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ENTREPRENEURIAL NETWORKS IN LOCAL INDUSTRIAL DEVELOPMENT:  
A COMPARATIVE ANALYSIS OF DENİZLİ AND GAZİANTEP CASES

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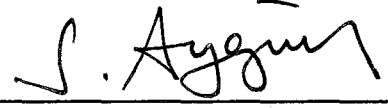
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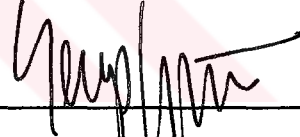
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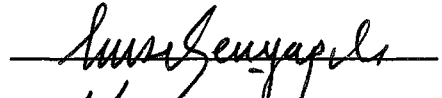
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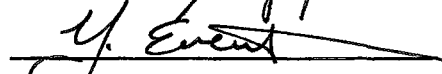
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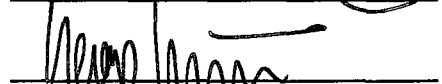
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## **ABSTRACT**

### **ENTREPRENEURIAL NETWORKS IN LOCAL INDUSTRIAL DEVELOPMENT: A COMPARATIVE ANALYSIS OF DENİZLİ AND GAZİANTEP CASES**

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Since the early 1970s, the nature of production has changed quite fundamentally. The changes in economic and social system caused new organisational forms and complex spatial behaviours. Networking which has emerged as a new perspective on the organisation of production help greatly to understand the success of businesses, thus regions.

The aim of this thesis is to put forward the importance of networks, which are defined as set of relations, in the context of local industrial development. In this context, the entrepreneurs are considered as the vital actors of networks. The relations of entrepreneurs in local/global dimension can not be limited by narrow "economic" explanations. Thus, by recognising the cultural and social embeddedness of the formation of network relations and their spatial repercussions, we can arrive at a better understanding of the nature of production systems prevailing in different localities.

With the emergence of different patterns of development in many regions, which are different from those followed in advanced countries and regions, it has become necessary to consider the diversity of developing country experiences to understand the process of local industrial development. Thus, as the Turkish case, two localities; Denizli and Gaziantep which have achieved a breakthrough in local economic development in Turkey will be analysed comparatively on network basis with a new set of empirical evidence.

**Keywords:** networks, local development, entrepreneurs, socio-economic space, local embeddedness

## ÖZ

### YEREL ENDÜSTRİYEL KALKINMADA GİRİŞİMCİ AĞLARI: DENİZLİ VE GAZİANTEP ÖRNEKLERİNİN KARŞILAŞTIRMALI ANALİZİ

Varol, Çiğdem

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1970'lerin başlarından itibaren üretimin yapısı köklü bir değişikliğe uğramıştır. Ekonomik ve sosyal sistemdeki değişimler, yeni örgütsel biçimleri ve karmaşık mekansal davranışları da beraberinde getirmiştir. Üretimin örgütlenmesinde yeni bir bakış açısı olarak ortaya çıkan ağ ilişkileri şeklinde örgütlenme, işletmelerin dolayısıyla, bölgelerin başarısını anlamada büyük ölçüde yardımcı olmaktadır.

Bu tezin amacı, ilişkiler kümesi olarak adlandırılan bu ağların yerel endüstriyel kalkınmadaki önemini ortaya koymaktır. Bu bağlamda, ağların en önemli aktörleri olarak girişimciler esas alınmıştır. Girişimcilerin yerel ve küresel boyuttaki ilişkileri sadece dar ekonomik tanımlamalarla sınırlandırılmaz. Ağ ilişkilerinin kültürel ve sosyal yerleşikliği ile bunun mekansal yansımaları dikkate alınarak, farklı yerelliklerde hüküm süren üretim sistemleri yapısı daha iyi anlaşılacaktır.

Gelişmiş ülkeler ve bölgelerdekilerden farklı olarak, birçok bölgede ortaya çıkan değişik kalkınma modelleri, yerel endüstriyel kalkınma sürecini anlamada gelişmekte olan ülke deneyimlerinin çeşitliliğinin gözönüne alınması ihtiyacını ortaya çıkarmaktadır. Bu sebeple, Türkiye örneği bağlamında yerel kalkınmada önemli bir atılım yakalayan Denizli ve Gaziantep örnekleri, ağ ilişkileri temelinde karşılaştırmalı olarak yeni bir deneysel kanıt kümesi olarak incelenecektir.

Anahtar Kelimeler: ağlar, yerel kalkınma, girişimcilik, sosyo-ekonomik mekan, yerel yerleşiklik





To My Family

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Networks are not only the objective of this thesis, they were also an indispensable organisational practice in completing this thesis. For generous support in knitting this network, I would like to thank to everyone taking place during this process. Neither project would have been possible without the generous participation of the Denizli and Gaziantep industrialists, who took part in face to face interviews. Their willingness to answer questions, give a great deal of information and help in understanding their roles and the network structure of them. I am very grateful to all of these for their generosity in giving their time to research. I am also grateful to the Research Fund of Graduate School of Natural and Applied Sciences providing the financial support for the field research.

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## CHAPTER I

### INTRODUCTION

Since the early 1970s, the nature of production has changed quite fundamentally. Main changes have been on how goods and services are produced and how new technologies and new labour processes have revolutionised the factory and the production. These economic and social changes have caused new organisational forms and complex spatial behaviours.

One of the most crucial developments in production organisation was the large firm model showing its limits during the economic crisis of the 1970s. During this period, the general economic decline of large firms and of old industrial areas all over Europe put under severe constraints the mass production model of industrial growth. The mass-production system became too rigid and too costly for the characteristics of the new economy, where demand became unpredictable in quantity and quality, markets were diversified worldwide and thereby difficult to control, and the pace of technological change made obsolete single-purpose production equipment

The new market conditions require a new interpretative model for explaining both the industrial as well as the spatial patterns of development. During the 1970s and the early 1980s, mass production is replaced by a flexible industrial organisation model concerned rather with small batch production, regarded as a more suitable model of production organisation for dealing with dynamic and unstable markets, displaying both high levels of volatility and vulnerability of demand.

In such a flexible system, **networks** emerge as the new perspective on the organisation of production. By taking the suitable position in these networks, organisations can face the challenge in the economic and technological competition. These networks include not only physical patterns like of communication and transportation technologies, but also complex patterns of information, goods and service flows and even the social relations of entities.

It is striking to notice that the technological and economic environments, in which we work and make decisions, have become dependent on networks of various kinds. The convergence between organisational requirements and technological change has established networking as the fundamental form of competition in the new global economy. The new competition is the access to information, resources, and partners. Cooperation and networking offer the possibility to share costs, and risks, as well as to keep up with constantly renewed information. Networks also act as gatekeepers. Inside the networks, new possibilities are relentlessly created. Outside the networks, survival is increasingly difficult. Under the conditions of fast technological change “networks, not firms” have become the actual operating units and the position within this network means everything (Castells, 1996).

This enormous interest in networks has caused a large variety of studies in different fields for the last years. The focus in these network studies is largely on economic benefits and costs. Relatively insufficient attention has been paid to the social and cultural embeddedness of business networks. From this point of socially embedded actors, network relations are based on confidence, solidarity, trust mechanisms and trustworthy behaviour among actors. Atmosphere, as product of social interaction, is an intangible aspect of a network relationship.

On the other side, another missing point of network approach is its spatial dimension. The spatial organisation of networks is necessarily complicated because of the replacement of spaces of points by spaces of relations. An activity location perspective has been suggested to explain the spatial organisation of networks (Christensen et al., 1990). The choice of network relations and their spatial pattern is argued to be a more fundamental question of the strategic position of the firm. It is suggested that the distance between firms affect the level of their interaction, given the importance of personal contact systems. In this conception of the spatial organisation of interfirm networks is the notion that strong relationships define networks. Thus, spatial proximity becomes important in varying degrees because of different technological, organisational and strategic capabilities in participating firms and firms engaging in networks of relations are expected to be embedded in local settings.

The representations of network type organisations, including the social and cultural embeddedness of the formation of network relations and economic transactions, are best observed in territorial production ensembles and industrial districts which are

formed by spatial localisation or clustering of firms and other organisations in the same and related sectors. From this point of view, networks are seen as an important defining characteristic of these territorial production complexes, binding firms together into a coherent and innovative system of relational contracting, collaborative product development and multiplex interorganisational alliances. All economic action in these districts is said to be embedded in a dense web of network ties among individuals, firms and service organisations. It is that 'industrial atmosphere' which captures explicit and implicit forms of collaboration and interaction among local economic agents. In such an atmosphere, entrepreneurs act as the main units of production. They cooperate and compete simultaneously, promoting the rapid speed of ideas and improvements in performance.

Industrial districts appear as very important development models with their success in achieving international competitiveness. Especially case-oriented literature about certain regions, in Europe and North America, in Third World and Asian economies has focused primarily on explaining this success. Scholars searched for the secrets of what made these localised regional economies technologically dynamic and successful. In this search, the aim of theorists was not only link the economic performance of successful regional economies to flexible networks of resource –and information- sharing among firms and adaptive local institutions. Instead, the research agenda of regional theorists focused on uncovering what was at the foundation of local networks and adaptive institutions. The result was the 'rediscovery of the region' and a search for the factors underlying the 'resurgence of regional economies'.

For the last years, Turkey has also lived such experiences. Several traditional Anatolian towns have shown an unexpected success, taking the advantages of opportunities offered by the new global dynamics. In this success, the integration of entrepreneurial spirit with the historical and cultural accumulations in production organisation played the primary role. Local enterprises, developing new forms of organisations have provided them competitive positions in the global markets.

Considering these theoretical and empirical discussions, the main aim of the thesis is determined as emphasising the role of networks, together with the social, economic and spatial dimensions, in local industrial development. In order to bring a new set of empirical data from the two towns of Turkey, Denizli and Gaziantep are studied in detail. These two cases take place in different parts of Turkey: Denizli in

the west, and Gaziantep in the east. Choosing samples from different parts and making comparison among them will provide a better understanding of the nature of production systems prevailing in different localities and more crucially enable us to trace the emergence of different patterns of networks, taking place in different social and cultural contexts.

Within this context, in reaching the aim, this thesis consists of four broad chapters apart from Introduction and Conclusion. After the Introduction, Chapter II introduces the theoretical discussions on networks in the literature. After giving the general definition and representation of networks, the ambiguity of network concept tried to be overcome by three main theoretical lines. It begins with the social and anthropological network approach, which helped the development of analytical models in network analysis and later it goes on with economic and spatial approaches that will provide a full understanding in the usage of networks in socio-economic space.

Chapter III is planned to look for the appropriate methodology in search of definition of networks in local development. Their being complex and living, make networks difficult to analyse. They are constantly in motion and in progress. Neither the number of actors, nor the number of relationships is limited. Thus, networks are never clearly defined. These network features of business relationships demand fresh approaches to research strategies, enabling the richness, complexity and dynamics of business relationships to be captured. The focus on relations, and the patterns of relations requires a set of methods and analytic concepts that are distinct from the methods of traditional statistics and data analysis. In the way of defining the most appropriate methodology depending on the objectives of the study, some of the crucial aspects of networks are analysed. From a critical realist point of view, a research model is tried to be built over three levels of networks including intrafirm, interfirm, extrafirm relations in explaining social phenomena. The historical and socio-economic formation of these network relations, appearing in the geographical organisation of production, at the same time comprises the local and global interactions.

As industrial structures are socially and historically constructed, they have to be analysed within the social and historical context of the territories in which they are embedded. Thus, Chapter IV gives the historical analysis of industrial development and entrepreneurship in Denizli and Gaziantep and it also analyses the recent

studies carried on these two localities revealing different facets of the social world. This historical point of view appears to be necessary to understand the emergence of local entrepreneurship, the growth and expansion of local enterprises, and the structure of the local production all of whose dynamics seem to be in continuous change. By doing this, it is possible to capture the nature of emerging patterns in various production systems and how they evolve into new patterns.

Chapter V gives the results of the networking surveys, considering socio-economic dimensions of networks in the localities Denizli and Gaziantep. Networks in the two localities are examined in three layers: intrafirm networks which constitute the formal and informal contractual structures between different departments, subsidiaries within the firm; interfirm networks which comprise externalised and institutional transactions and relationships; and extrafirm networks which refers to any relationship between the firm and other institutions embedded in the society. There is a close intertwining between these different layers, which serve to produce and reproduce them causing the change in local and global space. Thus, at the end of the chapter the concrete realisation of networks over space is given.

Finally Chapter VI, as a conclusion, discusses the framework of the analysis of the two local economies from the perspective of network approach. It gives the crucial points of the case study findings and provides an evaluation to what extent this thesis has fulfilled its objectives.

## CHAPTER II

### NETWORKS: A THEORETICAL FRAMEWORK FOR UNDERSTANDING NETWORKS IN SOCIO-ECONOMIC SPACE

For the last years, there has been an enormous interest in networks, which caused a large variety of studies in explaining the exchange relations in social systems, the new innovative and competitive organisational forms surviving in unstable and uncertain environments, the flexible economic and social systems, and finally the new and complex spatial behaviours.

Networks arise as a new paradigm. Castells (1996) even defines today's society as a network society. "Networks constitute the new social morphology of our societies, and the diffusion of networking logic substantially modifies the operation and outcomes in processes of production, experience, power and culture" (Castells 1996, p: 469).

What accounts for this enormous contemporary interest in networks? Nohria (1992) believes that there are three reasons for the increased interest in the concept of networks. The first one is the recent technological developments. Qualitative advances in information technology, not available until the 1990s, allowed the emergence of a fully interactive, computer-based, flexible process of management, production and distribution, involving simultaneous cooperation between different firms and units of such firms (Castells, 1996). These new information technologies have made possible an entirely new set of more disaggregated, distributed and flexible production arrangements, as well as new ways for firms to organise their internal operations and their ties to firms with which they transact.

The convergence between organisational requirements and technological change has established networking as the fundamental form of competition in the new global economy. Thus, the second reason for the increased trend toward viewing organisations as networks, is the emergence of 'New Competition'. The nature of



the production system has changed quite fundamentally. Changing production systems and its dynamics have caused new organisational forms. In the new unstable and uncertain environment, it is important for organisations to be able to respond quickly and flexibly to the new market conditions. The old model of organisation, the large hierarchical firm failed to adapt this new environment. The competitive rise of small entrepreneurial firms, of new industries and of Asian economies brought the new model of organisation: the network of lateral and horizontal inter-linkages within and among firms. In this new model cooperation and networking offer the possibility to share costs, and risks, as well as to keep up with constantly renewed information. Now, instead of arm's length, competitive relations firms are seeking more collaborative relations that will bind them together into a network.

Finally, the third reason is the maturing of network analysis as an academic discipline over the same period toward viewing organisations as networks. There have been different theoretical approaches to networks in different academic disciplines considering networks either as an analytical tool or as a form of governance.

In this chapter, starting from this third reason, development of theoretical approaches over networks will be introduced. We begin with social and anthropological network approach, which helped the development of analytical models of networks and later go on with economic and spatial approaches that will provide a full understanding in the usage of networks in socio-economic space. Before examining these approaches let us see, what is a network and how is it represented?

## **II. 1. Network Concept**

In its simplest form a network may be thought of as a configuration of nodes and links, that is a system in which some elements are connected to other elements in a systematic way (Batten et al., 1995).

Network = entities + connections

Networks are in every sphere of activity; either in physical connections (like communication, transportation, computer and so on) or in economic, social, political

issues. In all of these definitions, two basic concepts at the heart of networks are *nodes* (material or non-material actors) and *links* where flows (transfer of material or non-material sources) go through them, forming a system. In networks:

- . Actors and their actions are viewed as interdependent rather than independent, autonomous units
- . Relational ties (linkages) between actors are channels for transfer or 'flow' of resources (either material or non-material).

For understanding their nature, Easton (1992) examines networks from four different angles. Networks as relationships focus on direct and indirect connections among actors (Emirbayer and Goodwin, 1994). Networks as structures focus on interdependence among actors forming the structure. Networks as positions focus on the nature of actors' ties not to one another but to third parties, and networks as processes focus on relationships providing a coordination dominated by the distribution of power and interest structures.

After this brief introduction to networks, different theoretical approaches to networks will be examined to overcome the ambiguity about identifying and analysing them.

## **II. 2. Different Theoretical Approaches to Networks**

Although, the concept of network is classically used in sociology in the collective representations mixing official ties and personal ties (Scott, 1991), it was not originally born in sociology.

The idea of networking is not new. The use of the word network has greatly developed during the course of the eighteenth century; sciences such as anatomy and medicine frequently used it (e.g. the blood network) (Cova, et al. 1998). Then, the nineteenth century spread the use of the notion of network in technical and economic operationalisation. For a long time the concept has been used in engineering for the management of complex systems, in particular in communications and transport. The postal network, the railway network, the road network, and the water pipe network were developed at this time. The focus has been on interconnected (linear or single point) physical patterns of infrastructures (means of communication, cables, pipelines, ports, airports, satellites, computers etc.) defining "a set of interconnected lines". These types of networks are part of



territorial system based on linear relations of the type A → B and they can be controlled by external inputs. These points and lines have a given pattern and the flows that go through them can be measured and quantified (Dematteis 1992, p: 3).

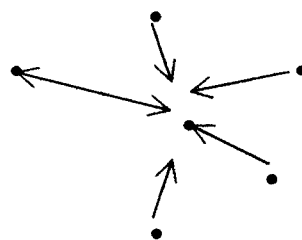
## II. 2. 1. Sociological approach to networks: conceptual and analytical progress

In the early twentieth century networks entered to be used in human and social sciences. The social network theory has its roots in anthropology, sociology and partially in psychology. These three fields separately bring a large and complex set of theoretical discussions.

A social network is one of many possible sets of social relations of a specific content -for example, communicative, power, effectual or exchange relations- that link actors within a larger social structure (or network of networks). The relevant unit of analysis need not be an individual person, but can also be a group, an organisation or indeed, an entire 'society' (i.e., a territorially bounded network of social relations); an entity that is connected to a network of other such entities will do (Emirbayer and Goodwin, 1994).

Network analysis has emerged as a 'powerful approach to the study of social structures' as well as being 'one of the most promising currents in sociological research' (Emirbayer and Goodwin 1994, p: 1411). The literature on networks, however, is extensive and very complex. Scott (1991) summarises three main lines of sociological research on networks;

i. sociometric analysts like; Moreno, Lewin who produced many technical advances by using methods of graph theory. Moreno (1934) developed a "sociogram" for representing the formal properties of social configurations (Figure 2.1).



**Figure 2. 1.** An example of a sociogram

In the sociogram there were channels through which, for example information could flow one person to another. Until now, sociograms have remained as crucial means for the development and illustration of networks.

In the mid of 1930s, Lewin developed his group relations model where social groups exist in a field, in a social space. The social field is made up of "points" connected by "paths". Many of the ideas emerged from the earlier studies of sociometric ideas and group researches later applied to large-scale social systems.

These studies of sociometric analysts have made a special contribution especially for network representations. In recent studies, network analysts use sociograms as a very convenient way to represent relations and define them as graphs. Graphs are defined as arrays of points which are connected / non-connected by lines. In other words a graph is simply a set of vertices (nodes) together with a set of edges (lines).

Nodes-vertices ( $V_1, V_2, \dots$ ) - junctions, intersections, terminals, zero-cells

Links- edges ( $E_1, E_2, \dots$ ) - sides, arcs, segments, branches, routes, one-cells

Regions ( $R_1, R_2, \dots$ ) - faces (Batten et al., 1995).

When the edges have directions, than the graph is called a directed graph or a digraph. When the links in a graph have additional information of a valence: a positive or a negative sign, than the graph is called a signed graph and when the links carry a value than the graph is called a valued graph.

A number of graph representations of a given network can be formed in matrix form, as it is more useful to store the information about the network. In a matrix 1 represents a direct connection between elements and 0 otherwise (Haggett, 1970).

Besides the graph and matrix representation, various theorems like; path theorem (calculating the adjacency, reachability and distance matrices for the graph), flow theorem (optimal routing problems - move from one point to another at minimal cost), has been developed to represent networks.

ii. the structuralist approaches of Harvard researchers of the 1930s and the 1940s, explored patterns of interpersonal relations and the formation of cliques. The works of Mayo and Warner concerned mainly with investigations of factory and community life in America.

Their study basically included sub-groups they called them “cliques” forming large-scale systems. The first research study of Hawthorn electrical factory was about worker efficiency, physical conditions of work and productivity. This study can be accepted as an early study about labour network, which comprises the inner relations of an industrial organisation. Later an anthropological study, an observation of work group behaviour was made. The important thing in this study was their using sociograms to illustrate the structure of “informal relations”, kinship structure within the work group. This approach of informal relations of kinship structure has received special consideration in the small business studies of the recent years (Birley, 1985; Dubetsky, 1976; Özcan, 1995a, 1995b; Nadvi, 1999).

Wamer’s study of “Yankee City” was an application of anthropological methods to the study of a modern urban community. This study is important as a part of urban sociology. Wamer argued that, the social configuration, which comprises a modern community, consists of various sub-groups such as the family, the church, classes and associations. Wamer and his associates claimed that people are integrated into communities through “informal” and “personal” relations of family and clique membership, not simply through the “formal” relations of the community and political system. Any person may be a member of several different cliques, and this causes overlaps, which spreads out into a network of interrelations.

Later, colleagues of Wamer argued that a clique could be seen as comprising three layers; a core with members most often and most intimately participate together, a primary circle with members jointly participate with core members on some occasions but never as a group by themselves and a secondary circle with members participate infrequently, “almost non-members”. Additionally, they suggested structural hypotheses about the connections between cliques.

iii. Manchester anthropologists who built on these two strands to investigate the structure of “community” relations in tribal and village societies. Their studies gave importance to actual configuration of relations rather than formally institutionalised norms and institutions of society. They put emphasis on seeing structures as networks of relations, combined the formal techniques of network analysis with substantial sociological concepts.

Until in the early 1950s, the researchers began to employ the idea of social network simply in its metaphorical sense. However, the metaphor was expanded into

analogy and became analytically useful. The concept of social network began to be used in understanding complex societies. Kinship, friendship and neighbouring relations were deeply analysed in production of community integration. These primordial relations formed a distinct and relatively integrated sphere of informal, interpersonal relations. Barnes (1972) described networks as “total networks” which contain as much information as possible about the whole of social life and “partial networks” which are based on some criteria applicable throughout the whole network like; web of kinship, political and religious networks and so on.

Mitchell (1969) laid the basis for a systematic framework of social network analysis. He turned to the mathematics of graph theory, which had emerged from the early sociometric concerns, and he reformulated these ideas as the basis of a distinctly sociological framework. His classification of network properties is still widely used and quoted in recent network analysis. He classified the network properties into two major groups; morphological aspects (anchorage, density, reachability and range) and interactional aspects (content, directedness, durability, intensity and frequency).

Some properties of networks, most often used in network analysis can be summarised as:

*Density* is the degree to which people connected to ego also know each other.

*Reachability* is the extent to which people can use their relationships to contact others. The number of steps shows the strength degree of reachability.

*Content* is the purpose of linkage, such as friendship or kinship. Content is found by observation of behaviour and attribution of meaning by actors.

*Durability* refers to how long networks last.

*Intensity*, in other words, *strength* of the tie is the degree to which people honour obligations and rights. Kinship ties and multiplex ties are more intense.

*Frequency* describes how often and how regular network members have contact.

In more recent studies Surra (1988) defines some additional properties like; diversity, symmetry, interference, size, clustering and overlap. On the other side like; Scott (1991), Wasserman and Faust (1994) and other studies bring concepts like centrality, prestige and power defining structural and locational properties in social network analysis.

