

## PAPER DETAILS

TITLE: Neden Bazi Isletme Gruplari Digerlerinin Gerisinde Kalmaktadir? Türkiye'deki Bölgesel Sebeke Örgütleri Örneği

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PAGES: 325-334

ORIGINAL PDF URL: <https://dergipark.org.tr/tr/download/article-file/1724469>

## Neden Bazı İşletme Grupları Diğerlerinin Gerisinde Kalmaktadır? Türkiye'deki Bölgesel Şebeke Örgütleri Örneği

## Why Some Types of Business Groups Fall Behind Others? The Case of Regional Networks in Turkey

Hüseyin ÖZGEN\*  
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### ÖZET

Bugüne kadar bilim adamları sıklıkla gelişmiş ya da ekonomik olarak önemli görülen iş gruplarını inceleme konusu yapmaktaydılar. Ancak son zamanlardaki araştırmalar aynı pazarda ortaya çıkan ancak performans ve yaş, büyüklük, ölçek, sahiplik, finansal kaynaklar, içsel sermaye pazarları ve devlet ilişkileri gibi bir takım örgütsel belirleyiciler açısından farklılaşan iş gruplarını ele almaktadır. Bu tür iş gruplarından bazıları, özellikle Türkiye için sıklıkla aile işletmeleri, bölgesel, ulusal ve uluslararası pazarlarda büyüyerek önemli rol oynarken bazıları başarısız olarak yok olmaktadır. Bu makalede neden bazı iş gruplarının diğerleri gibi başarılı olamadıklarının incelenmesi amaçlanmıştır. Kurumsal bağlamın örgütlerin büyümelerini nasıl sınırladıkları Türkiye odağında ele alınmaktadır. Makalede öncelikle iş gruplarının tanımlanmasına çalışılmış, Türkiye'deki iş grupları hakkında kısa bilgi verilmiştir. İkinci olarak iş gruplarını konu alan araştırmalardaki kurumsal yaklaşıma değinilmiş, geçerli kurumsal boşluklar, sosyal ilişkiler, devlet icraatları gibi iş gruplarının oluşumunu ve gelişimini etkileyen faktörler ele alındıktan sonra üçüncü olarak Türkiye'nin bölgesel ağının nasıl oluşabileceği tartışılarak, son olarak gelecek araştırmalar için bir takım öneriler getirilmeye çalışılmıştır.

**Anahtar Kelimeler:** İş grupları, örgütsel büyüme, gelişmekte olan pazarlar, Türkiye

**Çalışma Türü:** Araştırma

### ABSTRACT

To date, much of the business groups(BGs) literature has focused on mature and/or economically more important types of groups in their respective markets such as *the chaebol* (jae-bul) in South Korea, *the quanxi qiye* in Taiwan, *the konglomerat* in Indonesia, *the family business groups* in India, *the family holdings* in Turkey, *the grupos economicos* in Latin America, *the twenty-two families* of Pakistan, financial-industrial groups or FIGs (*semibankirschchina*) in Russia, and *the qiye jituan* in China. Yet, more recent analyses of BGs recognize distinct types of BGs which emerge in the same markets but differ in terms of their performances and a variety of organizational characteristics such as age, size, scope, ownership status, financial resources, and relations with the state business groups.

Alliances composed of small and medium sized firms, which are often loosely connected through joint production, joint marketing, and knowledge sharing networks, are identified as regional networks in Turkey (Karademir, 2004; Yaprak, Karademir and Osborn, 2007). Member firms of these networks seek benefits such as gaining access to more advance technological and marketing knowledge. In most cases, member firms of these networks establish relatively stronger social and economic ties to policy makers at the local and national levels compared to their stand alone counterparts. Some of them appear to be networks of second-tier and third-tier suppliers. Some others evolve into hybrid structures which would be known as multiownership holding company structure in Turkey. For the purposes of this study, we review the literature on regional networks and examine institutional factors affecting their evolutionary dynamics.

BGs are often conceptualized as groups of firms which are legally independent but connected through economic, social, and legal ties. Yet, it should be considered that BGs may vary according to some organizational characteristics such as age, size, scope, status of ownership, axes of solidarity, administrative structure, and network characteristics. A review of current literature illustrates that these complex entities which emerge in different institutional and economic settings considerably vary from each other (Yaprak, Karademir and Osborn, 2007). While we are relatively more informed about the varying characteristics of BGs in different emerging markets, we are not informed as well about whether different types of BGs exist in these markets, and on what basis and to what extent do they differ from each other.

