 million people. The bid also called for the construction of the connecting highways. It was initiated in 2012 and was completed in 2016. Named after a celebrated Ottoman Sultan, the bridge is widely acknowledged to address a much-needed infrastructure project for Istanbul.

We detail BOT projects – rarely discussed in the IB literature – as a hybrid mode of international market entry, with unique features, benefits, and risks. The insights offered in this manuscript were gathered from a series of unstructured interviews with senior executives of the prime contractors.

The Yavuz Sultan Selim bridge is one of the most ambitious projects ever undertaken by the Turkish government. It cost almost U.S. $3 billion, and was completed without major delays in just 39 months. A unique aspect of the project was its scale, along with its complex organizational structure and technical specifications. This Build- Operate-Transfer (BOT) project venture involved a record number of 74 official sub-contractors from over 20 countries, all of whom benefitted from the generous guarantee of revenue provided by the Turkish Government.

A BOT deal refers to projects where the sponsor (typically a public-sector agency) contracts with a prime contractor, that assumes the responsibility for completing the construction and operating it for a predetermined period, before turning the ownership back over to the sponsor. During this predetermined period, the contractor can recoup its investment through its operations and/or through a guaranteed rate of return. Despite the fact many large-scale infrastructure projects are completed as a BOT venture – benefitting numerous multinational contractors highly attractive business opportunities – the international business literature has only given scant attention to this topic. Yet, the global contracting sector is massive. In 2016, top 400 contractors generated over $367 billion revenues worldwide (Engineering News Record, 2017).

Several aspects of the BOT projects are unique and challenging. Financing, for example, takes on critical importance due to the massive scale and extended time frame of the projects. The pre-award phase of such projects usually involves a lengthy negotiation process to account for any contingencies, including changes in time frame, stability of demand, rate of return and financing.

As BOT contracts have been used for decades, particularly in the engineering, design and construction industries, their impact has been studied extensively in the literatures on economics, finance, project

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https://doi.org/10.1016/j.ibusrev.2018.01.003
Received 24 August 2017; Received in revised form 5 December 2017; Accepted 9 January 2018
0969-5931/

management, and public policy (Grimsey & Lewis, 2004). However, to date, only a few studies have sought to explore BOT projects as a mode of international market entry. In addition, their unique benefits and risks are not well known or acknowledged. The leading academic journals such as the *International Business Review, Journal of International Business Studies, Journal of World Business,* and *Global Strategy Journal* have not yet adequately addressed this important topic. An exception is a recent article on mega projects in *International Business Review* (Kardes, Ozturk, Cavusgil, & Cavusgil, 2013). A few textbooks have also recognized the importance of this topic (e.g., Cavusgil, Ghauri, & Akcal, 2013; Cavusgil, Knight, & Riesenberg, 2017).

The aim of this paper is to contribute to the international business literature by discussing BOT projects as a hybrid form of international market entry. In illustrating unique aspects of BOTs, we detail a case study of a mega construction project that was recently completed in the rapidly transforming Turkish economy. The intent is to provide an in-depth understanding of BOTs – a particularly common mode of market entry by western multinationals that conduct business in developing economies. For western firms eager to cultivate emerging markets, BOT projects often provide a lasting value; through their first-time exposure in such an economy, follow-up projects typically arise.

The remainder of this paper is organized as follows. Next, we contrast BOT projects to Public-Private Partnerships. The latter is akin to BOTs and prevalent in advanced economies. We then discuss BOTs as a hybrid form of international market entry, combining features of both contractual ventures and foreign direct investment. We follow with the section that highlights key characteristics of BOTs. Next, an in-depth case study of Yavuz Sultan Selim Bridge is provided. We conclude by offering some thoughts on the future of BOT projects, and future research avenues.

1. BOT projects vs. public-private partnerships

BOT projects are akin to the so called *Public Private Partnerships* (PPPs) often discussed in the advanced economies today. While these ventures are typically known as BOT in the developing economies, the more common terminology in advanced economies is the PPP (see, e.g., Hodge & Greve, 2007).

Public-Private Partnerships spread the risks associated with funding and construction of major construction projects between the private and public sectors. The nature of these projects varies greatly, depending on the level of risk and responsibility transferred to the private sector, which may typically include the design, construction, operation, maintenance and financing of the asset or service (see, e.g., Grimsey & Lewis, 2007).