In the 1970s, the International Network for Social Network Analysis (INSNA) initiated at Harvard, moved network analysis away from its residual focus on purely

interpersonal relations and took a growing interest such phenomena as corporate interlocks. This crucial breakthrough to the study of the global properties of social networks in all fields of social life necessitated to provide new analytical tools based on new units of analysis such as the network or other similar forms of collective representation (Cova, et al., 1998).

The key elements in this breakthrough were two parallel mathematical innovations. The first was the development of algebraic models of groups to conceptualise the concept of 'role' in social structure. The second was the development of multi-dimensional scaling, a scaling technique for translating relationships into social 'distances' and for mapping them in a social space. The unifying idea of Harvard group was that of using algebraic ideas to model deep and surface structure relations. It was network analysis as a method that united them (Scott, 1991).

Although being not explicitly algebraic in his approach, Granovetter, from Harvard group, became an exemplar with his "the strength of weak ties" argument. (Granovetter, 1973). His information diffusion model on job opportunities was of central importance as the analysis of 'community' structure, moving away the residual focus on purely interpersonal relations. It is through the weak ties of less frequent contacts that new and different information is likely to be got rather than strong ties like family, close friends, etc. The most important people for getting information were work or work-related contacts, mostly from different occupations rather than family or friends. He explored network processes through the use of qualitative comments on the structure of the network relations that he discovered.

In these social network studies, researchers generally have focused on the morphological and analytical characteristics like; network size, density, centrality, positions, roles, cliques, and so on. Many researchers like Mitchell (1969), Barnes (1972), Knoke and Kuklinski (1982), Scott (1991), and Wasserman and Faust (1994) have tried to present different concepts, methods and applications by focusing on relationships among social entities, and on the patterns and implications of these relationships. Consequently, this relational perspective becomes considerable in regarding the very nature of social reality itself (Emirbayer, 1997).

These developments in social network analysis have already paved the way not only to novel frameworks of sociological theories but also to reconsideration of organisational studies in economics.

## **II. 2.2. Networks in economic space: defining new organisational forms**

Network perspective in economic and business studies has a number of theoretical underpinning. This section draws on two sources: empirical studies of the IMP (industrial marketing and purchasing) group focusing on industrial networks and transaction-cost based explanations, defining new organisational forms.

### **II. 2.2.1. Empirical studies of IMP group: industrial networks**

The development of the interaction approach and network perspective has provided a rich source of new ideas in management and organisation studies especially in industrial marketing area. The concept of the network of relationships between firms provides a compelling reason for using interorganisational relationships as a research perspective. At the beginning of the 1980s, the empirical researches of Uppsala about Swedish industrial firms in international competition emphasised that major marketing problems in firms concerned establishment, development and maintenance of lasting business relationships with customers, suppliers and other important actors. This observation led a number of researchers, who became known as the IMP (Industrial Marketing and Purchasing) group, to engage in a line of research focusing on interaction in business relations (Burca and McLoughlin, 1998).

The IMP group has introduced the concept of network to propose alternative representation of businesses in studying industrial systems. In formulating networks of interorganisational relationships, IMP group has used exchange theory. Economic actors are linked to other specific actors through exchange relations. The external forces influencing them are channelled through exchange relations (Hakansson, 1992).

The initial focus of the IMP group was the dyadic buyer-seller relationships as its unit of analysis. The results demonstrated the existence of stable long-term buyer-seller relationships. However, the interaction approach, focusing on single dyadic relationships, provided only a partial view of how companies interacted. Firms were embedded in arrange of relationships and these relationships were often conditioned by relationships with third parties. Thus, the concept of industrial network has appeared in the marketing and management vocabulary (Thorelli, 1986; Hakansson, 1987) to represent a more complex and more interactive reality in interorganisational relationships.



Industrial networks differ from other approaches mainly in terms of its scope. It is concerned to understand the totality of relationships among firms engaged in production, distribution and the use of goods and services in what might best be described as an industrial system. The boundaries of such a system are problematic and will probably vary depending upon the purposes for which the boundary is being drawn. The focus of research is ultimately the network and not the firm or the individual relationship, although firms and relationships must be studied if networks are to be understood (Easton, 1992).

Hakansson and Johanson (1992) develop a model of industrial networks in order to make possible an integrated analysis of stability and development in industry and provide a basis for studies the roles of actors and sets of actors in industrial development process. Actors, activities and resources are the basic classes of variables in the model. Actors are defined as those who perform activities and/or control resources. In activities, actors use certain resources to change other resources, in other words transfer them in various ways. Resources are means used by actors when they perform activities. The networks of each variable of actors, activities and resources are closely related to each other. The three networks are bound together by forces, in terms of which the total network can be analysed. Important forces are as follows:

- Functional interdependence: actors, activities and resources together form a system where heterogeneous demands are satisfied by heterogeneous resources
- Power structure: on the basis of control of activities and resources there are important power relations between the actors. The performance of the activities to some extent organised on the basis of those power relations.
- Knowledge structure: the design of activities as well as the use of the resources is bound together by the knowledge and experience of present and earlier actors.
- Intertemporal dependence: the network is a product of its history in terms of all memories, investments in relationships, knowledge, routines, etc. changes of the network must be accepted by at least large parts of the network. Therefore all changes will be marginal and closely related to the past.

Considering firms as the actors of the network, Christensen et al. (1990) have summarised the network relationship between the firms in the following way:

- Two or more firms must have some sort of commercial relationship
- Each of these firms is dependent on assets controlled by other partners in the network
- The partners in a network have some sort of independence as well
- A network relationship needs transaction-specific investment from both sides, which are of semi-specific character. It takes time to develop such relationship
- A firm can take part in more than one network
- Different power structures can be identified. One model identifies an asymmetrical power structure where a firm dominates the network. Another model is based on a more symmetric balance of power between the partners.
- Inside a network, there must be some incentives available to govern the exchanges. Agreements rely on negotiations and consensus.
- Management of networks will be organised according to the strategic interest of the partners and power structure involved. It can take the form of a formal economic approach based on self-interest or a form based on trust and behavioural adaptation.

The use of networks in business allows a firm, not only to increase its span of action, but also to reduce the uncertainty related to other companies' behaviours (Dubini and Aldrich, 1991). They are flexible within their membership, and able to respond rapidly to changing environment situations. Besides, networking offer the possibility to share costs, and risks, as well as to keep up with constantly renewed information. Networks also act as gatekeepers. Inside the networks, new possibilities are relentlessly created and outside the networks, survival is increasingly difficult (Castells, 1996).

To sum up, networks arise for a number of distinct reasons (Child and Faulkner, 1998):

- to reduce uncertainty
- to provide flexibility
- to provide capacity
- to provide speed
- to provide access to resources and skills not owned by the company itself
- to provide information



## **II. 2.2.2. Neither Markets nor Hierarchies: network forms of organisation**

On the other line, in organisational arrangements, many economists have provided new insights into the organisation of firms, as they appear to be changing in significant ways. Rapid technological change, as well as shifting patterns of international trade and competition, has put intense strain on the organisations' ability to keep pace with a set of new and often unpredictable competitors. New organisational arrangements are needed as a response to global competition, facing the challenges of an increasingly uncertain marketplace (Miles and Snow, 1986). Thus, there has been a shift away from hierarchy and vertical integration toward more flexible forms of organisation. Firms are blurring their established boundaries and engaging in forms of collaboration that resemble neither the familiar alternative of arms' length market contracting nor the former ideal vertical integration.

Organisations exist due to economies of scale and specialisation, and ability to reduce transaction costs. For expository purposes we may think in terms of a spectrum of arrangements, from loose to tight, from arms-length bargaining to total integration, from spot transactions via standing relations to the internationalisation of markets. At one end of the spectrum is the open market, at the other, we find the firm which is relatively self-sufficient in terms of vertical or functional integration (Thorelli, 1986). These distinctions are analogous to Williamson's (1975) markets and hierarchies.

The orthodox accounts of the firm as a "black box" production function is broken by the Williamson's transaction cost economics in the 1970s. The core of Williamson's (1975) argument is that transactions that involve uncertainty about their outcome, that recur frequently and require substantial "transaction-specific investments" –of money, time or energy that cannot be easily transferred to interaction with others– are more likely to take place within hierarchically organised firms. Exchanges that are straightforward, non-repetitive and require no transaction-specific investments will take place between firms across a market interface. For Williamson, there are two reasons that transactions move out of markets into hierarchies. The first one is bounded rationality: the inability of economic actors to write contracts that cover all possible contingencies. When transactions are internalised, there is a little need to anticipate such contingencies since they can be handled within the firm's "governance structure". The second one is opportunism: the rational pursuit by

economic actors of their own advantage which is mitigated by authority relations and by the stronger identification that parties presumably have when they are joined under a common roof (Powell 1990; Grabher 1993).

Williamson's dichotomous view of markets and hierarchies sees firms as separate from markets or more broadly from the larger societal context. Competitors are outside the boundaries of firms. Richardson (1972) drew a picture of these firms simply as 'islands of planned coordination in a sea of market relations' (Grabher, 1993).

Later, Williamson brings more flexible explanations to his dichotomous markets and hierarchies where economic changes are arrayed in a continuum-like fashion with discrete market transaction located at one end and the highly centralised firm at the other. In between these poles, he puts various 'intermediate' or 'hybrid' forms of organisation. Networks are defined as these intermediate forms by some researchers.

Networks are not the same as 'administered markets', because a network may comprise only a small part of one or several markets. In most markets there are a number of competing networks. The entire economy may be viewed as a network of organisations with a vast hierarchy of subordinate, crisscrossing networks. The focal network is the one intermediary between a single firm and the market. Two or more firms which, due to the intensity of their interaction, constitute a subset of one or several market(s) (Thorelli, 1986).

On the other hand, Powell (1990) does not share the belief that the bulk of economic exchange fits comfortably at either of the poles of the market-hierarchy continuum and transaction costs logic does not meet the task of explaining the rich array of alternative organisational forms. It is historically inaccurate and overly static to explain many forms of collaboration that are viable means of exchange.

Hakansson (1993) also sees networks as alternative organisational forms that are neither hierarchies nor markets. In the hierarchy, which is governed by a common overall norm, decision is given by a central authority. The actors within the hierarchy are specifically related to one another. In markets units pursue their own interests and, hence are freer in relation to one another. This type is close to the traditional models of competitive markets, where the actors are assumed to act for their own

interests. The external forces driving the actors are general market relations -supply and demand- without reference to specific other actors. Network governance should be viewed not as some kind of intermediate governance mode on a uni dimensional scale between market and hierarchy, but as a unique type.

Thinking of network organisation as a *distinct form* of coordinating economic activity should be understood as a rhetorical strategy that is being employed by some theorists to get beyond the markets-and-hierarchies distinction. It is an attempt to centre attention fully on the distinctive "logic of collective action (in networks) that enables cooperation to be sustained over the long run" (Powell, 1990). This rhetorical framing of network as form forces the analyst to attend to what it is that makes these new arrangements efficient, governable, and flexible compared with traditional modes of organising (Nohria, 1992).

Considering these two arguments of intermediate and unique forms, Grandori and Soda (1995) define networks as 'modes of organising economic activities through inter-firm coordination and cooperation'. They claim that the attributes of networks are not necessarily intermediate or hybrid as argued by Williamson (1975) or unique as argued by Powell (1990). Networks have different attributes that have varying degrees of mixes and intensities both in firms and markets. Similarly Yeung (1998) emphasises that networks are neither 'hybrid' nor 'third-type' organisational forms. They, in its general sense, might be used to embrace both markets and hierarchies.

In all these discussions, from the view of organisational approach, network type of organisations are examined generally on interfirm scale of analysis without making much emphasis on the social environment which takes a crucial role in relationship among interacting units. Besides dyadic buyer-seller relations, there are also interpersonal, informal, power relations that define the social dimension and take part behind the viability of governance structures.

### **II.2.3. The social and the economic in practice: economic action being embedded in social relations**

Several publications in political economy, economic sociology and political sociology supported the idea that all economic behaviour is embedded in social networks. The economic sphere is not autonomous from other social spheres of non-economic motives, social relations, and detailed historical processes.

Jessop (1999) identifies three levels of social embeddedness:

- the social / network embeddedness of inter-personal economic relations;
- the institutional embeddedness of inter-organisational relations; and
- the societal embeddedness of functionally differentiated institutional orders.

The first level of network embeddedness provides a reference point for much recent work in economic sociology, namely, the 'social embeddedness' of interpersonal economic relations, that is "economic action is embedded in networks of personal relations among actors" (Granovetter, 1985). This level of analysis focuses on the multiple networks in which economic actors are embedded and on the differential and changing impact on such actors' identities, interests, capacities, and practices. Interpersonal embeddedness highlights the fact that, even if economic agents in a market economy appear to confront each other as 'bare individuals', they still remain always-already social actors (Jessop, 1999).

For Granovetter (1992) the structure of the overall network of relations avoids the 'dyadic reductionism' that is in Williamson's transaction-cost approach: the treatment of dyadic activity as if this was structured by the norms and interests entailed in the roles of buyer and seller. The analysed pair of individuals is abstracted out of social context; it is atomised in its behaviour from that of other actors and from the history of its own relations. In fact 'embeddedness' refers to the fact that economic action and outcomes are affected both by actors' dyadic relations and also by the structure of the overall network of relations.

The embeddedness approach also avoids the 'temporal reductionism'. 'Temporal reductionism' results basically from a discrete view of transactions that focuses solely on the isolated act of exchange. Transactions treated as if they had no history that could shape the present situation and as if the expected outcomes of future interactions would not influence them. Rather than being concentrate on the isolated act of exchange, the relation between the exchange partners is focused on. In ongoing relations, exchange partners start from some set of previously attained common understandings. In the embeddedness approach, the concept of social context is an ongoing process that is continuously constructed and reconstructed during interaction Granovetter (1992).

The embeddedness of economic activity in networks of personal relations creates systematic structuring of information flows and of the possibility of establishing new institutions that can not be captured as simple selection pressures. Any observed institution may be the product of a mixture of aims implemented by complex networks of actors (Granovetter, 1992).

Thus, the second level Jessop (1999) describes as the 'institutional embeddedness' of inter-organisational relations. These relations can be studied in some respects with the same basic tools as interpersonal relations. But the so-called 'new institutionalism' requires additional analytical tools for the emergent properties at this level. Studies of this form of economic embeddedness focus on the specificities of strategic alliances, inter-firm networks, etc., their path-dependent character, and the mechanisms of organisational learning. They also suggest that the capacity to steer inter-organisational relations often depend critically on effective interpersonal networks that are able to stretch social relations over time and space by drawing on interpersonal trust.

The third level of embeddedness is that of the 'societal' embeddedness of functionally differentiated institutional orders in a complex, de-centred societal formation. This is the level of analysis where Jessop (1999) refers to the most relevant work of Polanyi. Polanyi has examined the embedding of market relations in traditional societies; their disembedding to form a market economy; and the latter's re-articulation with other forms of social relations to create a modern market society. If traditional societies are characterised, according to Polanyi, by the embedding of substantive economies in the wider society; modern market economies are characterised both by their institutional disembedding and the embedding of social relations within economic activities. In this sense, Polanyi recognises both the existence of institutional frame constituting the external context in which economic activities take place, and also deals with the problems posed by re-embedding the market economy so that it is subordinated to some form of social control rather than the anarchic logic of laissez-faire (Polanyi 1957).

Interpersonal relations, referring to the network embeddedness, together with the governance of inter-organisational relations contribute significantly to the study of business organisations. Within this context, social organisation of economic action is emphasised thoroughly in entrepreneurial networks.



### **II.2.3.1. Entrepreneurial Networks: The Network Embeddedness**

The embeddedness argument stresses the role of concrete personal relations and structures (or “networks”) within economic action. Economic actors can not behave as atomised individuals outside a social context. Besides recent industrial network studies, which considers total relations, entrepreneurial network studies also successfully integrates social network approach into economic development.

As drawn from the definitions, entrepreneurship is a dynamic concept. Similarly, network approach emphasises a field of action that includes individuals, organisations, and environments as a totality.

The use of networks allows a firm, not only to increase its span of action, but also to reduce the uncertainty related to other companies’ behaviours, because the existence of a relation increases the predictability of the behaviour of the firms involved (Dubini and Aldrich, 1991). Entrepreneurs and firms pursue opportunities opened to them, or withheld, because of their network positions.

An entrepreneur possesses at least three kinds of capital: financial capital, human capital (intelligence, ability combined with education and job experience) and social capital (weak and strong ties –friendships and relationships (Aldrich and Zimmer 1986, Burt 1992). Social capital presents the individual with a range of opportunities to utilise his or her financial and human capital (Bryson and Daniels, 1998). It is through ‘relations with colleagues, friends and clients that come the opportunities to transform financial and human capital into profit’ (Burt 1992, p: 58)

Johannisson and Nilsson (1989) point out that the information needed to start a business is passed to the entrepreneur through the existing social capital of friends and acquaintances. For a successful start-up and ongoing competitive advantage of an entrepreneurship, there is the need of broad social and interorganisational networks. Entrepreneurs who are centrally located in well-developed social networks are more likely to become aware of available entrepreneurial opportunities than those who have poorly developed social networks (Brown and Butler 1993, p: 102).

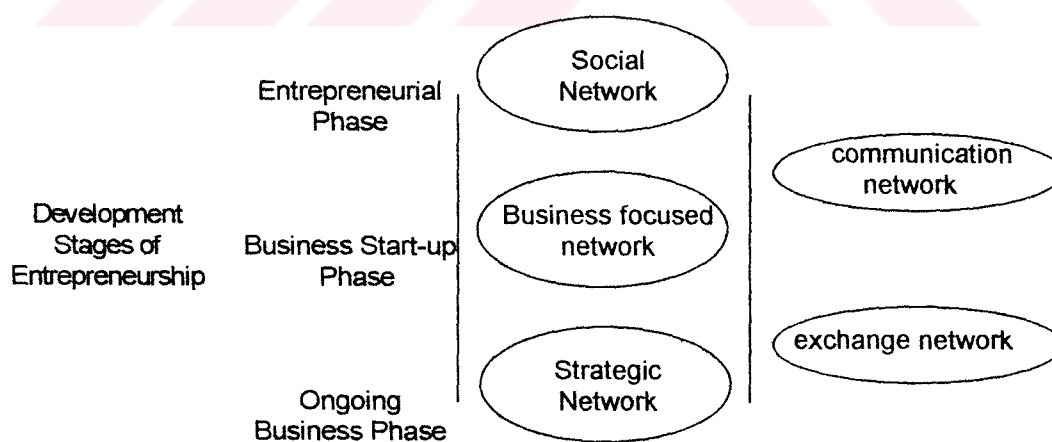
Then, how can a well-developed social network be provided? Entrepreneurs choose different ways for increasing the reachability and facilitate the spread of information and resources in network. According to Aldrich and Zimmer (1986), broker roles are

central positions in the network as they link persons having similar interests and transfer information. In addition, voluntary associations, business associations, public agencies and other social units increase the probability of people making business contacts and exchanging information (Saxenian, 1990; Trigilia, 1989). Social and geographical proximity also facilitates the building of networks as entrepreneurs have a greater opportunity to develop face-to-face relations with those whom they work.

All of these studies emphasise that social and interorganisational networks are important not only for successful start-ups but also for the ongoing entrepreneurship, to utilise the opportunities, to compete successfully or survive.

### *Types of entrepreneurial networks*

There is a wide range of network classification in the literature. However, there is still an ambiguity about identifying and analysing them. Nevertheless, a classification of networks can be made according to the development stages of entrepreneurship. Additionally, a relation among the definitions of networks, which include durability, intensity and content properties of networks can be established. Butler and Hansen (1991) develop a model of entrepreneurial networks including development of entrepreneurship which have three phases (Figure 2. 2).



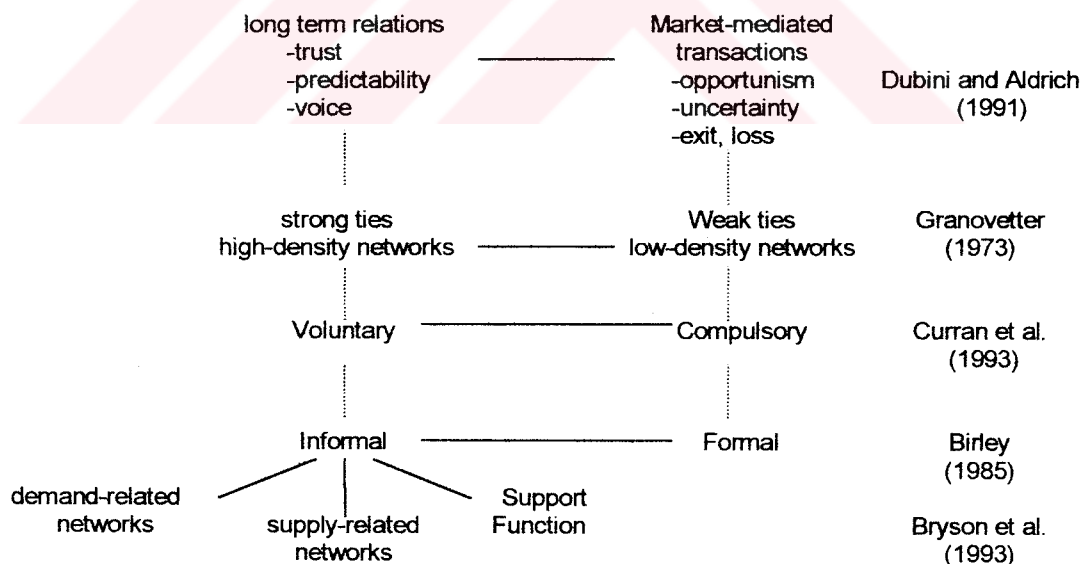
**Figure 2. 2.** Entrepreneurial networks by the development stages of entrepreneurship (adapted from Butler and Hansen, 1991)

First phase is entrepreneurial (pre-start-up) phase including social network that entrepreneurial opportunities are communicated through it. These social networks generally consist; family, friends and acquaintances (Johannisson and Nilsson,

1989). Second phase is the business start-up phase including business focused network that directly serve the more immediate needs of new business. This phase includes both individuals from pre-existing social network and new individuals and organisations with direct business link. The final phase is ongoing business phase, including strategic networks that links the firm to other organisations and provide advantages not obtainable as an isolated entity.

In the business startup and ongoing business phases, besides the social networks Szarka (1990) and Aldrich (1989) define exchange and communication networks. Exchange network is defined as companies and organisations with which the small firm has commercial transactions, goods and services. Exchange network is influenced by interactions with the communication network and the social network. The communication network is the collection of the organisations and individuals with which the small firm has non-trading links that inform its business activities like, consultants and advisers, local and central government and its agencies. It contains, passing of information and advice from one person to another.

Studies on the entrepreneurial networks largely focus on durability, intensity and content of relationships. As seen in Figure 2. 3, there are five main approaches.



**Figure 2. 3.** Entrepreneurial networks by their durability, intensity and content

According to their durability, related to the continuity of relations, networks can be divided into two; market-mediated transactions or long term relations (Dubini and Aldrich, 1991). There are three problems associated with market mediated



transactions: opportunism, uncertainty, and exit. First, opportunism may engage in “self-disbelieved” statements of competence or performance. Second, the problem of opportunism is heightened under conditions of uncertainty. Third, when problems crop up, the other party may simply exit the situation, leaving you with a loss.

Networking by contrast refers to the expectations that many times both parties are investing in a long-term relation. Consider three benefits that follow from creating a social context in which people expect to deal with each other frequently over an extended period: trust, predictability, and voice, rather than exit relations (Dubini and Aldrich, 1991).