More recent analyses of BGs recognize distinct types of BGs which emerge in the same markets but differ in terms of their performances and a variety of organizational characteristics. For example, Karademir (2004) identifies four types of BGs in Turkey; (a) Dominant Business Groups-DBGs, (b) Emergent Business Groups EBGs, (c) Encouraged Networks-ENs, and (d) Regional Networks-RNs. The first two of these are family owned and controlled BGs which emerged in different institutional and economic periods of Turkey. With a few exceptions initial investments of DBGs date back to 1950s. These BGs evolved along with the "roller coaster" economy and political climate of the country. Today, they dominate key industrial sectors, are likely alliance partners for multinationals, and favorable participants of the big privatization projects. EBGs, on the other hand, are

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mostly established after 1980s, in the Outward Growth and Liberalization Period of Turkey. Today, some of the subsidiaries of EBGs are important players in key industrial sectors. Some of these EBGs grow faster than their counterparts as long as they find strong state backing. A review of the studies on political economics of Turkey demonstrates that economic policies throughout the various institutional and economic periods since the foundation of the republic in 1923, provided accumulation of capital in the hands of family owned BGs (Karademir et al., 2005; Karademir and Danışman, 2007). On the other hand, initiatives for encouraging formation of networks of small and medium sized enterprises were easily broken. It can be articulated that while outward growth and liberalization policies of 1980s indirectly supported formation of regional networks in the country, legislation regarding the formation of Sectoral Foreign Trade Companies which largely borrowed from the Japanese trading company model directly encouraged formation of networks of small and medium sized enterprises. Interestingly, a few of these encouraged networks transformed into BGs composed of loose networks. Some of them reached very high export volumes; some of them suffered from poor performance; some survived thanks to strong state backing; some blueprinted institutionalized growth patterns of family owned business groups and diversified into a wide range of areas; some of them disbanded; some others still survive.

Our examination of the formation and evolution of regional networks in the Turkish business context suggests that in parallel with the theoretical reasoning there are set of institutional factors limiting organizational growth. First, we observe that formation and evolution of regional networks are highly dependent on clustering of firms in a region and complementary relations among both small and medium sized enterprises and large scale companies. Clustering of firms in a region and formation of well-built production, service, marketing, and knowledge relations substitute institutions and fill institutional voids. However, institution substitution role of regional networks are limited in the absence of network building and/or organizing institutions such as medium and/or large size companies, multinationals, state owned enterprises, chambers, and associations. Second, we observe that social relations which form on the region, ethnicity, religion basis become liability rather than asset in the absence of proper economic policy orientations and state backing. In less developed regions, social networks of entrepreneurs impose uniform behaviors. Third, we observe that state activity plays an important role in the formation and evolution of regional networks.

In this paper, we aim to examine why some types of BGs do not prosper as well as other types, how institutional context limits organizational growth with a special emphasis on Turkey. Our paper is organized as follows. First, we define BGs and briefly explain the types of BGs in Turkey. Second, we present the institutional approach to the study of BGs. Third, we present discussion of formation and evolution of regional networks in Turkey. Finally, we present a discussion and propositions for future research.

**Keywords:** Business groups, organizational growth, emerging markets, Turkey

**Paper Type:** Research paper

## INTRODUCTION

To date, much of the business groups(BGs) literature has focused on mature and/or economically more important types of groups in their respective markets such as *the chaebol* (jae-bul) in South Korea, *the quanxi qiye* in Taiwan, *the konglomerat* in Indonesia, *the family business groups* in India, *the family holdings* in Turkey(For a discussion of business groups with diverse characteristics in Turkey see, e.g., Yaprak, Karademir and Osborn, 2007)., *the grupos economicos* in Latin America, *the twenty-two families* of Pakistan, financial-industrial groups or FIGs (*semibankirschchina*) in Russia, and *the qiye jituan* in China. Yet, more recent analyses of BGs recognize distinct types of BGs which emerge in the same markets but differ in terms of their performances and a variety of organizational characteristics such as age, size, scope, ownership status, axes of solidarity, financial resources, internal capital markets, and relations with the state business groups.

Some distinct types of BGs prosper and play significant roles initially in their regional, later in national and international markets. Yet some others do not prosper as well, fall behind and/or disappear. In this paper, we aim to examine why some types of BGs do not prosper as well as other types, how institutional context limits organizational growth with a special emphasis on Turkey. First, we define BGs and briefly explain the types of BGs in Turkey. Second, we present the institutional approach to the study of BGs and relevant institutional voids, social relations, and state activity and rent seeking arguments which explain BG formation and evolution in emerging markets. Third, we present discussion of formation and evolution of regional networks in Turkey. Finally, we present a discussion and propositions for future research.

