

An Empirical Study On Firms' Command Over Transactions With Letter Of Credit And Formation Of Reserves Offset

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Extensive Summary

The payment through letter of credit as a method of payment considered the most important one among the methods of payment used in foreign trade transactions, but subject to high likelihood of encountering problems is one of the common issues that foreign trade firms usually deal with. Reserve offsets arising in implementing this payment method may lead to serious unfavorable situations in the firms' financial positions by causing unexpected deviations in their budget balance. In this context, it can be said that the rate of encountering problematic cases in import credit practices in Turkey is relatively high as compared to the world average.

In this study, the firms' command in practice over payment through letter of credit and the situations in which they experience problems of reserves offset have been investigated. For this purpose, the data have been collected through a questionnaire study conducted by making face-to-face interviews with the authorized persons of 42 corporations which are located and currently operate in the big industry zones of Bursa, the second city in terms of foreign trade performance for the years 2014, 2015 and 2016. In light of the responses given by these firms operating in various manufacturing sub-sectors, any potential connections between the respondents' certain characteristics such as volume of foreign trade as a measure of firm's financial power and level of development, and the special variables included have been argued and tested with four main hypotheses via available statistical techniques in order to reach remarkable functional conclusions. The results of the analyses carried out within the scope of the study provide no sufficient evidence suggesting a statistically significant relationship between command of transactions through letter of credit and the frequency of living problems about reserves offset.

On the other side, in the coverage of the study is an examination of possible reasons why firms live troubles related with reserves offset. According to the results of the previous research done on this topic, among the foremost three documents for which the frequency of living reserves offset problems has been relatively high are

commercial invoice, bill of loading, and insurance policy, so the focus of our study is on these three documents. Our empirical findings supply sufficient evidence suggesting a statistically significant connection between foreign trade volume and living reserves offset problems due to misapplications in commercial invoices. Moreover, the firms with relatively high volumes of foreign trade are less likely to encounter such problems.

Also, no significant connection could be suggested between foreign trade volume and lived problems caused by wrong applications in using bill of lading. Similarly, our findings present no sufficient proof to be able to conclude a significant relationship between foreign trade volume and problematic cases in use of insurance policies. On the other hand, the data show that the firms with high volumes of foreign trade had no reserves offset problems in both cases.