First of all *trust* is an important component of business dealings. It is the basic element determining the solidity of the link and the permanence of the tie, reducing the risks for the involved parties. Trust is enhanced under conditions in which people feel that there is a good chance of dealing with each other again. For example, in collaborative supplier relations in Silicon Valley, one of the evidence of trust lies in the contracts of collaborations. Although contracts are normally signed, few of them believe that they really matter (Saxenian, 1991).

Secondly, *predictability* is increased when long-term relations are established. The inherent uncertainty in a situation is not reduced, but what is reduced is the uncertainty about whether the other party will do something to assist you when things do not go according to plan.

Finally, people are more likely to use *voice* rather than exit in response to problems when relations are implicitly long-term. Voice means making one’s complaints known and negotiating over them, rather than sneaking silently away.

Curran et al. (1993) argue that “networks” and “networking” can be usefully divided into two types: *compulsory* and *voluntary* networks. Compulsory networks are those, which an organisation must belong to in order to survive and operate successfully, for example banks or accountants, on the other side voluntary networks can be classified like participating in the local chamber of commerce or golf club.

Birley (1985) on the other side divides “networks” as *formal* and *informal*. Formal networks include banks, accountants, lawyers, etc., while informal networks include family, friends, previous colleagues and previous employers.

The study of Bryson et al. (1993) argue that informal networks identified by Birley are the most important and can be further divided into three categories, depending on the nature of the firm's relationship with external environment. These are demand-related networks, supply-related networks and support functions such as banks and accountants. Demand-related networks are concerned the frequency of contacts between clients and supply-related networks are concerned the frequency of contacts with other service firms or even individuals. It is argued that the strength of relationships amongst these networks can be measured.

According to the intensity, networks can be divided into two groups again; strong ties including high-density networks, and weak ties including low-density networks. Granovetter (1973, p: 1361) claims that "The strength of a tie is a combination of the amount of time, the emotional intensity, the intimacy (mutual confiding), and the reciprocal services". The more frequently persons interact with one another, the stronger their sentiments, the more increased mutual confiding are apt to be. Networks, generally thought to be as special kinds of relations, are either built on strong ties, relations entrepreneurs can "count on", or weak ties superficial or casual, and people typically have little emotional investment in them.

#### *The strength of weak ties and structural holes*

Individuals possess a number of close friends or acquaintances, and are thus embedded in a closely-knit social and cultural structure. Any two friends will possess different friends and acquaintances and therefore friendship represents a *crucial bridge* between two different groups of individuals. The concept of a bridge appears as a line in a network, which provides the only path between two points / groups. All bridges are weak ties. Such weak ties between different part of the social system provide individuals and organisations with access to new and different information and expertise which is unavailable from their strong ties like family, close friends, etc. Granovetter (1973) expresses this with his argument of 'the strength of weak ties'.

The weak tie argument is about the strength of relationships at the same time, it is about their location. Bridges are the only connection between two otherwise separate clusters of strongly interconnected players. Focusing on the pattern, rather than the strength, of relationships among the people, Burt (1992) brings the term *structural hole* to indicate the absence of connections among those in the network. A

structural hole is a relationship of non-redundancy between two contacts. Non-redundant ties, with no direct contacts with one another, are more likely weak than strong. As a result of the hole between them, the two contacts provide information, thus network benefits that are in some degree additive rather than overlapping. The number of structural holes can be expected to increase with network size, but the holes are the key to information benefits.

Focusing on the opportunity side of networks, structural hole theory argues that the benefits of social capital results from the diversity of information and the brokerage opportunities created by the lack of connection between separate clusters in a social network. Players who occupy brokerage positions between those clusters have better access to information and enjoy comparative advantages in negotiating relationships. Conversely, an actor strongly tied to cohesive contacts has little autonomy to negotiate his role and his contacts (Burt, 1992).

As the number of opportunities in a network increase, the odds of some being clearly defined by deep structural holes increases, so the odds of entrepreneurial behaviour increase. The higher the proportion of relationships enhanced by structural holes, and the more likely and able the entrepreneurial player, and so the more likely that the player's investments are in high-yield relationships. The result is a higher aggregate rate of return on investments. If a player's network is rich in structural holes, and so entrepreneurial opportunity, and so information and control benefits, there is the *structural autonomy*. Players with networks providing high structural autonomy –enjoy higher rates of return on their investments because they know about and exercise over more rewarding opportunities (Burt, 1992).

The entrepreneurial phenomenon is not seen only in an individual actor but through the collective actions of a community. Dubini and Aldrich (1991) in a more general sense, beside personal networks, centred on a focal individual, define extended networks which focus on collectives. Personal networks are constructed from the viewpoint of a particular individual. However, extended networks are the collective result of interconnected personal relations.

The logical shift from personal networks to extended networks will take us to consider the inter-organisational relations which often depend critically on effective interpersonal networks that are able to stretch social relations over time and space.

### **II.2.3.2. Extended networks: inter-organisational relations in the creation of trust, cooperation and social capital**

The presence of cohesive ties among organisations promotes a normative environment that facilitates trust and cooperation among actors. Trust can be viewed as a dyadic interpersonal phenomenon or it can also be viewed as a broader socio-economic notion. Members of a closely knit network can trust each other which diminishes the uncertainty of their exchanges and enhances their ability to cooperate in the pursuit of their interests (Coleman, 1988). Similarly, Granovetter (1985) stresses the positive effect of common third parties facilitating trust between people and in diminishing the risk of opportunism that can effect cooperative relationships.

Granovetter (1985) accepts this premise that trust is a necessary precondition in successful market relations but argues that formal institutions, as enforcers of rules and norms, are insufficient to explain why firms and individuals cooperate in the process of market exchange. Trust is "embedded in networks of interpersonal relations which avoids the extremes of both under-socialised (market oriented) and over-socialised (legal institutional) views of human action". For Granovetter, social relations developing in work and non-work settings, and the process by which relationships become embedded over time, form the bonds through which human beings learn to cooperate. What results is the reciprocity that facilitates both idea sharing and market exchange.

Pretty and Ward (2001) identify four central aspects of relations of trust; reciprocity and exchanges, common rules, norms and sanctions, and connectedness in institutions.

*Reciprocity and exchanges*, increasing trust, contribute to the development of long-term obligations between people. Putnam (1993) defines two types of reciprocity: specific reciprocity referring to simultaneous exchanges of items of roughly equal value; and diffuse reciprocity referring to a continuing relationship of exchange that any given time may be unrequited, but over time is repaid and balanced.

*Common rules, norms and sanctions* are the mutually agreed or handed-down norms of behaviour that place group interests above those of individuals. They give individuals the confidence to invest in collective or group activities, knowing that

others will do so too. Mutually-agreed sanctions ensure that those who break the rules know they will be punished (Pretty and Ward, 2001). These all reflect the degree to which individuals agree to mediate or control their own behaviour. Formal rules are those set out by authorities, such as laws and regulations, while informal ones are those individuals use to shape their everyday behaviour. Norms are, by contrast, preferences and indicate how individuals should act; rules are stipulations of behaviour with positive and/or negative sanctions. A high social capital implies high internal morality, with individuals balancing individual rights with collective responsibilities.

*Connectedness*, networks and groups and the nature of relationships are vital aspects of social capital. There may be different types of connection between groups like trading of goods, exchange of information, mutual help, provision of loans, common celebrations. They may be one-way or two-way, and may be long-established, or subject to regular update (Pretty and Ward, 2001).

It is through this constructed trust, reciprocity and social interactions that *social capital* is created. Social capital is in fact a communal property involving civic engagement, associational membership, high trust, reliability and reciprocity in social networks. The collective and solidaristic strand of social capital theory is most closely associated with the work of Putnam (1993).

In his work on Italian regions, Putnam presented a convincing case that variation in prosperity between regional economies was highly and positively associated with variation in the degree to which social capital, civicness and associationism were present or absent. Social capital according to him refers to the complex of local institutions and relationships of trust among economic actors that evolve from unique, historically conditioned local cultures. Such institutions and social relationships, built upon the experiences of shared deep history, become embedded within a localised economy. They form what Putnam describes as 'networks of civic engagement' that facilitate the activities of politics, production, and exchange. In these tight locales people know one another and one another's families. They meet frequently in non-work related organisations and activities. They constitute a dense and rich social community. Business relationships are embedded in community and family structures that reinforce trust. In Putnam's model, cooperation based on trust propels development. It is rooted in complex and deep social ties and is an inherited historical characteristic.



However, social capital is not only represented by the idea of a community of dense civic engagement, but also in terms of collaborative partnerships that emerged in the region, owing to the pursuit by economic and institutional actors of objectives related specifically to innovation and competitiveness. Cohen and Fields (1999) argue that, there is no deep history, but little in the way of complex familial ties, and little structured community in the example of Silicon Valley. It is notoriously a world of strangers, independent -even isolated- newcomers.

Silicon Valley is however, an economic space built on social capital, but it is a vastly different kind of social capital than that of popularised by the civic engagement theorists. It is the networks resulting from the business-related collaborations that form the subject of social capital as it exists in Silicon Valley. The network environment in Silicon Valley is the outcome of historically conditioned, specifically chosen collaborations between individual entrepreneurs, firms, and institutions focused on the pursuit of innovation and its commercialisation. It is the cooperative and competitive interaction of various critical elements of social institutions, instruments, and entities that defines Silicon Valley as a system of social capital (Cohen and Fields, 1999).

Contrary to network cohesion that creates social capital, Gargiulo and Benassi (2000) explores the structural hole theory which sees cohesive ties as a source of rigidity that hinders the coordination of complex organisational tasks in creating social capital. By focusing on the opportunity side of networks, structural hole theory argues that actors have high levels of social capital because they are not part of cohesive, embedded networks. The implication is that network closure does not help organisational coordination. Individual social mobility is facilitated where "structural holes" appears in social capital and where allegiance to strong ties is weak or absent, creating an opportunity space for individual advancement (Burt, 1992).

The concept of social embeddedness, thus the entrepreneurial networks has opened new theoretical windows to look into the reality of business organisations and their social constitutions. What remains unclear in all these exiting theoretical and empirical developments, however is the notion that business organisations are constituted not only in society, but also in space (Yeung 1998).

#### **II.2.4. Integrating space into socio-economic studies: networks in local/regional development**

Business organisations are not merely physical entities distinct from their operational environment. Rather they should be conceptualised as social agencies possessing peculiar modes of rationality; they are reproduced through ongoing networks of social relations embedded both in society and space (Yeung 1998). Business organisations, like any other forms of social structures, cannot exist in a spatial vacuum, because in order to reproduce themselves, they must engage in a diverse range of network relations. These network relations are themselves embedded in specific territorial confines and are subject to constant spatial reorganisation. The notion of geographical embeddedness of business organisations can be formulated to conceptualise the articulation of generative mechanisms in different time-space contexts. The role of space in the production of business organisations and the role of business organisations in the production of space demonstrate the intrinsic importance of space in understanding the constitution of business organisations (Yeung 1998).

To Lefebvre (1991), space in society is necessarily social space. Space is conceptualised not as an object in itself. Rather, it is constituted by relations among its objects. Space should also be viewed as constitutive of things and relations. Social space enters this conceptualisation, because business organisations and their network relations are necessarily constructed and reproduced socially. In other words, network relations and embeddedness of business operations are socially and spatially reproduced. Space is thus more than a medium or container of social events and activities as conceptualised in Cartesian geometry.

From a regional point of view, a territorial formation has been characterised as 'spaces of firms' in which space is constitutive of different firms operating only as relatively discrete spatial units within specific territories. Firms are bound to places, which form the spatial agglomeration dimension of business organisations. In the era of intensified globalization of economic activities, however, such a geography of firms is inadequate to capture the complex reality of business organisations. It does not mean to deny the continuous reproduction of 'spaces of firms'. But it points to a new direction of spatial change: the growing replacement of 'spaces of firms' by 'spaces of network relations' (Yeung, 1998) or in Castells terms 'spaces of flows' (Castells, 1996).



### **II.2.4.1. Spaces of networks**

The intentional production and subsequent command of space by business organisations have generated 'spaces of network relations'. Network relations are conceptualised as spatial relations because the concrete realisation of networks must necessarily manifest itself in spatial forms. Both agglomeration economies and economies of scope can be realised through an appropriate configuration of business activities over space. Through the continuous transformation and reproduction of network and spatial relations, firms become interdependent irrespective of the physical distance among them. Of course distance plays a role in shaping the creation of networks. But its effect is not realised through Cartesian distance, but rather through the local embeddedness of networks.

The integral role of space and place in the (re)production of business organisations can be best captured in the notion of territorial embeddedness of business organisations. The local embeddedness of network relations refers to the multi-dimensional intersections and transformations of extremely complex networks of firms contingently constructed and constituted in differentiated geographical territories. To show that business organisations are produced and embedded in specific localities requires one to delve into the relationship between network relations and localities. Network relations in its abstract sense are placeless, although they produce 'networked space'. But the concrete realisation of network relations must always be embedded in place. Geography therefore plays a crucial role in influencing the formation of networks (Yeung, 1994; Yeung, 1998).

Business organisations are locally embedded because each activity must be grounded at a specific geographical location. There is always a 'local content' within each business unit (Dicken, 1994). No matter which part of the world the business organisation is serving, it must plunge itself into a dense network of relations at the local level. Network relations are (re)constructed in localities and spread over space.

Local embeddedness of networks is represented excellently probably in the examples territorial production ensembles and industrial districts, which are formed by spatial localisation or clustering of firms. Business organisations in these spatial units are engaged in dense forms of inter-firm networks, which are geographically bound. The power and advantage embedded in these networks will be lost if the spatial unit is broken down.

#### **II.2.4.1.1. Industrial districts**

The resurgence of industrial district concepts represents a newly fertile area of interdisciplinary research that combines perspectives from strategic management, industrial organisation, economic geography, urban economics and sociology in an attempt to specify better formal and informal relationships between firms in specific regions.

With the works of Piore and Sabel (1984), Scott (1988), Storper (1989), Hirst and Zeitlin (1992), the concepts of flexible specialisation or flexible accumulation describing the transition to a new era of vertically disintegrated and locationally fixed production gained a special attention. These studies acted as powerful tools to return to the region and to the locally agglomerated production systems.

During the economic crisis of the 1970s, the large firm model showed its limits. During this period, the general economic decline of large firms and of old industrial areas all over Europe put under severe constraints the mass production model of industrial growth. The mass-production system became too rigid and too costly for the characteristics of the new economy, where demand became unpredictable in quantity and quality, markets were diversified worldwide and thereby difficult to control, and the pace of technological change made obsolete single-purpose production equipment.

The new market conditions require a new interpretative model for explaining both the industrial as well as the spatial patterns of development. During the 1970s and the early 1980s, small and medium sized enterprises (SMEs) were the most productive industrial organisations, the only ones able to avoid the economic crises. Mass production is replaced by a flexible industrial organisation model concerned rather with small batch production, regarded as a more suitable model of production organisation for dealing with dynamic and unstable markets, displaying both high levels of volatility and vulnerability of demand (Capello, 1996).

Such a transformation, it is argued, implies a return to place – a dependence on locational proximity between different agents involved in any production filiere. Agglomeration is said to offer a series of Marshallian benefits upon which a system of vertically disintegrated and 'knowledge'-based production can draw. It is claimed that over the last few decades the most dynamic and competitive industrial

restructuring has been Marshallian in their spatial dynamics (Amin, 1993). Especially case-oriented literature from advanced regions, in Europe and North America (Brusco, 1986; Sabel, 1989; Amin, 1989; Storper, 1989; Becattini, 1990; Saxenian, 1991), and from Third World and Asian economies (Amin and Thrift, 1992; Park and Markusen, 1995; Park 1996; Cawthorne, 1995; Rabelotti, 1995; Schmitz, 1995; Nadvi, 1999) has focused primarily on explaining the success depending on Marshallian districts.

### *Marshallian industrial districts*

The original notion of industrial district goes back to Alfred Marshall who offered extensive commentaries on externality, agglomeration and localisation in his monumental work of Principles of Economics in 1920. He intended to explain the phenomenon of the localisation of specialised industries, which is the clustering of one or a few branches of industry, mostly the clustering of small firms in a particular town or area (Harrison, 1992; Hilhorst, 1998). The concentration of firms in an industry in one location provides benefits to individual firms owing to the effects of proximity to one another. Such firms that are clustered together can take the advantage of access to suppliers, skilled labour, and an environment enabling the spillover of technological knowledge from one firm to another. For Marshall, these external economies operated much like internal economies by lowering the costs and they helped explain the phenomenon behind the agglomerations of firms from the same industry that he termed 'industrial districts'.

The geographically concentrated, highly specialised, horizontally integrated small and medium-sized enterprises constituted the new definition of industrial districts in the 1980s. This modern industrial district debate goes beyond Marshall's concept and departs from the standard agglomeration theory. Instead of conceptualising local economies as collections of atomistic competitors, it emphasises the interdependence of firms, flexible firm boundaries, cooperative competition and the importance of trust in reproducing sustained collaboration among economic actors within the districts (Harrison, 1992).

Industrial districts represent the interaction and dense network of linkages that comprise a local production system, usually around the same or closely related industries. Indeed, the industrial district itself can be seen as a collective entrepreneur, with firms, interfirm associations, worker organisations, financial

institutions and governmental agencies all playing important roles (Best, 1990 quoted in Malecki, 1994).

This current industrial district concept was idealised particularly due to the experience of 'Third Italy' which showed a spectacular development trend, while many other regions in Italy were facing a deep crisis. Its main components can be summarised as (Schmitz, 1995, Rabellotti, 1995):

- spatially concentrated and sectorally specialised clusters of mainly small and medium-sized enterprises,
- a set of forward and backward linkages, based both on market and non-market exchanges of goods, information and people,
- cooperative competition,
- a common cultural and social background linking economic agents, facilitating trust and creating a behavioral code, sometimes explicit but often implicit,
- active self-help organisations, a network of public and private local institutions supporting the economic agents acting within the cluster.

Beside this craft based industrial district debate based on the Italian model, this paradigm has been used to explain different trajectories of development in different sectors in various parts of the world as well; including high technology zones of the USA (Saxenian, 1989; 1991), the strong concentration of mechanical engineering in Southern Germany (Heidenreich, 1996), the concentration of high technology and high fashion in the Paris region (Storper, 1993).

The increasing interest in industrial district studies and new empirical evidences especially from non-Western economies contributed different dimensions to the debate. These recent studies over industrial districts identify some typologies of changes and trajectories of evolution of them.

In the East Asian cases, in South-Korea example, Park (1996) emphasised the role of local and state government, trade associations, universities and other public institutions as important agents for the formation and evolution of new industrial districts. In this case state-initiated mass production industrial complexes have been developed successfully as industrial districts and instead of the notion of flexible specialisation and local production organisation, the branch plant investments of large firms with non-local networks have been particularly significant.

Supporting this study, Hilhorst (1998) distinguishes three types of agglomerated industrial development. These additional types all refer to industrialisation in areas that hitherto had no manufacturing; the government-supported industrial estate or growth pole, the export-processing zone, the new agglomerated industrialisation that emerged without government support.

In the Sinos Valley case of Brazil, Schmitz (1995) emphasises the strong presence of large firms constructing an asymmetrical power within the district. With the increasing trend of globalisation in the interfirm relations of production, the contemporary industrial development have begun to be characterised not only by the horizontally integrated flexible small and medium-sized firms but by a combination of both standardised mass production and flexible forms of production. The empirical evidence suggest that the most efficient organisation form of production is 'quasi-vertical integration', this is assuming ever more important role as an alternative to full vertically integrated or vertically disintegrated production systems (Park, 1996; Capello, 1996).

Similar to Schmitz (1995), in their study based on Italian footwear sector, Camagni and Rabellotti (quoted in Rabellotti, 1995) found signs of a trend toward a new organisational form; a tendency toward the emergence of hierarchies of firms in the district. Some leading firms were networking with external actors and organising networks of local subcontractors. These recent studies generate profound ruptures in the original model of industrial district, developing a different system based on new spatial linkages; the new organisational form appears to be the 'network enterprise' (Table 2.1).

Capello (1996) embeds network paradigm in three main theories;

- cooperation agreements among firms (different forms of strategic alliances, from joint ventures, to licenses, supply agreements, common distribution systems in foreign markets, cooperation regarding sales organisation and R&D and so on)
- local/global developments of local areas (the role of innovation)
- the new management of territory by firms (the use of advanced telecommunication networks).



**Table 2.1. The paradigm shift in the organisation of production**

	The large firm paradigm (1960-1970)	the industrial district paradigm (1970-1985)	the network paradigm (1985 onward)
<b>External Conditions</b>			
macro economic	* stable raw material prices * economic growth	* increasing raw material prices * high inflation rates * economic decline	* decreasing inflation rates * stable exchange rates
market conditions	Stable	Unstable	Unstable
market competition	National	mostly national	Global
technology	Automated hardware	Reprogrammable fixed capital	Information and communication technology
<b>consequences on production systems</b>			
production	mass production	small-batch, customised production	diversified mass production
decision-making	perfect information	Uncertainty	Uncertainty
competition factors	mass production	local know-how specialisation	control on complementary assets
determinants of the efficiency of the economic systems	Economies of scale	Economies of scope	network externalities
optimal dimension of firms	large	Small	Networked
organisation of production	vertically integrated	vertically disintegrated	quasi-vertical integration
<b>theories</b>			
firm's growth	internal growth (vertical integration)	Transaction costs	Cooperation agreements
local development	Development driven by external forces	Development from below approach	local/global development
organisation of firms in space	Transport costs	cluster of small firms	new management of territory

Source: Capello (1996)

On the contrary to the view of taking networks as a new paradigm, recent studies argue that they are in fact organisational forms in industrial districts. The crucial point here is not conceptualising industrial districts in 'canonical' features (Paniccia 1998). The canonical features can only be found in a few local systems and at certain periods of time. Behind the so lightly used term of 'industrial district', many different forms of organisation of labour and many different socio-cultural fabrics are hidden. A common definition for industrial districts is taken as forms of organisation governed by trust and cooperation as in the case of networks.

From this point of view, networks are seen as an important defining characteristic of industrial districts, binding firms together into a coherent and innovative system of relational contracting, collaborative product development and multiplex interorganisational alliances. All economic action in industrial districts is said to be embedded in a dense web of network ties among individuals, firms and service organisations (Staber, 2001).

#### **II.2.4.1.2. Milieu: the learning region**

In integrating network approach with industrial district notion, a recent concept of milieu appears in socio-economic literature. Crevoisier and Maillat (1991) define the milieu as a set of localised actors who, through frequentation, or through the simple fact of living in the same region, have a mutual professional regard. Milieus are hence characterised as local, regional, entrepreneurial, or fertile, but more generally as innovative.

The first typical characteristic of milieu is its globality as it not only integrates companies, but also the population, the workers, the various organisations as well as the multiple social and cultural dimensions. The second characteristic of a milieu is that the territory is no longer considered as a simple support of localisation factors, but more and more as a group of territorial agents and economic, socio-cultural, political, and institutional elements, having specific organisational and regulation patterns (Maillat, 1995), shared rules and norms, i.e. a sort of 'law of the milieu' between actors of all types.