## Conceptualizing Business Groups

Scholars from diverse disciplines such as economics, sociology, political economics, finance, and management have conceptualized and examined BGs through the lenses of various theoretical perspectives (Karademir, 2004, Khanna and Yafeh, 2007). BGs are often conceptualized as groups of firms which are legally independent but connected through economic, social, and legal ties. Yet, it should be considered that BGs may vary according to some organizational characteristics such as age,

size, scope, status of ownership, axes of solidarity, administrative structure, and network characteristics. A review of current literature illustrates that these complex entities which emerge in different institutional and economic settings considerably vary from each other (Yaprak, Karademir and Osborn, 2007). While we are relatively more informed about the varying characteristics of BGs in different emerging markets, we are not informed as well about whether different types of BGs exist in these markets, and on what basis and to what extent do they differ from each other.

More recent analyses of BGs recognize distinct types of BGs which emerge in the same markets but differ in terms of their performances and a variety of organizational characteristics. For example, Karademir (2004) identifies four types of BGs in Turkey; (a) Dominant Business Groups-DBGs, (b) Emergent Business Groups EBGs, (c) Encouraged Networks-ENs, and (d) Regional Networks-RNs. The first two of these are family owned and controlled BGs which emerged in different institutional and economic periods of Turkey. With a few exceptions initial investments of DBGs date back to 1950s. These BGs evolved along with the “roller coaster” economy and political climate of the country. Today, they dominate key industrial sectors, are likely alliance partners for multinationals, and favorable participants of the big privatization projects. EBGs, on the other hand, are mostly established after 1980s, in the Outward Growth and Liberalization Period of Turkey. They tended to diversify into unrelated industries as long as they found favorable conditions such as investment and export promotions. Today, some of the subsidiaries of EBGs are important players in key industrial sectors. The number of their subsidiaries in the Largest 500 Companies List of Turkey, increase each year. Some of these EBGs grow faster than their counterparts as long as they find strong state backing. A review of the studies on political economics of Turkey demonstrates that economic policies throughout the various institutional and economic periods since the foundation of the republic in 1923, provided accumulation of capital in the hands of family owned BGs (Karademir et al., 2005; Karademir and Danişman, 2007). On the other hand, initiatives for encouraging formation of networks of small and medium sized enterprises were easily broken. It can be articulated that while outward growth and liberalization policies of 1980s indirectly supported formation of regional networks in the country, legislation regarding the formation of Sectoral Foreign Trade Companies which largely borrowed from the Japanese trading company model directly encouraged formation of networks of small and medium sized enterprises. Interestingly, a few of these encouraged networks transformed into BGs composed of loose networks. Some of them reached very high export volumes; some of them suffered from poor performance; some survived thanks to strong state backing; some blueprinted institutionalized growth patterns of family owned business groups and diversified into a wide range of areas; some of them disbanded; some others still survive.

### Literature on the Formation and Evolution of BGs

There are variety of theoretical lenses explaining formation and evolution of BGs in emerging markets. In recent years, the institutional, and the resource-based approaches appear as the most influential streams in the management literature. These research streams largely borrow from sociology and economics as well as organization studies. Scholars, for example, who have examined formation and evolution of BGs from an institutional perspective, have developed *market imperfections/institutional voids argument*, *social relations argument*, and *state activity/rent seeking argument*. On the other hand, scholars who have adopted the resource-based perspective have developed *project execution capability argument*. For the purposes of this study we take an institutional approach and investigate poor performance of some BG types. Thus, we explain each argument before going through a discussion of formation and evolution of *regional networks* in Turkey. Our literature review largely draws on work by Karademir (2004), and Yaprak et al. (2007).

Market imperfections in the product, capital and labor markets increase the costs of doing business in emerging economies (see, example, Leff, 1976, 1978). Entrepreneurs and/or owner families tend to diversify their current businesses into wide range of related and unrelated industries and form network type of production, finance, and human resources linkages among their businesses. These internal transaction linkages create value for member firms/subsidiaries as long as they have cost advantages over market transactions. Very similar to economists' argument, sociologists explain formation and evolution of BGs by their *institutional voids argument* which suggests that BGs substitute market institutions which are totally absent or dysfunctional in the emerging country context. BGs substitute institutions through establishing group affiliated institutions such as banks, media companies, universities, R&D centers etc.,

and by playing an intermediation role among member firms/subsidiaries. For example, BGs substitute financial institutions when they own banks and/or shift income, risk, financial resources among member firms/subsidiaries; they substitute contract enforcement and/or efficient judicial systems when they develop trust-based business relations among their members and/or subsidiaries; they substitute labor markets when they employ limited number of well educated and talented employees for a wide variety of projects, and when they establish their own universities. However, when BGs tend to substitute institutions and play an intermediation role among member firms/subsidiaries their managerial complexities increase and this drives additional costs (Khanna and Palepu, 1997).