PPPs are typically long-term agreements between a public and a private sector partner, where the service delivery objectives of the government are aligned with the profit objectives of the private partner (OECD, 2008). The following definition captures the essence of PPPs": "a long-term contractual relationship between a state or state-owned entity and a private-sector entity whereby the latter delivers and funds public services using a capital asset, sharing the associated risks with the state or state-owned entity (OECD, 2014: 11). Thus, a complementary of objectives and capabilities is achieved between the partners, enabling the culmination of a major infrastructure project.

Public-private partnerships generally feature the following key elements:

- A long-term contract between a public party and a private sector entity;
- Contracts involving the design, construction, financing and operation of the infrastructure by the private entity;
- Agreement over payments to the private party for the use of the facility, made either by the public authority or by the general public as users of the infrastructure, or by both of them.
- Retention of public ownership of the infrastructure, either from the beginning of the project or at the end of the PPP contract (Yescombe, 2007).

There are at least six major variations of Public Private Partnerships, including service contracts, management contracts, lease contracts, concessions, build-operate-transfer (and similar arrangements such as *build-own-operate*, *design-build-operate*, etc.), and joint ventures (Skilling & Booth, 2007). As a variation of a PPP project, the BOT model "enables the public sector to make use of private capital in a way that enhances the possibilities for both elected governments and private companies" (Hodge and Greve, 2007: 546). It also "allows a government to build much-needed infrastructure at little or no cost to taxpayers," (Levy, 1996: 24) and is especially suitable for emerging market governments with scarce funding capabilities. As a key part of a BOT agreement, an engineering or a construction consortium generally receives a concession from a government or a public entity "to finance, design, construct, and operate a facility stated in the concession contract" (Jensen and Petersen, 2013: 222).

The origins of the BOT model can be traced back to 1660, when the U.K. Government commissioned the construction and engineering of turnpike roads (Auriol & Picard, 2011), "permitting private concerns to develop and operate infrastructure projects" (Levy, 1996). In Turkey, the first official facility that operated under a BOT model was commissioned in the early 1980s by then prime minister Turgut Özal, as a part of an enormous privatization program (Menheere & Pollalis, 1996). Thus, PPPs have a long history of implementation in the western world.

2. BOT – a hybrid mode of foreign market entry

The 'market entry mode' and the 'internationalization mode' are two closely related and often discussed concepts in international business. Most international business scholars prefer to use the term *foreign market entry modes and strategies (*e.g., Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Buckley & Casson, 1998; Erramilli & Rao, 1990; Root, 1998). Others refer to the same modes or strategies as *modes of internationalization* (e.g., Grandinetti & Mason, 2012; Oehme & Bort, 2015).

While these concepts are closely related, they are fundamentally different. To understand the mode of internationalization, it is useful to refer to the value chain activities of a firm, including research and development, global procurement, production, marketing, distribution, and sales and services (Cavusgil et al., 2017). To reinforce its competitive position, a firm may prefer to conduct research and development activities abroad, or source various inputs from a wide variety of countries. By conducting some of these upstream value chain activities abroad, a firm would acquire an international identity. In contrast, the mode of market entry is a narrower concept that includes exporting, such as direct and indirect exporting, contractual activities such as franchising and licensing, and foreign direct investment, including sole and joint ventures.

Foreign market entry modes are not limited to 'generic modes of market entry,' such as exporting, contractual agreements, and investment modes described above. "Hybrid modes of market entry," that is, strategies of mixed origins or compositions, that have at least two components, add further complexity to the modes of market entry. As an example; "Build-Operate-Transfer" mode is a combination of contractual agreement modes and investment modes and, therefore, a perfect example of such a hybrid model.

A BOT agreement implies temporarily granting a contractual concession from a public body to a private entity. In other words, a BOT agreement includes a concession from a government to a company, permitting the latter the right to operate a specific business for a defined time frame, and at the discretion of the government. Similarly, BOT has an investment element as well. Under the BOT model, identical to all investment entry modes, the company invests resources, including funds, time and technical and managerial expertise, in a foreign country