Capello (1999, p: 357) defines the milieu as:

“dynamic interpretation of the customer supplier relationships, of the element of cooperation and continuity leads towards milieu...When cooperation and tacit transfer of knowledge is transformed into innovative synergy and capacity, rather than simply social solidarity and interaction, a local district becomes a milieu. The milieu is characterised by collective learning, by local labour market which local firms feed with their knowledge independently of their will, and from which they can obtain local dynamic advantages. This local cumulative and 'socialised' knowledge may be grasped by local actors whenever they want, represents the source for local dynamic comparative advantage. If these dynamic synergies are not present, the district remains a local district with competitive advantage based on reduction of transaction costs and the exploitation of Marshallian external economies”.

Thus, collective learning is another characterising feature of milieu. It is generally defined as 'a social process of cumulative knowledge, based on a set of shared rules and procedures which allow individuals to coordinate their actions in search for problem solutions' (Capello, 1999:354). In her view, what differentiates collective learning from learning is its social nature.

Collective / interactive learning gains importance as a source of continuous updating and innovation mechanism. It is not possible to define collective or interactive



learning mechanisms without the socio-spatial aspects. In defining the socio-spatial aspects of knowledge and learning several issues constitutes the core of these debates (Lawson and Lorenz, 1999; Maskell and Malmberg, 1999; Amin and Cohendet, 1999). Tacit knowledge emerges as the knowledge embedded in local areas and evolved within the interaction of the different agents of the local system of production. Tacit knowledge is not easily codified and communicated and that is why it is highly personal.

Learning is a cumulative process and the tacit knowledge embedded in local areas and the interactive relations based on trust, confidence and reciprocity reinforce knowledge creation and use. Innovation appears as an interactive process and this process should be conceived as a process of interactive learning in which a wide array of institutional mechanisms can play a role. Innovation is shaped by a variety of institutional routines and social conventions. These help to stimulate the learning economy where knowledge is the most strategic resource (Morgan, 1997).

Innovative milieux are based on a common understanding with regard to learning process. The synergy or combined effect factors is considered central for the innovation process (Genosko, 1997). There are different factors and conditions making up the innovatory climate of these regions. Innovation is seen as a collective work-sharing process (Genosko, 1997).

Much of the debate about trust and cooperation among economic actors has focused on whether social networks (social and personal ties) or more formal institutional hierarchies are the carriers of this learning process. In general, the firm nets a milieu through social contacts with actors having relationships with a large number of other actors in the milieu. These central actors enable the firm to keep in constant touch with all opportunities emerging in the milieu, without necessarily having to maintain direct exchanges with all potential customers. Therefore, they can be seen as "multiplying" the firm's activities in terms of information gathering and scanning.

The idea of milieu puts the emphasis on the spatial environment and on the formal or informal links existing between different actors acting as a collective actor. The milieu allows the existence of relationships of proximity to be taken into account and goes further than virtual relationships or relationships essentially based on a unique

type of tie such as the business tie. It includes the existence of informal or tacit behaviour patterns.

Territorial agglomeration is often associated with the formation of a unique local milieu based on socio-cultural similarity and interwoven social relations, which in turn reinforces interpersonal interaction and cooperation in the region (Camagni, 1991; Crevoisier and Maillat, 1991). 'Proximity' is a necessary feature for a portion of the network relationships owing to the informal nature of the face-to-face contacts in the milieu.

The milieu makes it possible to represent and analyse relationships, and thus a network, in a well-defined framework formed by the geographic unity and the local atmosphere. Contrary to the notion of a market, which refers to a group of competitors and customers clearly operating in a business world, the idea of milieu puts the emphasis on the environment and on the formal or informal links existing between different actors. The representation of the milieu not only enables us to give natural boundaries to the firm's actions but also to take into account both non-business actors and non-business relationships (Cova, et al., 1998).

The milieu approach appears as a refinement of the network approach, being both in a territory and re-embedded in a society. It avoids two major drawbacks of the network approach (Cova, et al., 1998, p: 206):

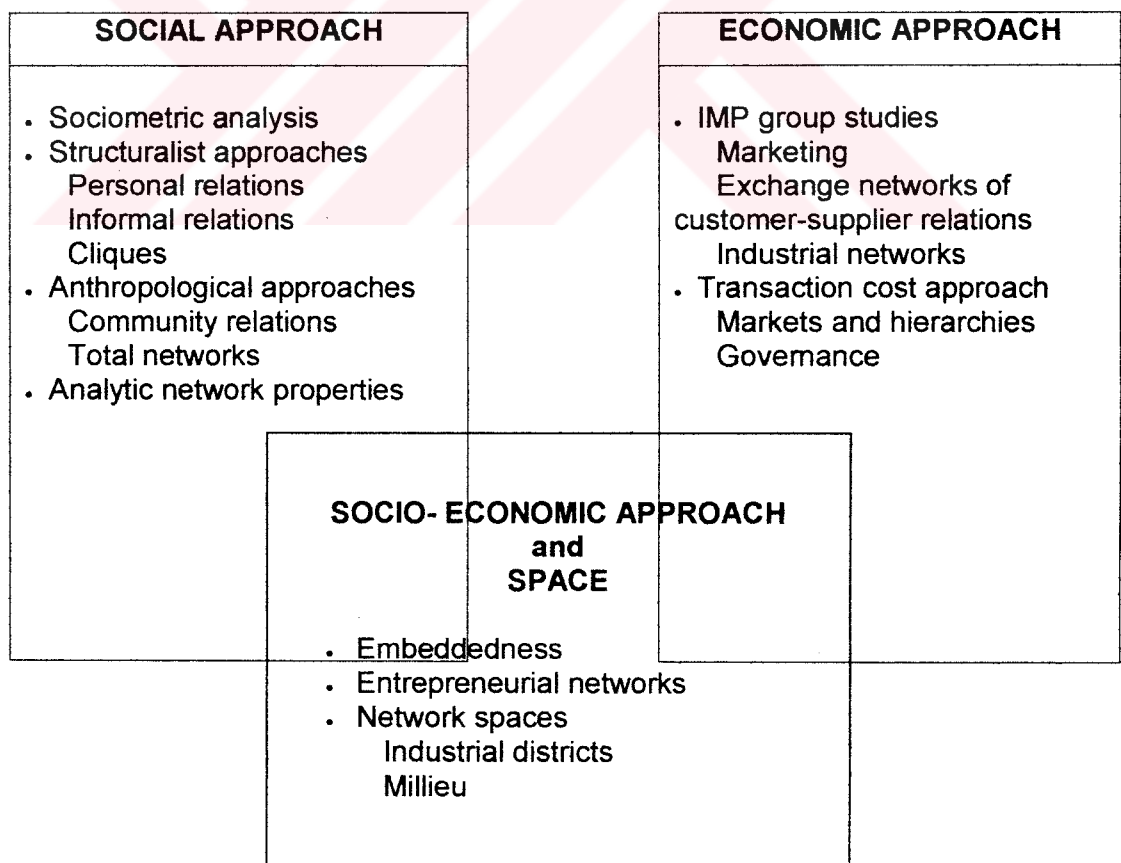
- the lack of network boundaries increases the complexity surrounding its analysis and representation whereas the milieu is strictly bounded to the territory, be it a country or a region
- the strictly industrial aspect of the network as developed by the IMP group does not account for non-industrial actors, and non-utilitarian relationships between actors whereas the milieu includes all types of organisations, institutions and individuals concerned (business and non-business actors) and all types of relationships (utilitarian and non-utilitarian) as well as social rules between these actors ("the law of the milieu").

As a result, the integration of the milieu approach as a complement to the network approach in industrial marketing and purchasing will represent a triple recontextualisation of exchange (or re-embeddedness):

- the embeddedness of the business transaction in the relationship and in the networks of industrial relationships (as the IMP group has done)
- the embeddedness of the business transaction and of its connected relationships in the primary sociality i.e. in all the relations that enable industrial relationships to exist. This includes both relationships with non-industrial actors, the non-industrial content of industrial relationships
- the embeddedness of the network of relationships in a well-defined spatial framework or territory (as proposed by the GREMI).

With its clear boundaries milieu makes it possible to represent and analyse relationships and nets by using a well-defined framework formed by the geographic unity and the local regulation. It acts as an effective structure of the territorial, community type.

As a result, this retrospect of different theoretical considerations of the network organisations considering social, economic and spatial dimensions, give us a full understanding about conceptualising networks in production (Figure 2.4).



**Figure 2. 4.** Different theoretical approaches to networks

For a more concrete perception of networks, some illustrative cases including different types of network organisations will be useful.

#### **II.2.4.2. Illustrative cases: different types of network organisations**

We can arrive at a better understanding of the nature of production systems prevailing in different capitalist societies and localities by recognising different formations of network relations and economic transactions. Thus, there is a need to examine the organisation of production and business operations in different social and cultural formations. Family-based networks in Chinese societies and Northern Italy, entrepreneurial networks emerging from technological seedbeds in the milieu of innovation, as in Silicon Valley, hierarchical communal networks of Japanese keiretsu type, and so on, are all the results of different mechanisms.

##### ***Emilia-Romagna***

In the classical example of Italian industrial districts, those located in the region of Northcentral and Northeastern Italy known as 'Third Italy', inter-firm collaboration, instead of competition, cooperation by strong networks exist. The common cultural and social background is defined as major factors that links economic agents and enables face-to-face contacts, sharing of values, behaviours, codes and languages.

At the centre of Italian model lies a production system, dependent on technologically sophisticated small firms, integrated through subcontracting arrangements. The production system operates through a myriad of small firms, each of which specialises in particular stage of production process. The coordination of production varies from district to district (Hardill, et al., 1995).

A large part of Emilian industry is specialised in classic consumer goods (food, textiles, furniture, and leather). The 42% of the industrial workers in Emilia-Romagna are employed in small companies fewer than 20 employees. The share in large manufacturing companies (500 and more employees) is only 12,2%. Thus, the production model of Emilia-Romagna is based on small and very small companies. The smaller firm size in Emilia-Romagna points to the high importance of individual, often family-based companies in this region. This different size structure is very important because it points to the greater external dependency of Emilian firms.

They have to rely more on inter-company corporation and on external services. The interorganisational networks rely more on horizontal patterns of cooperation (Heidenreich, 1996).

The inner and inter-company relations in Emilian local industrial districts are based largely on informal relations: the trust or cooperation-enhancing 'industrial atmosphere' of territorial production networks is mainly ensured by face-to-face communication. To some extent these inter-organisational networks based on personal relationships are institutionally stabilised, e.g. by regional chambers of trade and commerce, by the important chambers of trade, and by publicly financed 'real services'. (Heidenreich, 1996).

### ***Baden-Württemberg***

Baden-Württemberg, a highly successful region of Germany, is generally specialised in technologically sophisticated branches like car production, electrical engineering and mechanical engineering. The company size structure in Baden-Württemberg is in great share large. The share of workers in large manufacturing companies (500 and more employees) is 47.5%. Baden-Württemberg's industry is networked by vertical supplier-customer relations, in the centre of these networks are some larger companies, specialising in electrical engineering and car production.

The role of institutionalised forms of inter-organisational cooperation is important in Baden-Württemberg. Many institutions facilitate the cooperation between management and employees as well as between individual companies: unions, employers' associations, publicly financed technology transfer institutions, the innovation and research council, chambers of commerce, etc. Thus the industrial atmosphere of this region depends much on institutionally shaped interactions (Heidenreich, 1996).

### ***Sinos Valley of Brazil***

The Sinos Valley is an impressive concentration of local firms. It includes over 400 shoe firms, most of them specialising in women's shoes. The shoe industry of the Valley comprises firms of all sizes, including very large ones. There are fordist giants of factories over 2000 workers. In Sinos Valley, some very large firms integrated vertically in spite of a relatively well developed supplier network. However, the vast majority of shoe firms are not vertically integrated. The existence

of over 200 firms producing components for the shoe industry. The extensive use of subcontracting seems to be particularly common among small firms, but less among the large firms.

It is hardly surprising that the diffusion of information and ideas in the Valley is rapid and dense. It occurs not only in business transactions but also at social gatherings of friends, families, sports club, neighbourhood and church. There are three centres, which provide specialised training and technical services for the shoe and leather industry, there are six specialised industrial associations and two professional associations. All this suggests a sense of cooperation and a collective approach to common problems.

Self-help institutions are also important for Sinos Valley manufacturers like in other industrial district models. The role of interfirm cooperation and local institutions has changed over time. Collective action played an important role prior and during the first years of export growth. Subsequently collective action (for Valley as a whole) declined. More recently it has increased again in the face of stiffening international competition.

Interfirm cooperation is influenced by socio-cultural factors. In the Sinos Valley such a socio-cultural identity did indeed exist and contributed to the emergence of cluster. The speed of export growth in the 1970s and 1980s, however undermined the previously existing social fabric. The influence of socio-cultural ties lessened. More recently, there has been a return to more cooperative relationships, but this has little to do with socio-cultural ties among actors (Schmitz, 1995).

### ***Science-based high-tech region Silicon Valley***

Firms in high technology industrial agglomerations like Silicon Valley obtain significant input linkage and labour advantages that assist their level of innovation and production. Like in Silicon Valley in fast changing technology districts; it is impossible for one firm to produce all of the components of a computer system. Thus, they focus on what they do best and acquire the rest of their inputs from suppliers in the region or outside. There becomes a shift from vertically integrated production and service structure (Saxenian, 1991). These kind of interfirm networks spread the costs and risks of developing new technologies and foster reciprocal innovation among specialist firms. Reciprocity guides relations between systems'



firms and their suppliers. There becomes a mutual interest in each others' survival and the creation of long-term trust based partnerships which blurs the boundaries between interdependent but autonomous firms (Saxenian, 1991).

In order to take place in networks, there is a need for development of common language, mutual understanding and trust. It is pointed out in many studies that trust appears to be a crucial component of persisting networks. One of the evidence of trust in Silicon Valley lies in the contracts of collaborations. Although contracts are normally signed, few of them believe that they really matter. The trust, information exchange and teamwork which are the basis of collaborative supplier relations require continued interaction which is difficult to achieve over long distances (Saxenian, 1991).

Relationships are generally formed in the forums that are organised by business organisations and trade associations. In these forums technical and market information is exchanged, business contacts are established and new enterprises are conceived (Saxenian, 1990). The complex pattern of social organisation in the Silicon Valley, for instance, illustrates the synergistic effects of brokers, central meeting points (bars and restaurants), and family and friendship networks in supporting high start-up rates (Rogers and Larson, 1984).

### ***East Asian business networks***

Each society tends to generate its own organisational arrangements. The patterns of business organisation in East Asian societies are produced by the interplay of culture, history, and institutions. The fundamental common trend of East Asian business systems is that they are based on networks, albeit on different forms of networks. The building block of such systems is not the firm or the individual entrepreneur, but networks or business groups of different kinds.

### ***Japan***

In Japan, business groups are organised around networks of firms that mutually own each other, and whose main companies run by managers. There are two sub-types of these networks:

(1) horizontal networks based on inter-market linkages among large firms. These networks reach out across a variety of economic sectors. Three largest old networks



are Mitsui, Mitsubishi, and Sumitomo. Each one of the networks has its own sources of financing, and competes in all main sectors of activity.

(2) vertical networks (keiretsu), built around a kaisha (parent firm), or large specialised industrial corporation, comprising hundreds and even thousands of suppliers and their related subsidiaries.

Within the network Japanese firms enact a communitarian logic. The role of the state is important as government guides economic development by advising business on product lines, export markets, technology, and work organisation. It back its guidance with powerful financial and fiscal measures, as well as with selective support for strategic R&D programs (Castells, 1996).

The example of Toyotism is a successfully adapted Japanese system of networking to the global economy and to the flexible manufacturing system.

### *Toyotism*

Toyotism concerns new methods of management, most of them originating in the Japanese firms. Some elements of this system are; the kanban (just-in-time) system of supplies, total quality control of products in the production process aiming at near-zero defects and best use of resources, workers' involvement in the production process (Castells, 1996).

The stability and complementarity of relationships between the core firm and the suppliers' network are extremely important for the implementation of this model. Most of the key suppliers are in fact controlled or influenced by financial, commercial or technological undertakings, belonging either to the parent firm or to the overarching keiretsu. What is important in this model is the vertical disintegration of production along a network of firms, a process that substitutes for the vertical integration of departments within the same corporate structure. The network allows for greater differentiation of the labour and capital components of the production unit. (Castells, 1996).

This model emphasises the capability of the workers' group to cope with local emergencies autonomously, which is developed through learning by doing and sharing knowledge on the shopfloor. This organisational process requires the full participation of workers in the innovation process, so that they do not keep their tacit

knowledge for their own benefit. The generation of knowledge is in the firm and it is based on the organisational interaction between explicit knowledge and tacit knowledge (Castells, 1996).

### ***China***

The Chinese business organisation is based on family firms and cross-sectoral, business networks often controlled by one family. The key component of Chinese business organisation is the family. In such a structure, management is highly centralised and authoritarian. Through alliances between families, and their corresponding networks, capital turnover is accelerated, and allocation of resources is optimised.

The weak point of these small-scale Chinese business networks is their inability to undertake major strategic transformations, requiring for instance R&D investment, knowledge of world markets, large-scale technological modernisation, or off-shoring of production. Until recent years, Chinese State did not act to support the entrepreneurship and to create the market. Therefore families did their own, bypassing the state and embedding market mechanisms in socially constructed networks. The convergence between families and the State occurred in the Chinese culture at the dawn of the informational/global age (Castells, 1996).

### ***South Korea***

The Korean networks are far more hierarchical than Japanese's. Their main distinctive trend is that all firms in the network are controlled by a central holding company (chaebol) owned by an individual and his family. The central holding company is backed by government banks and by government-controlled trading companies. Chaebol are largely self-sufficient entities, only dependent on government (Castells, 1996).

Korea's export-oriented economy has laid its new foundation for global competitiveness by deepening interfirm linkages. Korea's interfirm linkages refer mainly to the relationship between large and small firms. Besides Korea's leading actors, the government and conglomerate firms (chaebol), a great number of local producers under the steering of conglomerate firms operate their own globalised production and marketing networks. Inter-corporate networks connect many different

enterprises as a systemic production regime involving heterogeneous skills, know-how, machines, and organisations (Cho, 1997).

### **Hong Kong Firms**

In the Hong Kong sample, the export success was based for a long period between the late 1950s and the early 1980s, on domestic small business networks competing in the world economy. Over 85% of Hong Kong manufacturing exports up to the early 1980s originated from Chinese family-based firms. In most cases they did not subcontract to larger firms, but exported through the network of Hong Kong's import-export firms - also small, also Chinese and also family-based. Networks of production and distribution formed, disappeared, and reformed on the basis of the variations in the world market, through the signals transmitted by flexible intermediaries often using a network of 'commercial spies' in the main world markets. Very often the same person would be entrepreneur or salaried worker at different points in time according to the circumstances of the business cycle and his own family needs. (Castells, 1996).

**Table 2. 2.** Different types of network organisations

<b>Cases</b>		<b>General Network Characteristics</b>
<b>Emilia-Romagna</b>		- <i>Agglomerated horizontal network of small firms, strong and effective local/regional institutions, informal relations of trust, industrial atmosphere.</i>
<b>Baden-Württemberg</b>		- <i>Large firm-small firm networks, vertical supplier-customer relations.</i>
<b>Sinos Valley of Brazil</b>		- <i>Large firm-small firm together, subcontracting relations among small firms, self-help institutions.</i>
<b>Silicon Valley Science-based high-tech region</b>		- <i>Innovation networks, long-term trust based partnerships, brokers, institutional organisations.</i>
<b>East Asian business networks</b>	<b>Japan</b>	1. horizontal networks based on inter-market linkages among large firms. 2. vertical networks (keiretsu), built around a kaisha (parent firm), or large specialised industrial corporation, comprising hundreds and even thousands of suppliers and their related subsidiaries.  - <i>Toyotism-hierarchical networks, a communitarian logic, vertical networks-keiretsu built around a parent firm, state as a support institution.</i>
	<b>China</b>	- <i>Business networks often controlled by one family, socially constructed networks, minor role of state.</i>
	<b>South Korea</b>	- <i>Hierarchical networks, conglomerate firms-holding companies owned by an individual and his family, strong importance of family ties</i>

As a result, this chapter has shown the different theoretical approaches to networks. In local development studies there is a need to provide a synthesis, between analytical perspectives of sociology, buyer-seller in other words interfirm relations of economy, embeddedness of socio-economics and of course the spatial perspectives including all of these considerations in conceptualizing networks of production (Figure 2.4).



## CHAPTER III

### A NEW METHODOLOGICAL CONSIDERATION TO NETWORK ISSUE FROM A REALIST PERSPECTIVE

In the recent years, there has been a considerable amount of research on organisational practices and arrangements that are the network-like in form. Many investigators in divergent fields like; international business, industrial economies, organisational analysis, economic sociology and new institutional economies have considered networks as a central concept in their research.

The network perspective is primarily concerned with trying to understand complex inter-organisational relationships. It highlights a basic research issue: how can these relationships be described, analysed and explained. While this relationship view of the network perspective has provided fresh insights to how dynamics of business markets are coordinated, it has, at the same time, presented a number of research strategy challenges to researchers in the area.

However, the choice of an appropriate methodology in studying networks is still a problem. In some studies, we observe some basic ideas that can be applied qualitatively to obtain a useful understanding of the different kinds of networks. On the other side, some of the researchers use ethnographic / anthropological research methods for understanding complex social phenomena at the micro level. Or, in some researches, we see the usefulness of combining quantitative and qualitative research strategies on networks (Staber, 2001). In fact, **the choice of an appropriate methodology in studying networks depends on the researcher's objectives** to learn a great deal about a specific network operating under specific conditions. This chapter is planned to look for the appropriate methodology in search of the definition of local development over networks, including social, economic and spatial dimensions. At the end, it discusses the empirical modelling for the two localities in Turkey.

### III.1. How to study networks?

Networks are complex and living, which makes them difficult to analyse. They form and unform permanently, they plug and unplug through out time. They are in constantly in motion and progressing. Neither the number of actors, nor the number of relationships is limited. Thus, networks are never clearly defined. These network features of business relationships demand fresh approaches to research strategies, enabling the richness, complexity and dynamics of business relationships to be captured (Burca and McLoughlin, 1998).

The focus on relations, and the patterns of relations requires a set of methods and analytic concepts that are distinct from the methods of traditional statistics and data analysis. The fundamental difference between a social network explanation and non-network explanation of a process is the inclusion of concepts and information on relationships among units in a study. Standard social and economic science perspectives usually ignore the relational information and concern with attributes of social units. These approaches assume that the behaviour of a specific unit does not influence any other units. The focus on relationships is an important addition to standard social and behavioural research (Wasserman and Faust, 1994). One really should look how members influence each other in order to make a decision or fail to reach consensus.

In the way of choosing the most appropriate methodology depending on the objectives of the study, it will be necessary and useful to analyse some of the crucial aspects of networks.

### III.2. Defining the crucial aspects of networks in search of an appropriate methodology

We may classify the basic aspects of networks into three groups: connectedness and complexity, heterogeneity and dynamism, and having no distinct boundary.

#### III.2.1. Connectedness and Complexity

The concept of a network emphasises the fact that each individual has ties to other individuals. The **unit of analysis** in network analysis is **not the individual**, but an entity consisting of a collection of individuals and **the linkages** among them.

**Relations** defined by linkages among units are fundamental components of network theories. In the atomistic perspectives typically assumed by economics, individual actors are depicted as making choices and acting without regard to the behaviour of other actors. This ignores the social contexts within which the social actors are embedded (Knoke and Kuklinski, 1982). Firms' activities are not performed in isolation. They are more or less embedded in a wider web of business activities.

Due to this distinctive character, the network perspective differs in fundamental ways from standard social and behavioural science research and methods. Rather than focusing on attributes of autonomous individual units, it views characteristics of the social units as arising out of **relational** processes. The task is to understand properties of the social (economic or political) structural environment, and how these structural properties influence observed characteristics and associations among characteristics.