Some sociologists comment that gains realized by social relations as well as trade relations among individual entrepreneurs and/or family members play significant roles on formation and evolution of BGs in emerging markets. According to the sociologists' *social relations and solidarity argument*, region, ethnicity, kinship, religion or previous business relations form the basis of social relations and solidarity among member firms/subsidiaries (Grannovetter, 1994). Social relations and solidarity improve communication, access to resources and joint action such as R&D, design, production, marketing etc. Yet, social ties may also harm the BG or member firms/subsidiaries as well. For example, over coordination may cause loose of organizational flexibility, hierarchical control may hinder entrepreneurial orientation, and financial dependence may increase financial risk (Keister, 1998).

Political economists, comment that gains realized through state backing for the purposes of creating an indigenous business class and/or sustaining economic growth explain formation and evolution of BGs in emerging markets. According to the political economists' *state activity/rent seeking argument*, formation and evolution of BGs is a function of state and society relations. Economic and/or political priorities and preferences of state elites determine which social groups and often who will receive economic favors. These favors may vary among countries as well as institutional and economic time periods of a country. Some of these favors include but not limited to import and export licenses, preferential credits, tax rebates, investment incentives, export promotions, government contracting, and state backing in privatization projects (see, example, Karademir et al., 2005 for an articulation on the influence of state activity on the formation and evolution of family owned BGs in Turkey). As these examples suggest, there are various state activities which generate rent for BGs. Proponents of *state activity/rent seeking argument* suggest that individual entrepreneurs or families become socially counterproductive rent seekers. Those who establish close relations with the state elites and/or policy makers receive rents and achieve sustainable organizational growth (Encarnation, 1989; Schwartz, 1992).

### Formation and Evolution of Regional Networks

Alliances composed of small and medium sized firms, which are often loosely connected through joint production, joint marketing, and knowledge sharing networks, are identified as regional networks in Turkey (see, example, Karademir, 2000; Karademir, 2004; Yaprak, Karademir and Osborn, 2007). Member firms and/or subsidiaries of these networks seek benefits such as gaining access to more advance technological and marketing knowledge, sustaining higher quality standards in production, and better connect to marketing channels. In most cases, member firms/subsidiaries of these networks establish relatively stronger social and economic ties to policy makers at the local and national levels compared to their stand alone counterparts. In some respects these networks are very similar to the industrial networks of North Italy. Some of them appear to be networks of second-tier and third-tier suppliers. Some others evolve into hybrid structures why would be known as multiownership holding company structure in Turkey. For the purposes of this study, we review the literature on regional networks and examine institutional factors affecting their evolutionary dynamics.

Formation and evolution of regional networks appear to be highly associated with clustering of firms in a region and social networks among entrepreneurs as well as the region's integration to the national and international economy (Eraydin, 2005; Gordon and McCann, 2000). Metropolitan areas, which attract local and international investments in emerging markets, appear to be more appropriate settings for formation and evolution of regional networks in the initial stages of development. On the other hand, evolution of regional networks is sluggish in peripheral regions which suffer from poor guidance and insufficient support of the state, and the absence of the organizing activities of medium and/or large size

buyer firms (Ozcan, 1995). Yet, appropriate policy measures combined with entrepreneurial skills and other resources such as in the case of Turkey (Barlow and Senses, 1995) nurture clustering and formation of regional networks also in less developed regions.

Regional specializations and existence of complementary firms in national industry clusters create favorable conditions for the emergence and growth of *regional networks* in Turkey. Some of the clusters in Turkey are located in metropolitans such as Istanbul, Bursa, Ankara, Izmir, and Adana which established themselves as major industrial centers prior to the outward growth and liberalization policies of the 1980s. Others are located in a set of provinces which exhibited strong growth in manufacturing output and employment in the low cost and high export volume sectors since reorientation of the economic policy from import substitution to export led growth (Filiztekin and Tunalı, 1999; Falcıoglu and Akgungor, 2008).

Several identifiable clusters specialized in different types of production include, textile and engineering clusters in Istanbul (Akgungor, 2006), textile and machinery production clusters in Bursa (Eraydin and Armatli-Koroglu, 2005), machinery, electronics (Eraydin and Armatli-Koroglu, 2005), and furniture (Oz, 2002) clusters in Ankara, traditional brick manufacturing and field crops processing clusters along with emergent machinery production cluster in Corum (Eraydin, 2002b), furniture cluster in Kayseri (Yeniceri, 2002), food products and machinery production clusters in Izmir and Manisa (Kumral and Deger, 2003), textile clusters in Adana, Mersin, and Hatay (Akgungor, 2006), towel and bathrobe clusters in Denizli (Oz, 2002), textile and machinery production clusters in Gaziantep (Eraydin, 2002b). These clusters are at different stages of their growth. It is likely that industrial concentrations and regional specializations as well as geographical locations of them will further vary depending on a set of institutional and market conditions in later stages of their development.