The emphasis on connection is important because networks emerge and develop as a consequence of **interactions**. Business activities are coordinated through interactions between firms in the network. When firms interact with each other they exchange resources, products and services (Burca and McLoughlin, 1998). Through interaction, they influence and adapt to each other's ways of performing activities. This interaction process develops over time, parties have to learn about each other's ways of doing and viewing things and how to interpret each other's acts. Firms have different interaction strategies towards each other depending on the nature of the relationships.

In principle, the chain of connectedness is limitless and it is possible to argue that in a global economy, there is but one network; that is, all firms are linked. **Connectedness** leads to profound sampling implications for network researchers. The first is concerned with representativeness and inference. The second is the choice of sampling unit. To date, business network studies have concentrated on dyads or small nets as the sampling units. Such units of analysis do not capture the connectedness which is the essence of the network (Easton, 1995).

Connectedness brings into relief further implications, mainly the issue of the **complexity** of the links. While the complexity of business relationships stems in part from this connectedness, there are two further dimensions of complexity, mainly the



notion of **interdependency** between firms and the **opaqueness** of relationships (Burca and McLoughlin, 1998).

The notion of **interdependency** supports that the individual firm is dependent on resources controlled by other firms. Because of interdependencies of firms, the use of an asset in one firm is dependent on the use of other firm's assets. This dependency between firms has to be coordinated. Coordination takes place through firms interacting in the network, in contrast to the traditional market model where coordination is achieved by organisational hierarchy or through the price mechanism. Finally, the exchange partners to the network approach are active and mutually dependent, in contrast to the passive, independent approach of the marketing mix model.

When the **opaqueness** of the network is taken into consideration, it is seen that everybody is aware of the existence of business relationships but no one can have a clear view of other relationships than their own. Therefore, it is difficult to view relationships from the outside. Identifying and analysing these '**hidden**' networks can be of great significance in understanding organisations (Nohria, 1992).

On the other side, another aspect of the complexity of business relationships is the number, type and contact pattern of individuals involved in the relationships. Organisations are composed of **different types of ties** of a myriad nature. Ties can differ according to whether they are based on friendship, advice or work; whether what flows through them is resources, information, or affection; whether they are strong or weak ties, unitary or multiplex ties, face-to-face or electronic ties; and so on. However, we are nowhere near having a systematic framework or theory for predicting what kinds of ties matter under what kinds of circumstances in what ways (Nohria, 1992). Formal and prescribed relations do not entirely capture the network of relationships that shape an organisation. Informal and emergent relationships, are just as important in understanding networks in organisations (Nohria, 1992).

### **III.2.2. Heterogeneity, contextuality and dynamism**

Another basic assumption of the network perspective is that networks are essentially **heterogeneous** in nature. The sources of heterogeneity are rooted in matching heterogeneous resources to heterogeneous demands given that individuals or individual firms needs' can be met in a variety of different ways. This leads to the

formation of different network patterns (Burca and McLoughlin, 1998). Some have tried to explain the formation of networks on the basis of exchange theory; others have focused on homophily and balance theory, with emphasis on triad closure, still others have argued that networks are shaped by the control processes of agency, delegation, and specialisation.

Business networks are ostensibly subject to change, especially if we accept the assumption that networks are essentially heterogeneous in nature. These changes reflect the **dynamic** characteristics of networks. The network is a living structure continuously relating actors, production and exchange activities and resources to each other. Network structures can not be characterised as static, they are always changing, never complete or in equilibrium. Networks constrain actions, and in turn are shaped by them. A network perspective does not rule out the possibility that actors can change their network positions. Therefore networks are being continually shaped and reshaped by the actions of actors and thus the *structure changes continually* as new relationships are established, existing relationships can be further developed or terminated (Nohria, 1992). The network structure is a result of history.

The dynamic nature of business relationships brings into how relationships evolve over time. Relationships evolve over time. Their content, strength and nature is constantly changing as those involved interact. Understanding the **dynamics of change in relationships** and with the network is perhaps the most critical issue for management and has important implications for methodology. With respect to the issues of contextuality and time, grounded theorists contend that theories cannot be frozen in time. Changing historical conditions can alter any area of inquiry. The belief is, that while a basic process existing in particular units may change over time, as conditions change, the fundamental core process and its essential properties remain substantially intact.

The model of how random events in the early stage of a process can fix an outcome independent of its overall efficiency (path dependent processes), is the case that only historical analysis can explain outcomes. Not only a unique but multiple outcomes are possible, and to understand how one outcome is selected we need to follow step by step the process by which small events cumulate to cause the system to gravitate toward that outcome rather than the others. Many economic outcomes and institutions are locked in by processes that need not be confined to random

“small events”, but rather can be analysed as evolving from purposive networks of action mounted by interested actors. Without an understanding of the historical process by which it arose, the overall structure can easily be misinterpreted (Granovetter, 1992).

### III.2.3. No distinct boundary

The traditional business literature places the single firm as the unit of analysis. The firm is assumed to have a distinct boundary, which separates it from its environment. In contrast, the network model assumes that business takes place in a network setting where different business actors are linked to each other through direct and indirect relationships. Indeed, it assumes that there is no stable and clearly indicated boundary between the firm and its environment.

The assumption that there is **no distinct boundary** between the firm and its environment gives the network the characteristic that boundaries are arbitrary and depend on the perspectives, intentions and interpretations of the actors. To draw the boundary in network studies is an important methodological challenge for network researchers (Burca and McLoughlin, 1998).

The **definition of boundaries** raises two opposing views. The first view recognises that network boundaries are arbitrary. There are no boundaries to the network; it is endless. It is of course correct in an extreme sense but when analysing companies, markets and the behaviour of companies in markets, then a more practical view on the question of boundaries is required. The second view sees natural boundaries to networks “in the sense that relationships among members are stronger than relationships between members and non-members” (Cova, et al., 1998).

The characteristics of **connectedness, interdependency, complexity, opaqueness, contextuality, dynamism, no distinct boundary** have presented a number of research strategy challenges to researchers in the area. These features of networks demand fresh approaches to research strategies, enabling the richness, complexity and dynamics of relationships to be captured.

Network theory tries to solve complex problems, which involve many relationships between many things. From the perspective of change and complexity a fully developed network theory should be a dynamic theory, which takes into account the spatial and structural relations in a temporal, dynamic perspective (Batten et al., 1995).

### III.3. Philosophical justification of networks through critical realism

The complexity, which arises out of the connectedness of networks, necessitates **an explanatory knowledge on processes**. “Neither objects nor their relations are given to us transparently: their identification is an achievement and must be worked for” (Sayer, 1984; p: 88).

The fundamental assumption of the realist position is that there is a reality “out there” waiting to be discovered and that reality is independent of us. They would argue that what reality is socially constructed or, that there is no reality and that all knowledge claims are relative to the system that produced them. “Our knowledge of that (real) world is fallible and theory laden...”(Sayer, 1984, p: 5).

For providing a more articulated view, Bhaskar (1979) distinguishes between the real, the actual and the empirical domains. The real domain contains the independent-from-observer mechanisms, which create events. The actual domain is where the events created by the interaction of the real mechanisms appear. The empirical domain is where events are experienced by observers. Much of the operationalisation of the positivists is an attempt to bridge the gap between the actual and the experienced. The crucial link is, however the real and the actual. How these two domains are linked provides the basic *raison d’etre* of realism.

In the real domain, Sayer argues “Objects -whether natural or social- necessarily have particular causal powers or ways of acting and particular susceptibilities”. Objects, in Sayer’s terms, may be simple or complex, social or material, abstract or concrete and are characterised by their relations. But in understanding the nature of the objects and their structures their **causal powers** are crucial to explain. Concept of causality arises as a central concept here.

“On the realist view, causality concerns not a relationship between discrete events (cause and effect), but the ‘causal powers’ or ‘liabilities’ of objects or relations, or more generally their ways-of-acting or mechanisms” (Sayer, 1984, p.105).

Objects not only have causal powers but also liabilities i.e. ways in which they themselves are acted upon by other causal powers; their susceptibilities. People clearly have causal powers but they do not control all the events they are involved

in. Conversely people's behaviours are not simply the result of causal powers of objects outside of their control.

**Contingency** appears as a vitally important aspect of the realist view of the action of causal powers. Causal powers *depend upon certain conditions* in order to operate. In general the conditions take the form of other objects with their associated powers and liabilities. Not only are they contingent in terms of operating but also how they operate when they do so. It is vital that the contingencies are used as explanations via causal mechanisms.

In the design and conduct of realist case research over networks, the emphasis should be given on process as the key area to be understood. More crucially, it is necessary to identify the causal mechanisms that underlie the processes that we are observing by continuously asking the question why and how and collecting more data until we believe we have an explanation (Easton, 1998). Such an intention can generate insight into how ties are created, why they are maintained, what resources flow across these linkages and who decides on those flows in the light of what interests.

A recent development in the realist philosophy is unable to capture its fair share of 'methodological battles' largely because of its opaque method. Despite the reputation of critical realism as 'the flavour of the 1980s in human geography' relatively little work has been done on its methodology (Sayer 1984, Layder 1993, Pratt, 1995).

#### **III.4. Methodological Avenues**

The nature of the realist method merits detailed examination because it provides 'a set of guidelines which outline how critically analyse and re-work existing conceptions of social processes. A critical realist seeks to reconstruct on the basis of constant reflections and immanent critique.

Yeung (1997) aims to engage in a methodological appraisal of critical realism and to shed light on some issues in the *potential* realist method. He addresses three methodological avenues, which have strong and weak points to realist approach: the use of iterative abstraction, the 'grounded theory' method and the use of 'triangulation' in realist research.

1. Iterative abstraction - Abstraction is extremely useful for the identification of causal structures. Sayer argues that 'to be adequate for a specific purpose it must 'abstract' from particular conditions, excluding those which have no significant effect in order to focus on those which do. Even though we are interested in wholes we must select and abstract their constituents' (Sayer 1984). the purpose of abstraction is to isolate causal mechanisms (the real) in relation to a concrete phenomenon and 'to obtain knowledge of real structures or mechanisms which give rise to or govern the flux of *real* phenomena of social and economic life'

A realist thus starts an empirical problem and proceeds to abstract the necessary relation between the concrete phenomenon and deeper causal structures to form generative mechanisms. As more empirical evidence is collected, a realist may revise or reaffirm his or her abstraction so that the process of iteration continues until no further contradictory evidence is obtained. The process of abstraction continues in an iterative manner until a point where 'theoretical saturation' is reached. Theoretical saturation occurs when empirical evidence is strong enough to support the practical adequacy of the postulated mechanism in explaining a concrete phenomenon. (Yeung, 1997).

2. Grounded theory method (Glaser and Strauss 1967, Layder 1993) is a mode of doing analysis for generating and testing theory – ' a qualitative research method that uses a systematic set of procedures to develop an inductively derived grounded theory about a phenomenon'. Grounded theory's being purely inductive method is not appropriate for realist approach. The realist method operates rather simultaneously in a deductive-inductive dialectic. It is accepted that a theory should be grounded in concrete data in order to test its practical adequacy. However, a realist researcher should not simply 'borrow' an existing theory and fit it into empirical data, nor should the theory emerge solely from concrete data. The grounded theory method can potentially complement iterative abstraction in realist methodology by grounding abstract causal mechanisms in empirical data.

3. Use of triangulation, which is inherently a call for multi-method in social scientific research. It is based on the conviction that 'there is no fundamental clash between the purposes and capacities of qualitative and quantitative methods or data. The use of triangulation is extensive and well accepted in sociology and organisational studies. There are four basic ways of triangulation:



- a. data triangulation with respect to time, place, person, and level,
- b. Investigator triangulation via multiple observers of the same phenomenon,
- c. Theoretical triangulation via multiple theoretical perspectives with respect to the same set of objects.
- d. Methodological triangulation via both between-method and within method

Triangulation can do much to improve the validity and reliability of data collected. This contribution is based on the assumption that the method is well understood and different data complement each other revealing different facets of the social world. Methodological triangulation is therefore broadly compatible with the deployment of both intensive and extensive methods in realist research. What is necessary in the process of triangulation is to compare and contrast different sources of findings if they are addressing the same phenomenon. However, there may be some difficulties in weighting the data generated from different sources and methods. When data from different methods are in conflict, it may be extremely difficult to decide which should be accepted.

Each of these methods has strong and weak points to realist approach. Using a combination of these methods may probably be a practically appropriate methodology in practice of critical realism.

#### *Case research*

Realists argue that the world is composed of real objects and their relations, though they cannot be directly apprehended, which have structures but, more importantly, causal powers which combine in complex ways to create events which occur in the actual world and may be researched in the empirical domain. Realist epistemology requires the researcher to identify the contingent causal powers that are operating in the particular situations under research and the ways in which they combine and interact in order to create the particular events observed in the empirical domain.

Case research can, in theory, be used to describe empirical events and, by its use of multiple data sources, trace out links over time, digging ever deeper, and following through the actual to the real domain. Yin defines case study as 'an empirical inquiry that: investigates a contemporary phenomenon within its real life context; when the boundaries between the phenomenon and context are not clearly

evident; and in which multiple sources of evidence are used" (Yin, 1989; p: 23 quoted in Yeung, 1997).

Case research, which would wish to lay claim to a realist epistemology, must be carried out in a different way. It should be inquisitive, look for the roots of things, disentangle complexities, conceptualise and reconceptualise, test and retest, be both rigorous and creative, and above all seek for the underlying reality through the thick veil which hides it (Easton, 1998). It should be like peeling off the layers of an onion. The "peeler" in this case is the use of the question why consistently and continually. It is also apparent that simply peeling away will not necessarily reveal "reality". "Real" concepts have to be induced from the data or, alternatively already existing concepts need to be employed to see if they provide some sort of match with reality (Easton, 1998).

In collecting data, seeking for the causal structures and their properties, usually qualitative methods such as interactive interviews and ethnography are used. In the abstraction of the causal mechanism quantitative / statistical methods are generally not sufficient by themselves alone. Quantitative methods on the other hand, are particularly useful to establish the empirical regularities between objects. Inferential statistical analysis can throw light on, for instance, the external relations between the objects (eg, employment and poverty) in society from a sample (Yeung, 1997).

In realist view, one case is enough to generalise, not generalising to any population but to a real world that has been discovered. Yin uses the term analytical generalisation. "Case studies are generalisable to theoretical propositions and not to populations or universes. It matches exactly the realist notions discussed earlier i.e. research should be aimed at understanding and explaining the reality underlying every and any event or set of events (i.e. case) by unpacking and describing the contingent causal powers of the objects that brought them about. One case can create and /or test a theory to the extent that it uncovers reality. Case researchers would prefer to derive alternative views about how causality operates in detail.

Network phenomena are specific to the network in which they occur and it is therefore difficult, or possibly futile, to build general laws about this network phenomena. It is important to explain why things happen by identifying causes for the unique social system in which they occur. Thus, besides the strong epistemological justification based upon realism, case studies emerge as powerful

research method for network analysis depending on the heterogeneous character of networks. **Case study-oriented research** may help to put forward this heterogeneous characteristic and avoid making ambiguous generalisations by remarking as if all networks are either alike or unique.

The important point is case studies need to be concerned with dynamics and time if they are to be explanatory. As causal mechanisms are historical and contextual in their realisation, a realist can only identify causal mechanisms in a time-based phenomenon (Easton, 1998). As Stinchcombe (1990, p: 381 quoted in Powell and Smith-Doerr, 1994) suggests, "one has to build the *dynamic and causal theory* of a structure *into the analysis of the links...*".

### *Historical dimension*

Social activity has to be understood in terms of social processes, stretched out over time and space. Since social activity is a continuous process we have to understand the way in which it unfolds over time. Nonetheless, viewing the elements as a series of interwoven layers is useful, since it helps us to understand how different aspects of society at specific points in time influence social activity. For understanding a specific aspect of social activity, we have to focus on a particular time-scale, depending on our interests and on the problem we want to investigate, and examine the influence and succession of different elements and layers. That is, if we are able to stop the action at a particular moment in time we would be able to see that social activity itself is made up of the various influences of different elements. (Layder, 1993).

The major question prompted by a historical focus is the question of how a particular feature of social life came to be the way it appears in the current investigation. In other words, what changes have taken place to this aspect of social life over a specified period of time? The questions "why" and "how" require investigation into the historical forms, events, processes and so on that preceded the particular phenomenon.

The inclusion of a historical dimension will provide the research with additional energy inputs both in the shape of a further data source that adds empirical depth to the analysis, and in the form of another potential source of concepts and theoretical ideas. At the same time, a historical dimension provides validity and reliability

checks on theoretical elements that have already emerged from the actual field research.

Historical dimension should be a more frequent accompaniment to field work in order that greater depth is achieved, particularly with respect to the analysis of different elements. In this sense, a historical dimension will greatly enhance an appreciation of the way in which forms of power and domination have been incorporated into the structural features of different elements/layers, as a consequence of various forms of social development.

A historical dimension is meant to add depth to the analysis, not to become the primary focus. In this respect, a historical dimension is being employed as an adjunct to other forms of analysis and data collection. In this context a historical dimension is both a supplement and a complement to the analysis.

#### *Definition of boundaries*

Since the economic organisations were recognised as open systems, the critical significance is that an organisation's environment plays a crucial role in shaping its activities. The most significant elements of an organisation's environment are the other organisations with which it must transact. One has to rise above the individual firm and analyse the system as a whole, there are multiple, complex, and overlapping webs of relationships that are invisible from the standpoint of a single organisation. The environment consists of a field of relationships that bind organisations together (Nohria, 1992).

Indeed, there is no stable and clearly indicated boundary between the firm and its environment. Networks having no distinct boundaries cause difficulties in analysing them. Drawing the boundary in network studies is an important methodological challenge for network researchers.

Integrating industrial districts argument to network studies will help to draw the network boundary. The representation of industrial districts enables us to study on a well-defined geographic unity and also take into account the existence of relations of proximity (Cova, et al., 1998).

On the other side, also milieu approach appears as a refinement of the network approach, being both in a territory and re-embedded in a society. A milieu is a group of actors that can be very heterogeneous in nature but linked in some way. The members of a milieu are naturally grouped together based on the existence and nature of their links.

The milieu is a structured entity with clear boundaries enabling us to avoid diluting investments across several actors, or over-investing in peripheral actors. The milieu is an effective structure of the territorial, community type. The milieu makes it possible to represent and analyse relationships and nets by using a well-defined framework formed by the geographic unity and the local regulation.

The milieu enables us to take into account the existence of relationships of proximity (physical relationships) going further than virtual relationships or relationships essentially based on a unique type of tie such as the business tie for example. It thus includes the existence of informal or tacit behaviour patterns. This direct focus on the milieu-space corresponds to a **meso-analytical perspective**. Proulx (1994) defines mesology as literally the study of milieux of life.

To sum up, different methodological approaches will give rise to explanations to different characteristics of networks; historical approach to dynamism, process-orientation to the content of relations, field-based research to the heterogeneity and contextuality (Figure 3.1).

CHARACTERISTICS	WAY OF ANALYSIS
Connectedness	Not units, but relationships as a whole
Complexity	Causal explanation of processes
Heterogeneity / Contextuality	Different cases, not generalizations
Dynamism	Historical consideration
Opaqueness	In-depth analysis
Different types of ties	Not only structure, but content
No distinct boundary	Definition of space

**Figure 3.1.** In search of a new methodology for networks

Thus, from a realist point of view over networks; a **more process-oriented, field-based dynamic research on network forms of governance** can generate insight into how ties are created, why they are maintained, what resources flow across these linkages, with what consequences.

In search of network boundaries and considering the new organisational forms of networks, acting as new governance systems in industrial districts, two localities that has shown an enormous success in local development has been chosen as case studies for studying networks.

### **III.5. Defining the cases: two localities of Turkey in search of networks in local development**

#### **III.5.1. Object and organisation of the research**

Researchers that have worked on milieux, industrial district or locality never really had to deal with the issue of defining its boundaries, on which the network researchers have found it as an obstacle, since their unit of analysis has natural boundaries. The word "region" has a different meaning in different countries, and in different cultures. In this study, the case cities, defined as localities, have administrative definition that grants them implicit boundaries.

These two cases take place in different parts of Turkey: Denizli in the west and Gaziantep in the east. Choosing samples from different parts with different social and cultural contexts and making comparison among them will provide a deeper understanding to the role of networks in local development. This rigorous attempt to compare different local systems of production, based on gathering a large amount of data for different features and periods of time, leads to a more ambitious aim- to propose theoretical inferences on industrial districts. Comparative studies can make explicit the structural characters of industrial districts, while a dynamic analysis is an aid to understanding their formation, change and adaptability (Paniccia 1998).

The empirical research goes through the following steps:

- territorial identification and the selection of the cases;
- level of analysis and units of reference;
- collection of data and surveys at a local level for different periods of time (Quantitative data and Qualitative information); and
- in-depth interviews to selected qualified observers



### **III.5.2. Territorial identification and selection of the cases**

The study focuses on the comparison of two emerging local productive systems in Turkey. The aim is to explain this challenge in local development over networks of entrepreneurs. In order to realise this aim,

Two cities Denizli and Gaziantep are chosen as field research areas. These two cities are the leading examples of the successful industrial districts called as 'Anatolian Tigers' in Turkey. they caught this success by entering to global markets

For the emergence of successful industrial regions, called 'Anatolian Tigers' in Turkey, various reasons may be put forward. It is primarily through the integration of entrepreneurial spirit with the historical and cultural accumulations in production organisation, which caused many peripheral Anatolian towns, emerged as 'Tigers'. Beside their entrepreneurial features, the macro economic policies, which have taken place in the recent history of Turkey, had also played an important role in this development.

After the declaration of republic in Turkey in 1923, the main objective of new Turkish State was an inward oriented national economy. State was participating actively in manufacturing production and the industrial development was being directed by state enterprises in many sectors. The state was also directing and shaping the private sector. In such a political environment, the positions of towns in industrial development were mainly dependent on the State and it was impossible for peripheral towns to take an active role in production, with their very limited budget and legal structure.

In 1960 with the effect of long-term economic planning, the private sector found favourable conditions for growth due to the state incentives especially with the aim of decentralization in industrial production (Mutluer,1995). But the most important step was taken in 1980, with the substitution of inward oriented state-led development with a more market-directed and export oriented system. The export promotion has seemed to boost the entrepreneurial spirit of people in the country. The new process of the diminishing role of state in industry appears to bring the emergence of localities. Several traditional Anatolian towns have shown an unexpected success mostly in textile and clothing industry based on the combination of some traditional artisanal knowledge and the new entrepreneurial spirit (Pınarcioğlu, 2000).

These towns have showed a high growth rate, especially in the textile sector after 1980, by responding to new opportunities, which appeared in the foreign markets. From these Anatolian Tigers, Denizli located in the west and Gaziantep in the east had been chosen in order to make more detailed analysis on production organisation and entrepreneurial networks. Due to their location in different regions of Turkey, they have different social and cultural environments and carry potential of different industrial organisation that may cause different networks.

Another important point for choosing these two samples is due to the comprehensive field survey of 'New Local Industrial Poles – Denizli and Gaziantep' carried by SPO (State Planning Organisation), SSI (State Statistics Institution) and CMC (Capital Market Committee) in 1996 comprising a detailed questionnaire applied to every firm having more than 10 employees.

### **III.5.3. Level of analysis and units of reference:**

Realist approach achieves the aim of explaining the complexity by offering a layered or 'stratified' model of society, which includes macro, the structural and institutional phenomena, as well as, the micro phenomena of interaction and behaviour. This comprehensive outlook has two important consequences. First, it enables social research to address the problem of the division between macro and micro levels of analysis by concentrating attention on the organic links between them. Methods and strategies are used directly in the service of understanding these links that ties together the interpersonal world of everyday life with the more impersonal world of social institutions. Secondly, viewing society or social reality as a series of interdependent layers, each with its own distinctive characteristics enables the researcher to be sensitive to the different units and time scales that are involved in social processes and social change (Layder, 1993).

This is done in a balanced manner, which captures the mutual implication of macro and micro phenomena. Proulx (1994) defines mesology as literally the study of milieu of life. Direct focus on the milieu-space corresponds to a meso-analytical perspective. The meso-level approach comprises the district as a whole. Besides including micro and macro levels of the society, it includes the local as well as the global relations.

In this research, the units of reference are **industrial exporting entrepreneurs**, who have caught the success by making exports. They act as economic and social actors, comprising their relations with the entire industrial network. The unit of reference is no the individual actor by himself, but a system of coordinated relationships between these actors.

The 'textured' or interwoven nature of different levels and dimensions are tried to conveyed to the local industrial space. They are intra-, inter-, extra- levels of firms. This in fact brings the macro and microanalysis closer together.

Adapting Yeung's (1994) typology of network relations, putting three dimensions of analysis are defined for analysing the whole milieu comprising the social, economic and spatial dimensions. These are intrafirm, interfirm and extrafirm relations having interaction with local and global dimensions (Table 3.1).

**Table 3.1.** A typology of network relations and their socio-spatial organisation

Categories	Network Relations		
	Intrafirm	Interfirm	extrafirm
Nature	<ul style="list-style-type: none"> <li>* parent-subsidiary relationship</li> <li>* internalized operations: property rights and economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>* firm-firm transactional and institutional relationship</li> <li>* externalized operations: economies of scope and joint production/ marketing</li> </ul>	<ul style="list-style-type: none"> <li>* firm-institution politics and relationship: state and nonstate</li> <li>* contractual basis: direct business</li> <li>* legal laws and enforcement</li> </ul>
Instrument	<ul style="list-style-type: none"> <li>* integration (horizontal and/or vertical)</li> <li>* Co-ordination (loose vs. Tight and centralized vs. Dispersed)</li> <li>* Internal arbitration of disputes: labour relations</li> <li>* Transfer pricing</li> </ul>	<ul style="list-style-type: none"> <li>* Competition and cooperation</li> <li>* Contracts and agreements</li> <li>* Flexible production systems: just-in-time</li> </ul>	<ul style="list-style-type: none"> <li>* Conflicts and negotiations</li> <li>* Political bargaining</li> <li>* Social regulation</li> <li>* Propaganda strategy</li> </ul>
Concrete dimensions	<ul style="list-style-type: none"> <li>* Tentative full integration of R&amp;D and production</li> <li>* High quality at reasonable costs</li> <li>* Decentralization of production decisions</li> </ul>	<ul style="list-style-type: none"> <li>* Close and long-lasting ties between producers and users</li> <li>* Networking to reap specialization and coordination gains</li> <li>* Long-run and cooperative subcontracting</li> </ul>	<ul style="list-style-type: none"> <li>* Power relations more than monetary relations</li> <li>* Quest for propriety rights</li> <li>* Search for social and political legitimacy</li> </ul>
Organisational forms	<ul style="list-style-type: none"> <li>* Quasi-integration</li> <li>* Internalization</li> <li>* Multidivisions</li> <li>* Family business groups</li> <li>* Conglomerates</li> </ul>	<ul style="list-style-type: none"> <li>* Joint ventures</li> <li>* Subcontracting</li> <li>* Co-operative agreements</li> <li>* Strategic alliances</li> <li>* Licensing and franchising</li> <li>* Ethnic and personal networks</li> <li>* Technology financing</li> </ul>	<ul style="list-style-type: none"> <li>* Government contracts</li> <li>* Joint R&amp;D collaboration</li> <li>* Institutional Relationship e.g., memberships</li> </ul>

Source: Yeung (1994)

Intrafirm relations are necessary ingredients of business operations, because in the process, different departments and subsidiaries/affiliates either plug themselves or are plugged into the pre-existing network relations orchestrated by the head office (Yeung, 1994). At the intrafirm level, a business organisation formulates its corporate strategy in order to coordinate and configure its business operations that clearly have spatial ramifications in terms of peculiar spatial organisation and embeddedness. These spatial organisations coordinated by different business organisations interact with each other and reproduce themselves through processes of agglomeration and dispersion (Yeung, 1998).

Network relations must also necessarily be accomplished through interfirm relations of externalised and institutional transactions and relationships. Firms come together into network relations by virtue of the fact that they simultaneously compete and cooperate with each other. The empirically realised forms of interfirm network relations are, among others, joint ventures, subcontracting, cooperative and non-equity agreements, strategic alliances, licensing and franchising agreements, ethnic and personal networks and collaborative marketing and R&D and technology financing (Yeung, 1994). Translated into spatial forms, this competition and cooperation results in distinct structural changes locally and globally (Yeung, 1998).

Extrafirm relations are perhaps the least known and developed relations in the existing literature. The extrafirm dimension of network relations enriches the concept of network as more than a set of power relations along the production chain, which incorporates only intra- and interfirm relations. Extrafirm relations refer to any relationship between the firm and other institutions embedded in society and space. These other institutions include nation-states, research institutions, non-profit and non-government organisations and other quasi-organisational forms (Yeung, 1994).

All these layers overlap and interweave with each other. There are no clear empirical boundaries between them, although each element or area has its own distinctive characteristics which must be carefully registered in order to understand how they all combine to influence behaviour and social activity in general. These contexts may change at the local, regional or global level, affecting the dynamic power stored in prevailing networks among nation states, business organisations and other causal agents in the global space-economy.

#### **III.5.4. Data collection**

The complexity of the links within and between actors requires multiple sources of evidence and multiple forms of data collection. This can be extended to include different types of data; qualitative and quantitative. Both of them have some strong and weak points of explanation. Integrating these two data collection methods may compensate for and resolve some of their respective points of weaknesses and ambiguity. A cross-fertilisation will bring the content of ties and rather than merely the structure formed by these ties.

The collection of both quantitative and qualitative data has been realised in various ways. In this study, the quantitative analysis of the Denizli and Gaziantep cases to a large extent depends on the statistics of comprehensive field survey of 'New Local Industrial Poles – Denizli and Gaziantep' carried by SPO (State Planning Organisation), SSI (State Statistics Institution) and CMC (Capital Market Committee) in 1996. These statistics have been obtained from the results of a detailed questionnaire applied to every firm having more than 10 employees. Such a data provides quantitative information on the industrial and entrepreneurial structure of both localities and is used as a complementary of qualitative analysis.

The qualitative analysis is based on in-depth interviews in both of the case study areas. These interviews were conducted in two different periods. The first field survey was realised in June 1999 in Denizli. It was in a way a pilot study covering entrepreneurs and local institutions. The second survey was realised in June-September 2001 in Denizli and Gaziantep. Nearly 30 entrepreneurs from Denizli and 20 entrepreneurs from Gaziantep were deeply interviewed. In addition to these interviews with enterprises, in-depth interviews with local institutions, such as local governments, local chambers of commerce and industry, exporters union, local representatives of central governmental institutions, universities and other industrial and social associations were realised. The aim was to get information about the functions and activities of these local institutions and their interactions with the local firms.

#### **III.5.6. Questionnaire design and in-dept interviews**

In these interviews it was aimed to get information about the firm itself and about the local production environment in order to discover different dimensions of network

structures. These interviews took a time-span changing from one hour to four hours for each firm or institution.

Interviews were realised by the help of a questionnaire form including generally open-ended questions. Although there was a formal questionnaire form, the interview process was flexible. Certain questions not included in the form were decided and asked during the interviews. The aim was to discover the hidden relations/causalities. Questionnaire form comprises five main parts defining; the entrepreneur, intrafirm networks, interfirm networks, extrafirm networks and social business environment (Table 3.2).

**Table 3.2.** Structure of the questionnaire

<b>Headings</b>	<b>Network Dimensions</b>
<b>I. Characteristics of the Entrepreneur / Firm</b>	
General characteristics Experience in the business Spatial preferences	Spatial dimension
<b>II. Intrafirm networks</b>	
Administrative structure Relation with employees Distribution of task Coming together with people from business env.	Power relations Intensity of network Formal-informal relations
<b>III. Interfirm networks</b>	
Raw material (supplier) relations Subcontracting/putting out relations Market relations Sources of information	demand-supply networks  information network
<b>IV. Extrafirm networks</b>	
Relations with business related institutions Social activities Places/people informed about business Social/business activities with other professions The effect of acquaintances and family Social support groups	content, frequency of networks intensity, interest, share of opportunity content and support network  Support network (practical-emotional)

All of the questions asked during the interviews was to find answers to several questions like:

What were the mechanisms providing the success to the entrepreneurs for becoming an exporter? How had they established their network relations with different markets? Who were the main actors in this network? What was the role of



the social networks of entrepreneurs in their economic action? What was the role of institutional environment in this success? How did spatial arrangements change with their entering to global networks?

As networks have consistently been portrayed as dynamic forms, during the interviews, it was aimed to provide longitudinal data in order to find out how the ties in a network change over time. It was targeted to get information spanning a long period as much as possible to trace the transformations of the local economies.

In designing the questionnaire, cognitive social structure design was used to get information about different actors' perceptions of the network. It is asked to the respondents to give information on their perceptions of the other actors' network ties.

### **III.5.7. Sampling**

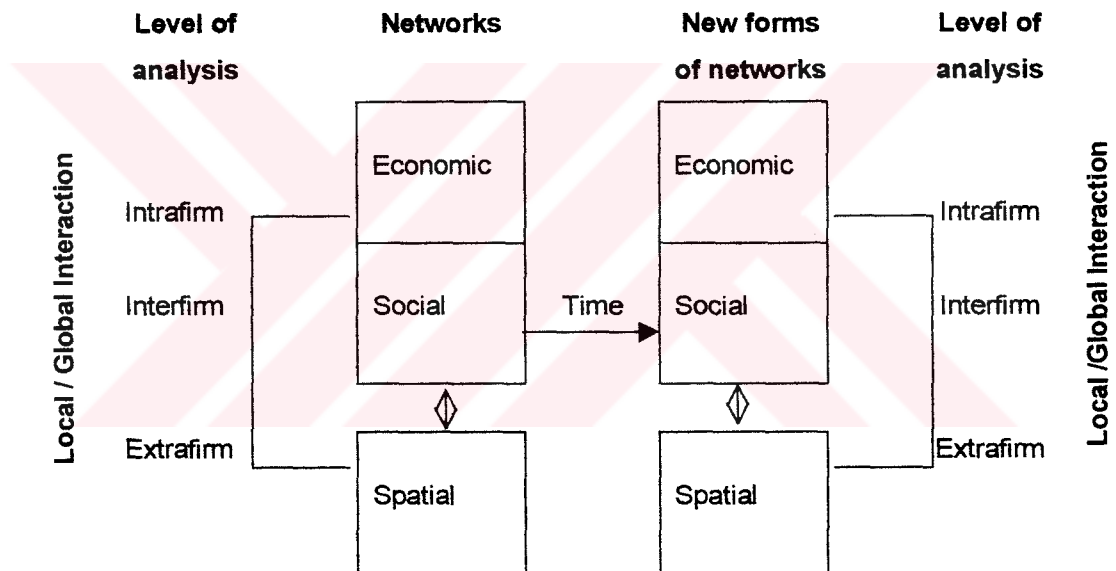
For choosing the firms, necessary information was obtained from different sources in both localities. One of them was the member lists of local Chambers of Industry and Exporters Union. The other source was getting references from local actors. The aim was reaching to different networks, thus in choosing the samples different criteria were considered:

- Exporting firms, making production for foreign markets
- Different sectors
- Different sizes (SMEs, large firms – started as SME)
- Different ages (traditionally established, newly established but reputable)
- Different entrepreneurial characteristics (sex, education,...)
- Membership of different business associations (TÜSİAD, MÜSİAD, TABA, GESİAD, etc. members)
- Leading firms and firms having central power
- Innovative character
- Not local, but settled and producing there (from the near region, from outside the region or international)
- Unsuccessful firm (could not be reached)

### Related Institutions

- Business platform
- Chamber of Commerce
- Chamber of Industry
- Exporters Association
- SME Foundation
- Free Trade Zone Administration
- Other NGOs

To sum up, field survey and in-depth interviews focused the historical and social formation of network relations in the geographical organisation of production. They were searched in three levels of analysis: intra, inter and extrafirm levels which comprises the local and global interconnections (Figure.3.1)



**Figure 3.2.** Research method in search of different network structures

## CHAPTER IV

### A RETROSPECT TO INDUSTRIAL DEVELOPMENT AND ENTREPRENEURSHIP IN DENİZLİ AND GAZİANTEP CASES

A serious attempt to explain the historical formation of the networks in various production systems is needed in order to capture the nature of emerging patterns of these networks and how they evolve into new patterns. This historical point of view appears to be necessary in understanding the emergence of local entrepreneurship, the growth and expansion of local enterprises, and the structure of the local production all of whose dynamics seem to be in continuous change.

The emphasis in this section is based on two lines. The first part gives a general evaluation on the industrial development process and the development of the entrepreneurship in the two cases of Gaziantep and Denizli. The periodisation suggested in this part refers to the dominant themes, which characterise the economic policy discussions in different periods of Republican economic history.

The second part analyses the recent studies carried on these two localities. The aim of this analysis is to reach the data generated from different sources to improve the validity and reliability of data collected from the field. The contribution of this triangulation method is based on the assumption that different data complete each other revealing different facets of the social world. What is necessary in this process of triangulation is to compare and contrast different sources of findings if they are addressing the same phenomenon. This comparison gives the chance to bring a new set of empirical evidence.

With their historical background and infrastructure Denizli and Gaziantep, among a few cities, adopted themselves to the ever changing and developing conditions in Turkey and in the world. Denizli, appearing on the top of the list of these newly emerging localities called 'Anatolian tigers', has become a textile pole specialised in towel and bathrobe production. Gaziantep on the other side, has been one of the

most important industrial centres of southeast and east Anatolia with its industrial infrastructure and its entrepreneurship. The economical growth in these focal points can only be explained by exposing the dynamics behind this industrialisation of Denizli and Gaziantep.

#### **IV. 1. Industrial Development in Denizli and Gaziantep**

##### *The general situation before the foundation of the Republic*

When we examine the spatial distribution of industry in the last period of Ottoman Empire before the foundation of the Republic, it is seen that there were not any industrial activities except for some state factories, which were making production for the army and the palace. Besides these state factories some small-scaled industrial establishments of foreign capital were established around İstanbul (Tokgöz, 1999).

İstanbul was the biggest city of the country, as it was the capital city and the centre of foreign trade as well. The concentration of the industrial activities in İstanbul was due to the demand, created mainly by the palace and by high civil servants. İzmir, which was the second city, was characterised by being a harbour city of exports and imports in small quantity. The only urbanised areas were the Western coasts opening to Europe, whereas Middle and East Anatolia stayed out of this development (Tokgöz, 1999).

Denizli, being an inner town in the Aegean region was also stayed out of this development. It is seen that the only production activity was weaving, generally organised as home production at this period. In fact, weaving artisanship had been important in Denizli region since the antique period. Ancient Denizli (Laodikeia) had been an important textile centre of Anatolia and had been famous for its textile products. The grown cotton in this region was being used in the production of qualified yarn and the famous textile was being produced from this yarn. These woven materials were being exported to Mediterranean countries (Gökçe, 2000).

In the Ottoman Empire period, Denizli was in the second degree in the administrative hierarchy, coming after İzmir and Aydın in the region. Nevertheless, the town, generally with its subdistricts and villages had carried its anciently

important place in artisanal weaving of cotton textiles in the Aegean Region (Mutluer, 1995).

The 1891 census shows that there were 190 looms at the centre of Denizli, 185 looms in Tavas, 784 looms in Sarayköy and 640 looms in Buldan, all of which are subdistricts of Denizli. There were also timber ateliers in Çal, flour factories in Denizli and Acıpayam, and tile factories in Buldan and Sarayköy. The general manufacturing censuses of 1913 and 1915 did not mention any industrial enterprise, but underlines the fact of extensive home production of textiles in Denizli.

When we come to Gaziantep, we see that Gaziantep had also a special location situating in the main crossing of historical silk-trade road, tying the west Anatolia to Europe and the northern Anatolia to Middle East countries. This strategic location made Gaziantep a traditional market centre. During the Ottoman Empire period, the economic activities were centralised around Lazkiye and Halep. Antep had close ties with Halep and it is obvious that in order to reach Halep, Antep was being used as a transit centre (Alpargu, 1999).

Since the fifteenth century, Antep has been a highly developed city, a centre of culture and commerce in the region, thus it was called the "Small Buhara". In the nineteenth century, cotton weaving was providing large amount of income to Antep. We derive information about Gaziantep's industry pertaining to this period from the yearbooks (Salname) of Halep. According to this salnames, there were 3815 weaving workshops and 45 dyehouses in 1886. Banse, a traveller, mentions 4.000 female workers in the years of the 1880s. Among the woven materials; sets of bath towels, upholstery-stuff, carpets and rugs were very famous (Göyünç, 1999). During this period, besides the weaving workshops, 11 soap factories and 8 distilleries were founded in the region including the subdistricts of Kilis and Nizip among Antep (Gaziantep Kültür Dergisi, 5, p: 35-40).

The tradition of artisanal works and crafts has its roots in the complex ethnic structure of Ottoman Empire and the fragmented specialisation of its economy (Özcan, 1995a). During the nineteenth century, there were 47.599 Muslims, 9.833 Christians and 544 Jewish, totalling to 57.976 living in the city (Göyünç, 1999). This quite interesting ethnic structure in Gaziantep helped greatly to the development of recent entrepreneurship. Each ethnic community had a particular area of specialisation in trade and craft. In Gaziantep, trade and industrial production were

being controlled by Armenian and Jewish minority. Armenians were good at art, and Jewish people at trading. After their emigration, the vacant positions in these sectors were filled by local people.

After the World War 1, with Halep remaining out of the Turkish national boundaries, it became necessary to establish a new commercial and industrial centre that would perform the same activities in the region. Being an intersection point and having the suitable infrastructure for production and transportation, Gaziantep took on the mission that Halep had before and became the cultural and economic centre of Eastern Anatolia (Özsabuncuoğlu, et al. 1999; Özsağır, 1999).

### *Foundation of the Republic*

With the foundation of the Republic, Kemalist bourgeoisie aimed to develop an organised production all over the Anatolia. For this reason, enterprises were gone under the control of municipalities and chambers of trade and industry. They were establishing trade relations by means of these chambers (Okçuoğlu, 1999). During this period, small producers began to be organised around 'lonca's (guild of artisans and merchants) again. The organisation of lonca in that period was in a style of merchandise organisation rather than that in the feudal period. The mentioned regulation was based on the protection of small producers with respect to the Ahilik (an organised brotherhood in Anatolia related to trade guilds) mentality (Okçuoğlu, 1999).

Till the 1930's, no significant action did take place in industry. Only craft-based small production was dominant. Leatherworks, carpet weaving, shoemaking, dyeing, weaving, tinkering, producing of some metal goods such as iron, copper and zinc, manufacturing of olive oil, soap, gun and knife were the prevalent artisanal productions (Okçuoğlu, 1999).

The ethnic structure in Gaziantep has played an important role in the development of entrepreneurship. Before 1920s, the local people of Gaziantep were occupied with agriculture. Trade and industrial production were controlled by Armenian and Jewish minority. After the war, with the emigration of most of these ethnic minorities who were generally merchants, industrialists, craftsmen and businessmen, local people tried to fill these positions in Gaziantep. Many unskilled artisans and peasants moved into the vacant positions formally occupied by craftsmen.



In the industry census of 1927, it is seen that Denizli and Gaziantep are the two of 20 cities having more than 1000 enterprises. Regarding the number of businesses, Istanbul was at the first rank, with a great difference among other cities. Bursa and Izmir were following it. Gaziantep was in the sixth rank, and Denizli was in the eleventh (Okçuoğlu, 1999).

In textile sector, there were a plenty of micro enterprises with only one employee, especially in İstanbul, Izmir, Amasya, Kastamonu, Malatya and Gaziantep,. In these micro enterprises, family was the main labour force. In Antep, Mardin and Diyarbakır the existing craft-based production was composed of textile, handicrafts, silk and carpets which had economic values. The market of these manufactures was nearly the whole country. For example, only in Antep the number of looms was around 3,000 (Okçuoğlu, 1999).

Also in Denizli, there was an abundant textile production in this period. According to the reports of the Industry Congress in 1930, it was emphasised that the total number of looms in Kastamonu, Merzifon, Gaziantep, Denizli and İstanbul were reaching to 20,000. It was stated that there were 30,000 of looms around the country and that approximately 10,000 were in rural area affording personal expenditures (Okçuoğlu, 1999). It was very difficult to express the exact number of hand-workers in Turkey, as hand-workers living in towns and villages engaged themselves in agriculture also. For this reason, in most places, it was very difficult to identify hand-workers from farmers (Husrev, 1932)

Till the foundation of Peoples Bank, entrepreneurs were deprived of credit. This situation was transferring the producer to the worker of merchant. The producer was buying raw material from the merchant; returning it as a product and getting workers pay in return. The researches in Denizli showed that most of the weavers in this region were considered as actual workers. The same situation existed also in İstanbul and Antep. The cooperative action necessary for the credits had still been growing slowly. The small artisans' cooperatives were insufficient and had limited capital. Generally, the ignorance of local administrations was effective on this under development (Okçuoğlu, 1999).

Working conditions were generally very bad. Weavers were working on looms grounded in soil. In some places like Antep and centres like İstanbul, small artisans were exposed to real exploitation of mediators. For example, in Antep 9-10 years old

children were working 10 hours per day. Wages were extremely low. When compared to Antep, wages in Denizli were relatively higher, but they were just barely affording the expenses of a family (Ağaoğlu, 1944).

During this restructuring period, due to the unfavourable economic conditions industry in these two localities did not show any significant advance. However, we observe some institutional developments following the foundation of the Republic. We see the establishment of Denizli Chamber of Industry and Commerce in 1926. On the other side in Gaziantep, the foundation of the Chamber of Commerce, the opening of the Commerce High School (1921) and establishment of various industrial enterprises like foundation of Gaziantep Dabağat Co. Ltd., Antep Textile Co. Ltd. (1923), Antep Canned Goods and Agricultural Products Co. Ltd. (1925) are some examples of this development (Kılıç, 1999).

#### *1930-1950: the statist applications*

In the years of 1930, important progress was provided with the possibilities that the 'Law for the Encouragement of Industry' created on one hand, and 1929 Customs Tariffs Protection created on the other (Buğra, 1994). 28 firms out of 1473 that utilised the 'Law for the Encouragement of Industry' were located in Gaziantep. Gaziantep came first among the cities in the east and southeast, which benefited from this law. Throughout the whole country, it was in the eighth rank. The distribution of firms in Gaziantep, which utilised this law, is 14 firms in soap production, 8 firms in flour industry, and 3 firms in cotton and silk weaving industry (Özsağır, 1999).

In the 1930s, the most important improvement in Gaziantep's industry was made in the field of textile. The Law for the Encouragement of Industry and new regulations in customs tariffs in 1929 increased the production of textile industry 4,5 times between 1930 and 1937. During this period modern textile factories were opened, while the old ones increased their production capacity. Two new textile firms with high production capacities were established.