While improvements in the functioning of markets and internationalization create a tendency for industrial concentration and regional specialization in the national industrial clusters (Falcıoglu and Akgungor, 2008), some regional networks which primarily emerge in these clusters later expand into new geographical areas. For example, supply networks of OEMs, which were primarily located in the industrialized Marmara region later expanded into other industrial centers and finally to some emergent regions at central and southern parts of the country (Okten, Sengezer, Camlibel, and Evren, 1998). At present, supply networks of 19 OEMs in the automotive industry appear as a three-level spatial network. The first-level network is geographically located in the industrialized region within a triangle connecting three main automotive production centers namely Istanbul, Bursa, and Adapazari. This network is composed of 13 OEMs and %77 of first-tier supplier firms. The second-level network, which also includes the first one, is geographically located in a broader region within a triangle connecting three traditional industrial centers namely Istanbul, Ankara, and Izmir. This second-level network adds 5 OEMs and %17 of total first-tier supplier firms to the first one so the second-level network reaches to 18 OEMs and %94 of all first-tier suppliers in the country. Finally, the third-level network, including the first two networks, geographically expands to the less developed provinces and adds the remaining 1 OEM and %6 of total first-tier suppliers in the less developed provinces (Evren, 2002).

In addition to their spatial characteristics, regional networks also vary in according to other organizational and relational characteristics. For example, Evren (2002) identifies four distinct regional networks in the supply chain of Tofas, a joint venture of Koc Holding of Turkey and Fiat of Italy. These networks which we relabeled as the loose network, the quasi-collaborative network, the constrained international network, and the constrained local network differ in terms of the size of the network members, technological sophistication, features of the contracted work, dependency on the buyer as well as spatial proximity. Table 1 is illustrative for characteristics of these distinct networks.

**Table 1.** Different Networks in the Supply Chain of Tofas

|  | Network 1<br>The Loose Network  | Network 2<br>The Quasi-Collaborative<br>Network   | Network 3<br>The Constrained International<br>Network   | Network4<br>The Constrained<br>Local Network   |
|--|---|---|---|--|
| Supplier-buyer relationships   | Suppliers produce their own brands and most of them have strong relations with other buyers                   | Longevity of the relations are very vulnerable to the decisions made by Tofas   | As a requirement of the license agreement between Tofas and Fiat, Tofas buys from multinational suppliers' subsidiaries located in Turkey which ally with Fiat in the design process. | Most advanced form of linkages in the company's local supply network. Yet, license agreement between Fiat and Tofas limits the co-design activities. |
| Supplier characteristics   | Medium sized enterprises with an average turnover of \$10m. Some use foreign licenses.                        | Small sized enterprises with an average turnover of \$1m. None use foreign license.   | Subsidiaries of MNCs with an average turnover of \$23m.   | Mostly medium and large size suppliers of local origin with an average turnover of \$18m. Some use foreign licenses.                                 |
| Features of the contracted work and the supplied product               | Provision of raw materials and standardized parts including various plastic and metal joint parts, wires etc. | Provision of low value added products such as provision of some plastic and aluminum parts or specialist services such as surface treatment and machining                               | Provision of high value added and vital parts such as gearboxes, brakes, clutches, suspension and exhaust systems.  | Provision of high added value, visible, and bulky equipments such as scars, dashboards, inner accessories, and various sheet body parts.             |
| Production technology  | Mass production   | Labor intensive   | Extensive use of FMS. Efforts to extend this to the lower tiers of the supply chain   | Emphasis on FMS, JIT, and total quality management   |
| Suppliers dependency on customer in terms of sales                     | Tofas is an ordinary customer   | Tofas is considered the most important customer   | Tofas is one of the main customers  | Tofas is one of the main customers   |
| Shareholding relations   | No shareholding relations   | No shareholding relations   | No shareholding relations   | Some holds shares of Tofas via Koc Holding   |
| Major threats and/or opportunities in the relations                    | The nature of products demanded do not necessitate change in the relations                                    | Competitive pricing, multiple sourcing, and pressures to adopt new technologies influence relations. However, relations will survive as long as Tofas demands low value added products. | Fiat's license agreement with Tofas limits the relations to simple buyer-supplier relations. However, this may change as more autonomy is given to Tofas.                             | As more autonomy is given to Tofas these suppliers may involve in more joint projects  |
| Spatial distribution of suppliers                                      | Highly dispersed with an average distance to Tofas plant is 240 km.   | Remarkable clustering in the region where Tofas plant is located  | Clustered in a very close traditional industrial province (25 km.) called Bursa   | Some are clustered in Bursa (25km) others are dispersed.   |
| The importance of spatial proximity in supplier customer relationships | Although there are transportation costs, proximity does not that much matter.                                 | Proximity to Tofas is of primary importance.  | Localizing in an area where skilled labor can be found is more important than proximity to Tofas plant.   | Proximity is important in terms of JIT policy of Tofas. Distant suppliers assume that maintaining good relations is much more important.             |