Again during this period important improvements were made in food sector also. The annulment of Aşar Tax led an increase both in agricultural fields and in the extensive usage of agricultural tools and machines. With the increase in wheat production, 4 new flourmills with high capacity were constructed in addition to the old ones.

In Denizli, there were two cotton gin establishments managed to take the advantage of Law for the Encouragement of Industry. Besides, 12 other establishments mainly in food industry also benefited from this law. Until the 1950s, the town of Denizli was not the most important place for textile production in the province. The main places for this production were the two subdistricts of Denizli; Buldan and Babadağ. They were organising the most important weekly open markets of textiles in the province where merchants from other towns traded and gave subcontracting orders.

On the other side, the customs protection caused the big domestic capital to grow at the same time and this caused the small producers to become dependent on trade capital. Cillov (1932, p: 44-45), researching textile as the basis of small production in Denizli, draws attention to the role of trader capital in the production of small goods by saying that 'old masters having no savings became dependent to capitalist traders'. Around 98% of the weavers around the country were under the control of capitalists and traders at the end of the 1930s.

The producers were under pressure, as they were dependent to wholesaler, even though they were seen as independent producers or homeworkers. Their wages were below the labour market equilibrium wage. By isolating them in their own home, big capital was escaping from the expenses such as lighting, heating and building and preventing the producers' union by considering them one by one in their homes (Okçuoğlu, 1999). The important aspects of this homeworking were to include poor villager into the industrial production, furthermore to help the rich villager grow their trade capacity by mediating for the capitalist. The negative sides were the long hours of working, unhealthy working conditions, exploitation of woman and child work force, low wages, and personal dependence.

During this period, firstly against black marketeers, then against merchants, we see some collective organisations of producers. Many small producers had successfully organised themselves to set up yarn cooperatives in the centre and in the districts of Denizli. Besides setting up yarn cooperatives, the first initiations to collaborate for production appeared in the region especially among the producers of Babadağ district. In 1948, nearly 50 producers came together for a collective production. This nucleus group would then settle to the centre of the province and develop their partnerships either by cooperating or by diverging during the different phases of industrialisation in the region and would become leader actors in the economic development of Denizli (Özelçi, 2002).

Following the statements of the state, we see similar organised activities also in Gaziantep. Stock markets and exporters unions were established for the agricultural products, which were important for this region, to be processed and marketed with modern technics. The merchants and producers organised around corporations to provide the development in the region. The foundation of Gaziantep Tobacco Growers Co-operatives Co. in 1933, the foundation of Hasankeyf Tobacco Exporters Union in 1938 and the foundation of Gaziantep Pistachio Exporters Union in 1939 were all to ensure the production of tobacco and pistachio providing more income to the economic life in the region (Kılıç, 1999).

By looking at the established companies, stock market and exporters unions, it may be determined that the regional populace is eager to move together and to make every effort in the direction of becoming industrialised. Thus, it is possible to say that the achievements that Denizli and Gaziantep had realised in the field of industry and commerce throughout the country are the results of the collective efforts of local people. In fact, we see that during this period, none of the 20 enterprises of Sümerbank in nine different industrial branches was in Denizli and Gaziantep.

#### *1950-1960: defining liberalism*

In this ten-year period, the desire and the initiative of the private sector for industrialisation appeared. In 1960, the number of industrial business having more than 10 workers increased by more than 100% and reached to 5600, while it was 2618 in 1950. Food, textile and chemistry industries were the main determinants of this increase (Tokgöz, 1999).

When it comes to the regions of Anatolia, we see the suppression of factory production over the small producers. Because people were deprived of soil, they were working on handicrafts for a while. However, as a result of the developed factory production in the last 20 years, handicraft products were getting expensive for the market in Anatolia. Just before 20 years, people living in cities and villages such as Gaziantep, Buldan, Kızılcabölük, Manisa and Karacasu were earning their livings by weaving on handlooms. But consumers began to prefer goods made in modern factories. Thus, the number of handlooms decreased in the last 20 years. Due to the fact that handicraft lost importance and replaced by the factory production, lots of loom owners had to go elsewhere for work (Rozaliyev, Y.N. Vatan

Gazetesi, 7.5.1957, quoted in Okçuoğlu, 1999). The changing numbers of handlooms in Gaziantep shows this effect very clearly. There were 8,000 handlooms during 1941- 1945 in Gaziantep. However, after the entry of factory production into this region, the number of looms decreased to 1,500 in 1954 and the small production dispersed towards other regions (Okçuoğlu, 1999).

On the contrary, factory production also provided benefits. The establishment of cotton yarn factory by the initiative of the state in Denizli in 1953 had greatly helped the small producer of the region, which had difficulty in finding yarn. It also helped to the employment of 500 people in the region. During this period the electrification of the town centre brought the possibility of the usage of electrical looms, thus carried the textile market to the province of Denizli which became the primary place of textile production compared to other districts (Pınarcıoğlu, 2000).

The most significant progress in the small-scale industry in Gaziantep took place after the opening of Birecik Bridge in 1953. It began to respond to the needs of eastern and even central Anatolia. In this period as a result of the increasing importance of intercity roads and mechanisation in agriculture, more and more transportation vehicles and agricultural machines entered the region. Thus, it became necessary to engage in the maintenance and repairs of those machines and in the production of necessary spare parts for them. Thus, the local people historically familiar with handicrafts, metalworking and casting turned their line of works to these areas. As a result Gaziantep started to become a centre of small-scale industries in the Southeastern Anatolia specialising in the maintenance of vehicles and machines. Lathwork, auto repairing, car body works, fitting electric, car painting, upholstery and radiator works very rapidly flourished (Ministry of Commerce and Industry, 1972). After a while, motor vehicles began to enter Gaziantep from Syria and Lebanon for maintenance, repairs and upholstery. These sectors are still in practice in small industrial sites (Özsağır, 1999).

Besides the encouragement of the private industry, the national development strategy was also based on the agricultural growth in the years of 1950. Gaziantep industry benefited from these occasions and sectoral differentiation was created in industrial production depending on the encouraged agricultural production in the region. During this period, the improvement was made in soap production and textile along with the food industry (Özsağır, 1999).



### *1960 – 1980: planned economy*

In 1960 with the effect of long-term economic planning, the private sector found favourable conditions for growth due to the state incentives especially with the aim of decentralization in industrial production (Mutluer,1995).

In Denizli, the extension of the production of the state cotton yarn factory to weaving in 1964, effected the small producers negatively. Despite the increasing use of electrical looms, there was still extensive use of hand weaving looms in Denizli. It seems not to have been possible for private industry to compete with this Sümerbank Company. Under these circumstances, the private textile industry in Denizli did not show much development (Pınarcıoğlu, 2000).

In the 1970s, the first signs of development in the sectors other than textiles appeared. During this period, especially multi-partner workers' or people's enterprises generally founded by Turkish workers abroad, played an important role in Denizli. With the Turkish-German agreement signed in 1961, worker immigration started as of 1962. We see that Denizli was one of the towns where more than 35,000 workers had gone to West Europe -mainly to Germany- in the 1960s. Turkish government took immediate measures to cope with the problems which Turkish emigrant workers would face abroad due to the plant closures and job loss caused by the oil shock. The driving force behind the workers' enterprises was to help the workers to sort out their financial problems on their return, if they are repatriated (Pınarcıoğlu, 2000).

There were 19 firms set up as workers' enterprises in Denizli. There was no specific sector selection for these investments. In fact they covered many sectors from food to chemical industry or from glass to electronics industries. Only two of them were in textiles (Mutluer, 1995).

This situation gave a new aspect to Turkish economy. It not only built a new source of foreign exchange entry but also reduced unemployment. These enterprises brought new technology and the transfer of know-how from abroad to the locality. Local entrepreneurship was also encouraged with these enterprises and there were new investments in many sectors made by the resources of local people. Besides textiles, the artisanal experience on metal milling and processing helped the development of basic metal and fabricated metal industries in Denizli.



For Gaziantep it is possible to say that the industrialisation in contemporary meaning have been started with its inclusion in the list of priority regions in development in 1968 and with the establishment of the Small-sized Industries Development Centre (KÜSGEM) in 1970. Establishing KÜSGEM in this area is not coincidental. After making a research in the city in this period, the United Nations experts concluded that Gaziantep had a great potential for industrialisation. Because in the years of 1960 and 1970, the overall production in the city was originating from three sources: home production, workshop production and factory production (Özsağır 1999). During this period, factory production in almost all branches of industry was prevalent.

*After 1980: the export oriented policies and the emergence of local economies*

With 1980, the Turkish economy had a major transformation towards the liberalisation policies. The development of free market economy, liberalisation of foreign trade, elimination of price controls, and monetary policies have been pivotal elements of this transformation. Turkish exports increased remarkably after 1980 and enjoyed the opportunities created in the foreign markets. As Şenses (1990) argues, two important elements have facilitated the success of Turkish exports: the first is the squeeze in domestic demand and the second is the utilisation of existing industrial capacity which was created during the earlier import substitution years.

While the 1970s showed a remarkable increase in the numbers of medium and large firms, liberal policies throughout the 1980s encouraged the development of a new blend of entrepreneurs and a more outward looking business environment. The progression towards larger units, which characterised the condition of industrial economies prior to the mid-1970s, has been halted or reversed. Many sections of society saw a new future in the formation of private businesses. Notably university graduates and youngsters of urban middle classes established new businesses (Özcan, 1995a).

The export promotion has seemed to boost the entrepreneurial spirit of people in the country. During this period, several traditional Anatolian towns have shown an unexpected success mostly in textile and clothing industry based on the combination of some traditional artisanal knowledge and this new entrepreneurial spirit. The most important of these towns are Denizli in Aegean region, Edirne in Thrace; Çorum and Konya in Central Anatolia; Gaziantep, Kahramanmaraş and Adıyaman in southeast Anatolia.

When some of the general characteristics of them are examined, it is seen in these districts that (Köse and Öncü, 1998):

- the rising sectors are generally craft-based sectors; textile and clothing, leather products, food and beverages, tobacco and metallic goods,
- small and medium-sized firms have a relative dominance when compared with the general Turkish manufacturing industry,
- family establishments appear to be the typical firm structures,
- most important exporting sectors are textile and clothing.

From these towns, Denizli located in the west and Gaziantep in the east are the most important two that have showed a high growth rate, especially in the textile sector after 1980, by responding to new opportunities that appeared in the foreign markets. This has created favourable conditions for the rapid transformation of industry in both towns.

Beside the entrepreneurial features, the macro economic policies, which have taken place in the recent history of Turkey, had also played an important role in this development. The growth experienced especially in textile sector is related to the state incentives, fiscal and monetary measures in promoting exports as well as the potential the region possesses related to the past experience of industrialisation and the capital accumulated in the hands of various family or capital groups in the 1970s. The incentives given to producers have led a rapid renewal in technology after 1985.

Turkish economy entered its down turn cycle in the early 1990s with increasing inflation rates, business closures and budget deficit. Turkish exports began to face a tough market, due to quotas of the OECD countries and the effect of the Gulf crises, which harmed the Turkish economy, especially the exporters of southeast region in the 1990s.

Recently, although the entrance to the customs union with EC has created new niches in export markets, the crises of 1994 and the Asian crises of 1998 had negative effects on exporting. During 1995-1999 many producers had deleted their registers from the Chambers and many workers lost their jobs. Due to these negative economic situations, these localities try to survive and become competitive in foreign markets depending on different mechanisms they create by themselves.

The success lived in these localities has achieved an intensive interest both by the academic environment and by governmental and non-governmental institutions after the 1990s. There has been several studies realised on these emerging local economies. Analysing these studies as secondary sources will provide a deeper understanding of the dynamism in these localities.

#### **IV. 2. Recent studies on Denizli and Gaziantep**

Recent studies, especially the academic dissertations, which analyse different dimensions of local production dynamics of the two localities, build an archive considering local economies parallel to contemporary theoretical developments. In each of these studies, recent theories are evaluated with a new set of empirical evidence from the localities. Although main themes of these studies change, they complete each other revealing different facets of the social world.

These studies addressing the same phenomenon of local development in Denizli and Gaziantep are selected in order to compare and contrast different sources of findings. Utilising these previous studies will contribute to find out the different mechanisms forming the networks that take place in these localities. These studies are classified according to the main themes parallel to the changing concepts and theories in the literature.

##### *Decentralisation process of industry*

One of the earliest studies realised at the beginning of the 1990s is the doctorate study of Mutluer (1995). The main point of departure in his thesis is to put forward the decentralisation process of industry in Turkey and to analyse the newly emerging industrial regions. He chooses Denizli as the research area. He gives a detailed explanation on historical development, structural characteristics and problems of industry in Denizli, which have been utilised by most of the recent studies over Denizli. As a geographer, he also makes a detailed analysis on the location factors, sectoral distribution and input-output relations of manufacturing industry in Denizli. His considering all the sectors of the manufacturing industry provides the perception of the local production system as a whole.

This detailed historical analysis of Mutluer is useful for understanding the dynamics of restructuring of Denizli industry. In addition to his study social and anthropological factors influencing the industrial development in the locality may provide a deeper understanding of the locality.

#### *Small firm studies*

We see that after the 1980s, small and medium-sized enterprises emerge as the successful organisations of volatile business environments. With their flexible, dynamic and competitive characteristics, they become popular for economic rejuvenation and for generating jobs mainly for the economies in crises.

Özcan (1995a), within this context, concentrates on small firms and local economic development with a special reference to entrepreneurship. She tries to bring empirical evidence from a semi-peripheral country Turkey. The focus of her study is on the functioning of small firms and their contribution to local economies. She makes a comparison among three different localities in Turkey including Denizli and Gaziantep together with Kayseri.

The dynamism of local entrepreneurship is achieved through the family friendship ties and local networks of businessmen. She studies the economics, the anthropology, and the entrepreneurial dynamics of small business in four sectors, consumer durable retailers, foodstuffs wholesaling, machinery manufacturing and housing construction. The study captures the sectoral and spatial dynamics of small firms. Entrepreneurial characteristics and survival and growth dynamics are studied together with their sectoral and local characteristics. The anthropological aspects that involve family, friends and social networks of small firms and their influence on the day-to-day practices of the business are revealed. These relationships support market relations of small businesses.

A new approach to comprehend small firm entrepreneurship and to guide local economic development is constructed on the study of three pillars: small and medium-sized cities, social relations of small firms, and survival and growth dynamics. The anthropology of small firms is explored as a very dynamic part of the analysis. Local cultural elements and traditions are taken as important points for small business entrepreneurship.

There are also other studies considering small and medium-sized firms in these localities, generally analysing the problems they face with, like the marketing problems of them.

### *Industrial districts*

Industrial district paradigm, which is explained in Chapter 2 in details, becomes popular with the emerging success regions in Europe especially with the case of Emilia-Romagna region defined as the Third Italy. These creative districts have become the popular areas of research and many researches have been carried out each considering a different point of view in order to explain the reasons of success.

Erendil (1998) focuses on the transformation experienced in textile sector in Denizli, especially with reference to the experience of 'industrial districts' in different countries. She examines the transforming nature of production and reproduction. She brings the ontological and epistemological position of critical realist approach in geographical research. She refers to the social theories explaining the contemporary changes in the capitalist mode of production and the theories explaining different aspects of the social phenomena to evaluate them in the light of concrete data from the field study conducted in Denizli.

She attempts to define less context-dependent structures and context-dependent structures in order to show how they interact in different time periods in a particular place –which is Denizli in her thesis- and their relative strength in affecting each other and leading to a transformation. She identifies major stages in which rapid shifts have been realised mainly due to changing context of opportunities or restrictions. They are identified as the period before 1980 and the period after 1980 for Denizli. Her firm typologies according to their production organisation really helps to understand different aspects of the phenomena studied.

A similar approach with Erendil is observed in the study of Pınarcıoğlu (2000). In his study he also exercises on the understanding of industrial districts and network relationships in localities. The unexpected growth and exporting success in textile and clothing sector in particular regions makes him choose two towns; Bursa and Denizli, which have important roles and different experiences in Turkey's exporting. Bursa appears as a strong town under the tutelage of several large firms for the national market before 1980 and has enjoyed further development in export

activities. Denizli has undergone an unprecedented development initiated by its small and medium-sized textile and clothing firms.

He examines the relations and conflicts between the state, the industry and labour as well as between producers of textile and clothing sector. This multi-dimensional approach helps to understand the locality, thus the production environment as a whole. He reformulates local economies of Bursa and Denizli.

Recently, we see that social and cultural dimensions of industrial development have prevalently begun to be analysed in the local development studies. Concepts like trust, reciprocity, social capital, institutional thickness, collective learning, tacit knowledge, untraded interdependencies, all of which refer to local embeddedness are attempted to be put forward in the recent locality studies. The very recently completed studies generally consider themes from these recent concepts.

#### *Institutional approach*

Institutional theory has attracted a special interest in the regional studies especially with the 'institutional thickness' definition of Amin and Thrift (1995) supporting the regional development. Özelçi (2002) directly focuses on this subject, and analyses institutional aspects of local and regional development. She examines the role of institutional structures for the development of dynamic local production systems in the example of Denizli. In arrangement of this, she analyses different phases of industrialisation and institutionalisation process of Denizli: initial phase, growth phase (1980-1990), maturation phase (1990-1998) and crises phase (after 1998). She tries to put forward the institutional change in the research area by testing the institutional thickness approach whether it is a crucial aspect of development or a barrier to adapting changing conditions. Thus, she brings a detailed analysis over institutions related to industry in the locality.

Eraydın (2002) also considers the governance structures of the newly emerging industrial poles in explaining the success reasons of these districts. She reconceptualises local development by evaluating different experiences of these industrial poles. She evaluates some Turkish cases in building up the empirical framework. Denizli and Gaziantep are the examples analysed within this framework. She evaluates these cases as successful local economies and compares them with unsuccessful cases. She examines the characteristics of the two localities



considering the historical development of industry in the localities in order to define the different actors and their roles in this industrialisation process. The main theme in her study is defining the general characteristics of the production system and the labour market and putting forward the support mechanisms of central and local institutions in explaining the success of these regions.

Besides these academic studies there are studies of various local and central institutions. The researches of Chambers, State Planning Organisation and State Statistic Institute provide quantitative data, which is used in this thesis to support the findings of the field research and in-depth interviews.

Evaluating all of these recent studies carried out in these localities help for a deeper understanding of the dynamics of the localities. Each having a different point of departure due to the contemporary theoretical developments provides different dimensions for the abstraction of the social phenomena occurring in these localities. This thesis is also a part of this recent empirical progression. In this thesis the initial point is the analysis of entrepreneurial networks including the social, economic and spatial dimensions in defining the local embeddedness which appears as a contemporary theoretical concept in regional development. Except for the two i.e. Özcan's and Eraydın's works, all of these studies are on Denizli. Making comparison provides the chance to put forward the different social, economic and spatial formations of networks in two different localities.

## CHAPTER V

### RESULTS OF THE SURVEY: ENTREPRENEURIAL NETWORKS DEFINING SOCIO-ECONOMIC SPATIALITY IN DENIZLI AND GAZIANTEP

In this chapter, results of the networking surveys, considering socio-economic dimensions of networks in the localities Denizli and Gaziantep are given. During the course of the research, the quantitative data from the surveys of SPO (State Planning Organisation)<sup>1</sup> is used to provide a useful check on the results derived from the qualitative data from the in-dept interviews and the field observations. Gradually, these two types of data continually feed into one another in a complementary sense and provide a comprehensive picture of the nature and workings of the networks in action. The quantitative data suggests an economic dimension to the local market and a rather stable structure of segments, whereas the qualitative material indicates the variety of social processes that are involved in the establishment and maintenance of the stratified business relations.

Networks in these two localities are examined in three layers:

- **intrafirm networks** which constitute the formal and informal contractual structures between different departments, subsidiaries within the firm;
- **interfirm networks** which comprise externalised and institutional transactions and relationships; and
- **extrafirm networks** which refers to any relationship between the firm and other institutions embedded in the society.

There is a close intertwining between these different layers, which serve to produce and reproduce them causing the change in local and global space. Thus, at the end of the chapter the concrete realisation of networks over space will be given.

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<sup>1</sup> The tables used in this chapter are produced from the results of field survey of 'New Local Industrial Poles – Denizli and Gaziantep' carried by SPO (State Planning Organisation), SSI (State Statistics Institution) and CMC (Capital Market Committee) in 1996.

## V.1. Intrafirm Networks - Administrative organisation

Intrafirm relations, as emphasised by Yeung (1994), are necessary ingredients of business operations based on formal and informal contractual structures characterised by a heavy reliance on internal arbitration of disputes.

For Denizli and Gaziantep cases, intrafirm networks are examined by making observations and getting detailed information from the entrepreneurs via in-depth interviews. The aim is to put forward the characteristics of the entrepreneur, thus the human capital in the localities, the organisational structure of the firm, the role of the entrepreneur in the firm, the characteristics of the employees, relationships among employees and the entrepreneur including the informal relations among them. In other words, the inner relations of the firm acting as potential mechanisms for efficient production capacity is tried to be abstracted.

### V.1.1. General Characteristics of Entrepreneurs

#### *Age, Sex and Marital Status*

From the interviews realised with the entrepreneurs, it is seen that there are both first generation industrialists and second generation industrialists actively taking place in the manufacturing sector. When we examine the age groups of the entrepreneurs in Denizli and Gaziantep, we see that the concentration is in the age groups over 30 years old in both localities (Table 5.1). While the highest percentage of entrepreneurs is in the age group of 31-40 years old in Denizli, it is in the age group of 41-50 years old in Gaziantep.

**Table 5.1.** Distribution of the age groups of entrepreneurs

Age	Denizli		Gaziantep	
	Firm	%	Firm	%
18-25	7	2	6	2
26-30	24	6	18	6
31-40	144	35	84	26
41-50	140	34	117	37
51+	100	24	91	28
<b>Total</b>	<b>415</b>	<b>101</b>	<b>316</b>	<b>99</b>

This relatively higher percentage of younger entrepreneurs in Denizli is related to the export boom, recently taking place in textile sector. The new opportunities in textile industry have attracted many new firms, especially young enthusiastic

entrepreneurs. Some of these new entrepreneurs are people who have never had any experience in textiles. If they have enough capital accumulated from different sectors or obtained from bank credits, they import machines or buy second-hand ones and start production by recruiting the experienced workers of the locality.

On the other side, some other entrepreneurs come from different towns just for making exports even without making any production. One of the entrepreneurs of an exporting company in Denizli explains:

“In fact, we are professionals in international relations. My husband and I came from Ankara to Denizli in 1994. We buy towel and bathrobe from local firms and export them”.

Besides these enthusiastic young entrepreneurs, we observe that first generation entrepreneurs over 60 years old still carry the enthusiasm and take active roles in the firms. In fact, most of these first generation entrepreneurs, more than their young sons, are busier in making business connections.

When we observe the sexes of the entrepreneurs, we see that males are dominant in the manufacturing sector. Almost none of the entrepreneurs are women in both localities. It is seen from the sectoral firm lists of the Chamber of Industry that there are some names belonging to women as the owners of the firms, especially in Gaziantep. This is explained by the authorities that the actual male owners of some firms register their wives or daughters as the owner of the firm just for some bureaucratic reasons. In fact, these women are not actively controlling the firm.

There are some extreme cases found out in the field surveys that woman acting as the employers of the firms are the ones that have either taken over the firm from their families or come and settled in the localities after living in different towns or countries.

The only exporting woman entrepreneur in Denizli establishes her firm after working for a while in Germany.