**Adopted from:** Evren, Y. (2002), "Supply Networks in the Car Industry. Do Peripheral Economies Perform Specific Tasks? Lessons from the Turkish Car Industry", *International Planning Studies*, 7(4):283-302

Social networks characterize regional networks. Although, direct evidence on the formation, and evolution of interfirm relations in regional networks is not sufficient, the study of local ties in small business networks (Ozcan, 1995; Oba and Semercioz, 2005), networking patterns of firms in industrial clusters (Eraydin, 2005; Eraydin and Armatli-Koroglu, 2005), and evolution of the buyer-supplier networks in the automotive industry (Gules, Burgess, and Lynch, 1997; Evren, 2002) partially shed light on the subject. One of the concerns is whether social networks always play a positive role on the formation and evolution of regional networks? Ozcan (1995) assume that social networks of entrepreneurs primarily including familial, friendship, and kinship as well as religious ties impose uniform behavior on entrepreneurs in the less developed and conservative regions. Thus, path-dependent behaviors arise, which hinder innovation, technological progress, and integration to the international markets. Yet, appropriate policy measures combined with entrepreneurial skills and other resources (Barlow and Senses, 1995) may create path-breaking change as such social networks of the entrepreneurs become an asset rather than a liability in this emerging context.

More recent analyses of regional networks in Gaziantep, Kayseri, and Denizli provinces appear to be supportive of the assumption that social network of entrepreneurs may become an asset rather than a

liability when formation and evolution of these networks are supported via appropriate policy measures. For example, an early examination of social networks of entrepreneurs in Gaziantep, Kayseri, and Denizli suggested that local ties of small sized firms (employing 50 or fewer workers in the Turkish context) were weak when mutual cooperation, collaboration, and long term interests were considered. Besides, social networks were considered to be dysfunctional at the time (Ozcan, 1995). More recent studies, however, identify competitive industrial clusters in Gaziantep (see, e.g., Eraydin, 2002b), Kayseri (see, e.g., Yeniceri, 2002), and Denizli (see, e.g., Oz, 2002; Eraydin, 2002a) and emphasize the role of social networks perform in these clusters. See Table 2 for illustration of descriptive information on towel and bathrobe cluster in Denizli as well as home textile and emerging machinery cluster in Bursa, and defense cluster in Ankara.

**Table 2.** The Main Characteristics of Denizli, Bursa, and Ankara Clusters

| Factors/Conditions                | Denizli  | Bursa  | Ankara   |
|-----------------------------------|--|--|--|
| The type of manufacturing cluster | Industrial district  | Innovative manufacturing cluster   | High-tech industrial cluster   |
| Area of specialization            | Textiles, especially towels and bathrobes (more than 50% of total production of Turkey in these items) | Textiles for home furnishing   | Machinery, electronics, the defense industry, and software                 |
| The main character of the cluster | Traditional<br>Small artisanal, and highly specialized family owned firms located in close proximity   | Traditional/Modern<br>Small artisanal, and highly specialized firms as well as large multinational companies co-operating with these small enterprises | Modern/High-tech<br>High-tech firms of different size                      |
| Main observed benefit             | Co-operation in production and marketing for international markets                                     | Collective competition in specialized fields   | Weak collaborative environment<br>Market relations with state institutions |
| Technical dynamic                 | Complementarities  | Adaptation and product development for international markets   | Adaptation of new technologies for national market                         |
| Social capital                    | Collaborative action, trust, and reciprocity<br>Strong social networks                                 | Competitive collaboration  | Access to qualified labor  |

**Source:** Eraydin, A., B., Armatli-Koroglu (2005), "Innovation, networking and the new industrial clusters: the characteristics of networks and local innovation capabilities in the Turkish industrial clusters", *Entrepreneurship & Regional Development*, 17, July (2005):237-266.

The formation patterns of firms located in Denizli, Bursa, and Ankara clusters gives us an idea about the network characteristics at both low-tech and high-tech clusters. As it is illustrated in Table 3, firms in these clusters have developed weak ties. In the case of Denizli, for example, the most important linkages are production linkages at both the local and the regional levels. The most important production linkages include subcontracting linkages at the local and national levels, and raw material procurement activities at the national level. Marketing linkages of the firms, on the other hand, are well-built at the international level. In contrast to textile firms located in Denizli cluster, firms textile and machinery firms located in Bursa, and defense industry firms located in Ankara clusters do not have well built production relations at the local and national level. Thus they are relatively loose networks. Probably, clustering of defense industry companies in Ankara, the capital city, is much more associated with concern about spatial proximity to state institutions and access to well educated work force. Thus, emergence of regional networks is less likely in the absence of a network organizer such as state or multinational company (Eraydin and Armatli-Koroglu, 2005). Yet, these axioms need further evidence. It would be useful to collect network data as to identify networks and their characteristics in these clusters.



Table 3. The Types of Linkages in Denizli, Bursa, and Ankara Clusters

| Types of Ties  | Denizli Cluster |                   |                 | Bursa Cluster  |                   |                 | Ankara Cluster |                   |                 |
|--|-----------------|-------------------|-----------------|----------------|-------------------|-----------------|----------------|-------------------|-----------------|
|  | Local Ties (%)  | National Ties (%) | Global Ties (%) | Local Ties (%) | National Ties (%) | Global Ties (%) | Local Ties (%) | National Ties (%) | Global Ties (%) |
| <b>Production Relations</b>                          | <b>67.00</b>    | <b>42.10</b>      | <b>17.20</b>    | <b>33.50</b>   | <b>23.80</b>      | <b>5.97</b>     | <b>25.60</b>   | <b>8.12</b>       | <b>33.81</b>    |
| Ties with raw material suppliers                     | 6.80            | 38.95             | 9.05            | 18.34          | 18.97             | 5.45            | 12.70          | 6.79              | 23.96           |
| Ties with subcontractors                             | 27.30           | 3.20              | 0.00            | 5.34           | 2.48              | 0.26            | 1.70           | 0.11              | 0.68            |
| Ties with parent firms                               | 30.30           | 0.00              | 7.30            | 1.53           | 0.67              | 0.00            | 1.10           | 0.15              | 0.68            |
| Ties with suppliers                                  | 2.70            | 0.00              | 0.90            | 8.29           | 1.68              | 0.26            | 10.20          | 1.07              | 8.50            |
| <b>Service Relations</b>                             | <b>11.60</b>    | <b>37.9</b>       | <b>3.00</b>     | <b>8.96</b>    | <b>1.36</b>       | <b>0.26</b>     | <b>7.10</b>    | <b>0.66</b>       | <b>3.14</b>     |
| Ties with consultancy firms                          | 0.80            | 2.10              | 0.00            | 1.87           | 0.64              | 0               | 0.90           | 0.11              | 1.19            |
| Ties with private banks                              | 4.30            | 11.60             | 0.90            | 3.35           | 0.16              | 0               | 2.90           | 0.25              | 1.10            |
| Ties with state owned financial inst.                | 0.00            | 16.80             | 0.00            | 0.85           | 0.08              | 0               | 0.90           | 0.08              | 0.00            |
| Ties with technical service firms                    | 1.90            | 2.10              | 2.20            | 1.13           | 0.16              | 0.26            | 0.80           | 0.09              | 0.85            |
| Ties with state owned technical service institutions | 1.40            | 3.20              | 0.00            | 0.68           | 0.00              | 0.00            | 0.90           | 0.04              | 0.00            |
| Ties with universities                               | 1.40            | 2.10              | 0.00            | 0.17           | 0.00              | 0.00            | 0.30           | 0.02              | 0.00            |
| Ties with private technical education companies      | 0.50            | 0.00              | 0.00            | 0.68           | 0.24              | 0.00            | 0.20           | 0.05              | 0.00            |
| Ties with state owned education inst.                | 1.40            | 0.00              | 0.00            | 0.23           | 0.08              | 0.00            | 0.20           | 0.01              | 0.00            |
| <b>Marketing Relations</b>                           | <b>4.60</b>     | <b>18.00</b>      | <b>75.40</b>    | <b>45.64</b>   | <b>69.64</b>      | <b>87.27</b>    | <b>64.30</b>   | <b>89.83</b>      | <b>55.23</b>    |
| Ties with customers                                  | 0.50            | 2.10              | 59.50           | 38.55          | 59.56             | 84.67           | 47.40          | 78.62             | 33.31           |
| Ties with intermediate firms                         | 0.30            | 7.40              | 15.50           | 1.76           | 1.04              | 0.52            | 5.60           | 7.53              | 8.58            |
| Ties with chain stores                               | 0.30            | 1.10              | 0.40            | 3.29           | 5.84              | 2.08            | 10.60          | 3.37              | 8.58            |
| Ties with foreign trade companies                    | 0.30            | 6.30              | 0.00            | 0.62           | 0.72              | 0.00            | 0.10           | 0.26              | 4.67            |
| Ties with co-operative marketing firms               | 3.20            | 1.10              | 0.00            | 1.42           | 2.48              | 0.00            | 0.50           | 0.05              | 0.08            |
| <b>Knowledge Relations</b>                           | <b>16.80</b>    | <b>2.20</b>       | <b>4.30</b>     | <b>11.90</b>   | <b>5.20</b>       | <b>6.50</b>     | <b>2.90</b>    | <b>1.38</b>       | <b>7.82</b>     |
| Ties with competitors                                | 4.60            | 1.10              | 0.00            | 6.25           | 2.48              | 3.12            | 0.08           | 0.67              | 2.38            |
| Ties with leader firms                               | 3.00            | 1.10              | 0.00            | 1.02           | 0.56              | 0.26            | 0.50           | 0.13              | 1.27            |
| Ties with customers and machinery suppliers          | 3.80            | 0.00              | 3.90            | 0.34           | 0.08              | 0.26            | 0.20           | 0.08              | 1.44            |
| Ties with trust circles                              | 2.70            | 0.00              | 0.40            | 2.53           | 1.60              | 2.86            | 0.70           | 0.24              | 1.53            |
| Ties with institutions, chambers, and associations   | 2.70            | 0.00              | 0.00            | 1.76           | 0.48              | 0.00            | 0.70           | 0.25              | 1.19            |
| Total Connections                                    | 100             | 100               | 100             | 100            | 100               | 100             | 100            | 100               | 100             |
| Share of Geographical Levels                         | 53.1            | 13.6              | 33.3            | 51.9           | 36.8              | 11.3            | 37.3           | 55.9              | 6.8             |

Adopted from: Eraydin, A., B., Armatli-Koroglu (2005), "Innovation, networking and the new industrial clusters: the characteristics of networks and local innovation capabilities in the Turkish industrial clusters", *Entrepreneurship & Regional Development*, 17, July (2005), 237-266.

## DISCUSSION AND PROPOSITION FOR FUTURE RESEARCH

Our examination of the formation and evolution of regional networks in the Turkish business context suggests that in parallel with the theoretical reasoning there are set of institutional factors limiting organizational growth. First, we observe that formation and evolution of regional networks are highly dependent on clustering of firms in a region and complementary relations among both small and medium sized enterprises and large scale companies. Clustering of firms in a region and formation of well-built production, service, marketing, and knowledge relations substitute institutions and fill institutional voids. However, institution substitution role of regional networks are limited in the absence of network building and/or organizing institutions such as medium and/or large size companies, multinationals, state owned enterprises, chambers, and associations. Second, we observe that social relations which form on the region, ethnicity, kinship, religion basis become liability rather than asset in the absence of proper economic policy orientations and state backing. In less developed regions, social networks of entrepreneurs impose uniform behaviors. Thus, social relations hinder innovation, technological progress, and integration to the international markets. Third, we observe that state activity plays an important role in the formation and evolution of regional networks. Evolution of regional networks is sluggish in less developed regions which suffer from poor guidance, insufficient state support, and absence of medium and/or large size firms which do not only subcontract low-cost production activities but act as network organizers. For example, small and medium sized enterprises which cluster in Ankara and subcontract to state owned enterprises suffer from the absence of network organizing activities. On the other hand, small and medium sized enterprises which cluster in other less developed regions suffer from market imperfections in product, capital, and labor markets. For simplicity we, we organize our expectations into: (a) market imperfections/institutional voids argument; (b) state activity and rent seeking argument; (c) social relations argument.

Market imperfections/institutional voids argument:

P1: Formation and evolution of regional networks is limited by the availability of network building and/or organizing institutions such as medium and/or large size companies, multinationals, state owned enterprises, chambers, and associations.

P2: In the absence or improper functioning of internal product, capital, and labor markets regional networks will suffer from poor performance and fall behind family owned BGs in Turkey.

Social relations argument:

P1: Formation and evolution of regional networks in less developed regions is limited by social relations of the entrepreneur, which form on the basis of region, ethnicity, kinship, and religion, as they impose uniform behavior and hinder innovation, technological progress, and integration to the international markets.

P2: In the absence of path breaking activities of network builders and/or organizers such as medium to large size companies, multinationals, state owned enterprises, chambers, associations and/or economic policy reorientations regional networks will suffer from dysfunctional social relations in less developed regions.

State activity and rent seeking argument:

P1: Formation and evolution of regional networks is limited by their ability to establish close relations with the state elites and policy makers and influence microeconomic policy orientations towards them in the long run.

P2: In the absence of guidance and support from the state, regional networks will suffer from market imperfections in product, labor, and capital markets and fall behind family owned BGs in Turkey.

## CONCLUSION

We have briefly detailed institutional approach and relevant institutional voids, state activity and rent seeking arguments to the study of BGs formation and evolution in emerging markets. Our examination on regional networks suggests that formation and evolution of regional networks are limited by the institutional context. We see a clear evidence of this in regards of regional networks in less developed regions of the country. Future research should also consider the resource-based approach and examine how institutions, markets, and organizations interplay as to limit organizational growth. Besides, more general propositions that appear relevant beyond the Turkish experience should be provided.

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