“I established my first enterprise in Germany with a German partner. We were making business with my brother having a textile firm in Denizli. After a while my German partner quit the business and the partnership was broken. Things went bad and my family and I decided to turn back to Turkey. I established another firm with my husband here in Denizli. More than my husband I am responsible from the business here”.

From the interviews, we conclude that although they do not establish the firms by themselves, women have begun to take active roles in the administrative organs of the firms in the recent years. However, there are still some social and cultural barriers that local people is not get used to see women as entrepreneurs. In a traditionally paternalistic community this is quite strange to work with woman employers. One of the woman entrepreneurs taken over the firm from his father in Gaziantep tells:

“Being a women entrepreneur is very difficult in Gaziantep as Gaziantep people are conservative. They think that production is a masculine job. After my father’s death, I took over the firm with my mother and brother. At the early stages, our workers were really prejudiced towards me. Because of closed, traditionally patriarchal social structure of Gaziantep, they did not want to get commands from a woman. But after a while, we got used to each other. But still, I have to be very careful with my business, because I am tested all time. When something is done wrong, they are ready to blame me as the one who is the incompetent. Besides these cultural barriers, working almost whole day at work is very difficult, if you have children”.

We see that a great percentage of the entrepreneurs are married in both localities.

### *Education*

When Table 5.2 is examined, a polarisation among entrepreneurs is seen. In both Denizli and Gaziantep, almost half of the entrepreneurs is primary or secondary school graduates and the other half is lycee or university graduates. Especially in Denizli, university graduates really takes an important share.

Another interesting point emerges when the sizes of the firms are examined. In micro enterprises, with less than 10 employees, the entrepreneurs are especially primary or secondary school graduates. However, depending on the sector, enterprises with more than 10 employees have more educated employers.

This is because in both localities, small firm entrepreneurs are generally artisans or even waged workers in origin with little educational backgrounds. They establish their firms with small capitals and try to survive depending on their experience. On the other side, there are educated small firm entrepreneurs, who are the ones entering the market with relatively high capitals and new technologies.

**Table 5.2.** Distribution of the entrepreneurs according to their education levels considering the size and sector of the firm

**Denizli**

	Sector <sup>2</sup>	1	2	3	4	5	6	7	8	Total
1-9	31	14	52	290	71	19	19	1	3	469
	32	99	46	2434	267	84	192	83	14	3219
	33	2	-	771	79	26	20	1	15	914
	34	-	-	15	8	7	19	2	3	54
	35	-	3	37	6	6	23	12	-	87
	36	-	-	44	50	14	12	3	3	126
	37	-	-	3	-	-	-	-	-	3
	38	6	-	899	22	67	26	26	-	1046
	39	-	-	3	2	-	-	-	-	5
	<b>Total</b>	<b>121</b>	<b>101</b>	<b>4496</b>	<b>505</b>	<b>223</b>	<b>311</b>	<b>128</b>	<b>38</b>	<b>5923</b>
10+	31	-	-	11	7	-	4	6	-	28
	32	-	1	98	28	17	53	72	5	274
	33	-	-	4	-	-	-	2	-	6
	34	-	-	2	1	-	1	3	-	7
	35	-	-	5	2	1	1	6	1	16
	36	-	-	5	1	-	4	10	-	20
	37	-	-	6	2	2	7	7	-	24
	38	-	1	15	1	5	3	14	1	40
	<b>Total</b>	<b>-</b>	<b>2</b>	<b>146</b>	<b>42</b>	<b>25</b>	<b>73</b>	<b>120</b>	<b>7</b>	<b>415</b>

**Gaziantep**

	Sector	1	2	3	4	5	6	7	8	Total
1-9	31	118	35	1011	216	28	107	27	-	1542
	32	51	51	1339	153	12	213	37	-	1856
	33	22	10	992	129	17	38	-	7	1215
	34	-	-	79	42	-	17	11	-	149
	35	8	1	77	48	27	37	24	-	222
	36	-	6	131	2	-	22	-	-	161
	37	-	-	19	3	-	1	-	-	23
	38	26	3	717	64	25	55	22	5	917
	39	-	-	16	-	-	1	1	-	18
	<b>Total</b>	<b>225</b>	<b>106</b>	<b>4381</b>	<b>657</b>	<b>109</b>	<b>491</b>	<b>122</b>	<b>12</b>	<b>6103</b>
10+	31	-	1	13	7	-	13	15	-	49
	32	1	2	64	22	3	46	38	4	180
	33	-	-	2	1	1	1	2	-	7
	34	-	-	-	-	1	3	3	1	8
	35	-	-	4	5	-	8	11	-	28
	36	-	-	1	1	1	1	2	-	6
	37	-	-	5	-	-	2	3	-	10
	38	-	-	15	3	-	3	6	1	28
<b>Total</b>	<b>1</b>	<b>3</b>	<b>104</b>	<b>39</b>	<b>6</b>	<b>77</b>	<b>80</b>	<b>6</b>	<b>316</b>	

1. Illiterate 2. Literate but not graduate 3. Primary 4. Secondary 5. Vocational 6. Lycee  
7. University 8. MSc, PhD

- <sup>2</sup> 31. Manufacture of food, beverage and tobacco  
32. Textile, weaving apparel and leather industries  
33. Manufacture of wood products including furniture  
34. Manufacture of paper and paper products, printing and publishing  
35. Manufacture of chemicals and of chemical petroleum, coal, rubber and plastic  
36. Manufacture of non-metallic mineral products  
37. Basic metal industries  
38. Manufacture of fabricated metal products, machinery and equipment, transportation vehicles, scientific and professional measuring and controlling equipment  
39. Other manufacturing industries



For the polarisation in educational levels of entrepreneurs with more than 10 employees, we may bring different explanations depending on the field observations. One is that the new generation employers give importance to education or catches the chance to be educated. Although their fathers are generally primary or secondary school graduates, having artisanal backgrounds and could not find the chance to be educated, the next generation even completes their MSc Degrees in foreign countries. It is emphasised that having education in foreign countries is also seen as a social status. Similarly Buğra (1994: 64-65) connotes that

“Leading businessmen in the country –at least those who have a significant public presence through their activities in business associations- indeed appear to have an educational background which is far superior not only to that of the average population, but also to that of most politicians and bureaucrats, especially when the knowledge of foreign languages and degrees obtained in prestigious foreign universities are taken into account.... Formal education becomes an important asset in an environment where good connections with government authorities is crucial to business success”.

Most of the first generation entrepreneurs try to give the chance of higher education to their children to provide the prestigious status for their families. Their knowledge of a foreign language is also significant in the business career, which might help in entrance to the foreign markets either as an investor or as an exporter.

Another explanation for this polarisation is related to the newly established firms. Generally newly established firms have educated entrepreneurs who are more adaptable to the changing conditions of technology and can easily catch the opportunities in different markets. They make connections with foreign markets by using their foreign languages and using the technology of internet. Thus they become competitive and have the chance to enlarge their firms with these new connections and take their places in the foreign markets.

#### *Experience about the business*

When we concern the business experience of the entrepreneurs in both localities, we observe that the high school or university graduate entrepreneurs generally work at different sectors before establishing their own businesses unless their parents are industrialists. If the parents of educated entrepreneurs are industrialists, they

generally get used to the business starting from their childhood. They help their father in the business and begin to adapt to the business as an observer. After completing their education they begin to take active roles in the firm and even take the control of the firm just after graduation.

Learning the business by doing, thus gaining experience on the job is the most effective way of learning business. One of the partners of the greatest company in Gaziantep emphasises:

“We, as the members of board of directors of the holding, all got on job training. We worked actively near workers to learn the job. You have to know the job in details in order to give rational decisions. Also, our sons have been entering the business following these steps”.

Similar to the educated entrepreneurs, for non-educated ones the only way to learn the business is by working directly in the business starting from the childhood. They start working as an apprentice in various sectors. One of the entrepreneurs in machine sector in Gaziantep known as a innovator in the locality remembers those days sadly:

“I was not successful in my lessons when I was a child, thus my parents took me from the school and made me begin working near a latheman as an apprentice. I was quite incapable of understanding the business, thus I was beaten a lot by my master workman. I did not take a formal education but learned the business by doing the business”.

Most of entrepreneurs believe that for being successful they should integrate the knowledge gained by practice with technical knowledge. It is indicated that there were lots of master workmen who have learned their business learning by doing. They are very good at their job and even have the potential of making innovations. However, technical support is not necessarily provided.

In the process of learning the firm uses the resources that were developed earlier in the learning path and combine them to create new ones. Learning begins with individuals. *Individual learning* relies on training through education and research systems as well as acquiring knowledge through learning by operating, using and searching during the involvement activities within the organisation (Jin and Stough, 1998). This situation is especially true on-the job training provided by the firms and the motivating mechanisms developed within the firm. In *organisational learning* (Lawson and Lorenz, 1999), learning depends on some knowledge shared amongst

the members of organisations and this knowledge is mostly tacit and embodied in organisational routines and procedures. Generating new knowledge within the organisation depends on combining diverse knowledge.

In both of the localities we clearly observe these two types of learning considering the organisations. Table 5.3 also supports the claim that most of entrepreneurs generally gain experience by working in related businesses. It is seen that only 6% of them do the business that they were educated on.

**Table 5.3.** Education and experience of entrepreneurs about the business

	Denizli				Gaziantep			
	1-9	%	10+	%	1-9	%	10+	%
Educated related to the business	661	9	40	6	175	2	30	6
Taken courses related to the business	831	11	56	8	975	12	67	12
Previously worked related to the business	4172	55	245	37	4235	52	187	35
Business belonging to relatives	1181	16	121	18	1907	24	105	19
Previously established an enterprise	763	10	205	31	808	10	153	28
<b>Total*</b>	<b>7608</b>	<b>101</b>	<b>415</b>	<b>100</b>	<b>8100</b>	<b>100</b>	<b>316</b>	<b>100</b>

\* more than one answers

Also in enterprises more than 10 employees, we see that an important amount of entrepreneurs have previously established a firm in both localities. They start their new enterprises by the experiences they gained from their previous enterprises.

#### *Entrepreneurial Spirit: the reflections of social norms and habits*

In both cities, everybody talks about the entrepreneurial spirit, which causes such an unexpected local development. Both towns seem to have caught the opportunities of the new period by their ambitious entrepreneurs. Entrepreneurs in both localities have great ambitious to make investments. When we examine Table 5.4, we see that the most important reason for making investments is the entrepreneurs' wish to make investment.

Why people in both localities have such enthusiasm for making investments? This entrepreneurial spirit is explained by two reasons. One is about the personal characteristics of the entrepreneurs and the other is about the social and cultural effects. Both towns are characterised with their hard-working people. For Denizli

people, it is told that as the agricultural facilities were very limited, they had to make their livings by working very hard in various sectors especially in weaving sector. And for Gaziantep people, it is told that especially the Independence War had great effects. After the war, as they had lost everything and did not have a prosperous future, they also had to work hard to make their livings and survive. They searched for different sectors to invest and create their own future.

**Table 5.4.** The reason of investment at that locality

	Denizli		Gaziantep	
	1-9	10+	1-9	10+
Raw material supply	885	107	1046	68
Being close to the market	710	65	974	69
Labour supply	263	51	492	58
Transportation cost	69	3	64	6
Infrastructure capacity	114	31	72	18
Promotion possibilities	36	20	36	11
Existence of main industry	545	98	180	44
Existence of secondary industries	420	30	164	31
Wish to invest	<b>5233</b>	<b>280</b>	<b>4311</b>	<b>218</b>
Other	113	3	1055	12

Besides their hard-working character, they are defined as ambitious and jealous. Entrepreneurs generally do not make feasibility researches. When they see an entrepreneur driving a “Mercedes” car (earning money from a sector), they directly make their investment on that sector, thinking that it is the most profitable one. Everyone follows each other; ‘looks at his neighbour’. This is also because of a hidden competition among the producers. When someone produces something new, the other directly imitates him.

One of the professional partners of a synthetic yarn company in Gaziantep emphasises:

“Gaziantep entrepreneurs should be greeted with applause. If you are from Gaziantep, after such an interview you can easily establish your own firm without making any researches. They are blindly courageous. They trust themselves so much and they do not humiliate their potential. When I first came to Gaziantep, I tried to change the inefficient, old machine park. Everybody now believes the necessity of new technology to be competitive. There is imitation in Gaziantep. This imitation is evident in other regions of Turkey also like; Denizli, Uşak, Kayseri, Bursa, Çankırı, Yozgat. This is because the producers all know each other very well and in such a small business environment they are very close to each other”.

Also social and cultural factors are effective in entrepreneurship. People of both towns have affiliation with their locality. Although they go out the locality for education, they turn back to establish their own businesses in their localities.

Families expect from their children to establish their businesses. After saving up enough money, or getting enough experience in a sector, everybody starts his own work in a small workshop with limited equipment. One of the entrepreneurs says:

“There is surely someone who is occupied with industry in every family in Gaziantep. Newborn babies get the scent of machine oil and save it to their memories. When they grow up, they either start working as an apprentice or be educated. The educated ones surely turn back to Gaziantep and establish their businesses”.

This is similar in Denizli, especially in weaving sector. Beginning from their childhood, people meet with the weaving looms. In such a locality of intense textile production, everyone surely have acquaintances dealing with textile sector. Previously, in every house there were handlooms and people got used to the sound of the looms and began to deal with the business when they were children.

Different from Denizli, in Gaziantep the ethnic structure have played an important role in the entrepreneurship. The non-Muslims; the Armenian and Jewish minority in Gaziantep had effects in commercial and industrial development. Before 1920s, the local people of Gaziantep were occupied with agriculture. Trade and industrial production were controlled by Armenian and Jewish minority. Armenians were good at art and Jewish people at trading. After the war, when most of these ethnic minorities left Gaziantep, local people tried to fill these positions. Many unskilled artisans and peasants moved into the vacant positions formally occupied by craftsmen. Jewish people had so much effect in the development of commerce in Gaziantep. After their left local people took over their role (Özcan, 1995a).

### **V.1.2. Organisational Structure of Enterprises**

As seen from Chapter IV in details, we observe some breaking points in industrial and entrepreneurial development in both Denizli and Gaziantep following the events occurring in Turkey and in the world. The 1<sup>st</sup> World War had great negative effects on both localities. After the foundation of the Republic till the economic crises of the 1929, the idea of economic development through stimulating private enterprises and limitation of imports regenerated the small production. Production organisation was in the form of small family establishments in both localities. During the Etatist period of the 1930s, we see that weaving sector made an attack and the handloom weaving was regenerated with the strong protectionism policies. However, the



interest in large-scale yarn production effected the small production and towards the end of the 1940s, the number of manual looms sharply decreased. Until the second half of the 1960s, the industrial development was moderate in both localities. The production of the consumer goods was given weight during this period, which caused motivation in the two localities. However, the sharpest breaking point for both localities was after 1980 with the export oriented policies. Textile sector has boomed with the most crucial jump was realised after 1980 (Pamuk, 1998). The export-oriented policies boomed especially textile sector in both localities.

We observe that the organisational structure have begun to differentiate after the 1980s. Just like in the example of Sinos Valley (Rabelotti, 1995) some firms catching the global opportunities begin to enlarge in size, some others who could not adapt to the changing markets disappear and some new firms with higher technologies begin to enter the market.

Today in Denizli, we observe a specialisation in textile sector mostly on towel and bathrobe production. On the other hand in Gaziantep, we observe a more diversified industrial structure. Although the great share of the firms seems to be in textile, the subsectoral distribution is quite diversified (yarn production, carpet manufacturing, knitting, etc.) (Table 5.5).

**Table 5. 5.** Comparison of number of firms according to sectors and sizes (1996)

Sector	Denizli				Gaziantep			
	1-9		10+		1-9		10+	
	Firm	%	Firm	%	Firm	%	Firm	%
31	469	7.9	28	6.7	1542	25.2	49	15.5
32	3219	54.4	274	66.0	1856	30.4	180	56.9
33	914	15.4	6	1.5	1215	20.0	7	2.2
34	54	0.9	7	1.7	149	2.5	8	2.5
35	87	1.5	16	3.9	222	3.7	28	8.9
36	126	2.1	20	4.8	161	2.6	6	1.9
37	3	0.0	24	5.8	23	0.4	10	3.2
38	1046	17.7	40	9.6	917	15.1	28	8.9
<b>Total</b>	<b>5923</b>	<b>99.9</b>	<b>415</b>	<b>100.0</b>	<b>6103</b>	<b>99.9</b>	<b>316</b>	<b>100.0</b>

Generally, development histories of the firms provide the necessary information about the industrial development stages of the localities. The development history of the biggest company in Gaziantep will help us to have a deeper understanding of this organisational transformation process.



The father (A) started production in 1943 with only one loom taken from his father. (A) preferred to work with father till 1954. His brothers were also working with them. It was a family firm. When his father wanted to take his share and go to Hicaz, all the partnership has broken up. His brothers still have big companies; one of them occupies with transportation, and the other occupies with synthetic yarn production. As the family firm, they were the first producers who brought motorized looms and who started towel production in Gaziantep. (A) established another partnership with his subcontractor of painting and with a trader both of whom are not from the family. Till 1972, the partnership with one of the partners went on, but then it was broken down and the firm transferred into family partnership. Meanwhile, he left towel weaving in 1960 and began to produce hydrophilic cotton and 2 years later in addition to hygienic cotton production, he began to produce cotton yarns with 2000 spindles. Till 1968, the number of spindles had increased to 5000. They applied to state investment incentives of SPO for importing machines, but they could not get it till 1970. The incentive was given to the producers with 100.000 spindles of production. But during that period there was neither such a knowledge accumulation, nor financial power and also no staff for building such an establishment in Turkey. Father really strive so much to decrease this number to 25.000-30.000. In 2 years time, he succeeded and the number of spindles decreased to 30.000. His father got the first incentive in the country. In the 1970s, they left the production of hygienic cotton and gave importance to yarn production till 1987. During the crises of 1970s, they could not make crucial investments. After the 1980 revolution, they began to make investments again. The revolution was the breaking point. After it, for every 1,5 years, they made capacity and in 1989 the number of spindles reached to 400.000. Now, they have a spindle capacity of 500.000 and 620 looms in cotton yarn production. Till now, they had reached to a certain point in yarn production and decided to add different sectors to their production. At the end of the 1980s, they began to make investments to different places and in different branches.

- In 1988, a weaving factory including painting and apre, including the whole stages of cloth weaving was established in Bursa-İnegöl.
- They turned back to towel production both in Gaziantep and subcontracting in Denizli. In Denizli they have an office. They send the yarn, have it weaved, painted and ready-made and at the end we export them from there. We do not have a production unit there. We bought a trademark of Denizli, but did not buy the production unit.
- The production of polypropilen film used as packaging material.
- Cement production in Adıyaman, factory bought from privatization sales. They could not buy the cement factory in Gaziantep in 1993. So, in 1995 they bought Adıyaman cement factory.

Leasing, insurance and Consumer Finance Company. As they have a strong financial structure, we had to take place in finance sector also. It was not in banking sector but as there was a niche in the insurance sector, they preferred to take place there.

**Figure 5.1.** the history of a traditional firm: starting from a small workshop, becoming a holding company (gathered from the interview realised by one of the sons of the entrepreneur)

We observe this organisational transformation also in partnership structures.

### *Changing Partnership Structure and Legal Status of Enterprises*

When we look at the legal status of firms in Turkey, Denizli and Gaziantep in 1980 and 1996 periods, we see that in 1980, stock companies had a dominance throughout Turkey, while general partnerships were playing an important role in both localities (Table 5.6). from this analysis, we may conclude that till the 1980s, in both

localities there were still traditional relations making individuals come together and make partnerships. Individuals, but not the capital were the main units.

However, within two decades, this partnership trend sharply lost its importance. Both in Denizli and in Gaziantep, we see the traces of transformation to market economy with the higher percentages of stock companies, which are the favourite type of companies in market economy. Especially larger investments necessitate such organisations. With this legal status structure, firms in both localities have converged towards the general trend in Turkey.

**Table 5.6.** Legal status of firms with more than 10 employees

	1980						1996					
	Turkey		Denizli		Gaziantep		Turkey		Denizli		Gaziantep	
	Nmbr	%	Nmb	%	Nmbr	%	Nmbr	%	Nmbr	%	Nmbr	%
1	1517	17.4	15	12.8	26	18.6	844	6.7	55	13.1	62	19.1
2	1276	14.7	15	12.8	23	16.4	469	4.4	11	2.6	13	4.0
3	1877	21.6	38	<b>32.5</b>	56	<b>40.0</b>	339	3.2	12	2.9	9	2.8
4	261	3.0	3	2.6	7	5.0	54	0.5	-	-	1	0.3
5	550	6.3	4	3.4	-	-	3204	30.4	181	<b>43.3</b>	81	24.9
6	2733	<b>31.4</b>	37	<b>31.6</b>	22	15.7	5379	<b>51.0</b>	158	<b>37.7</b>	156	<b>48.0</b>
7	84	1.0	4	3.4	1	0.7	74	0.7	1	0.2	2	0.6
8	409	4.7	1	0.9	5	3.6	182	1.7	1	0.2	1	0.3
<b>Tot</b>	<b>8707</b>	<b>100</b>	<b>117</b>	<b>100</b>	<b>140</b>	<b>100</b>	<b>10545</b>	<b>100</b>	<b>419</b>	<b>100</b>	<b>325</b>	<b>100</b>

1. Individual enterprise 2. Ordinary partnership 3. General partnership 4. Limited partnership  
5. Limited Liability Company 6. Corporation /Stock Company 7. Cooperative Company  
8. Other

In Denizli, besides stock companies, we see the dominance of limited liability companies, which have showed an enormous increase in the percentage during 1980-1996 period. A few people coming together with their limited initial capitals generally prefer to establish such companies. Truly, when we analyse the partnership structure of the firms, it is seen that in Denizli nearly half (48.8%) of the total firms are with 2-4 partners. However, in Gaziantep, it is seen that the firms with 5-7 partners form the majority (56.8%) (Table 5.7). Although it seems that different partners come together in a collective way for establishing the enterprise, in fact these partners are generally family members.

**Table 5.7.** Distribution of firms with more than 10 employees according to the number of partners

	Denizli		Gaziantep	
	Number	%	Number	%
2-4 partners	176	<b>48.8</b>	90	34.7
5-7 partners	156	43.2	147	<b>56.8</b>
8-9 partners	6	1.7	10	3.9
10-49 partners	8	2.2	10	3.9
50+ partners	15	4.1	2	0.7
<b>Total</b>	<b>361</b>	<b>100</b>	<b>259</b>	<b>100</b>

On the other side, for small sized firms having less than 10 employees, naturally we see the dominance of individual enterprises in both localities, where the entrepreneur is the only partner of the firm.

When we glance at the early Republic period, there were attempts of entrepreneurs to come together under cooperatives. In Denizli, since the 1930s, many small fabric producers had created and maintained yarn cooperatives principally to protect themselves against merchants engaged in selling yarns. In the late 1930s, five textile cooperatives were set up in Denizli (Pınarcıoğlu, 2000). During the World War II, government decided to control the distribution of all cotton yarns and let the distribution of cotton yarns via cooperatives, thus these cooperatives being obliged gained paramount importance (Mutluer, 1995). In 1946, the number of textile cooperatives increased to 16 in Denizli (Cillov, 1949: 95). During this period there were three weaving cooperatives one of which was a large sized cooperative in Gaziantep.

As emphasised in Chapter IV, another important form of collective action in the 1970s was multi-partnered workers' or people's firms. Either Turkish workers abroad or small producers in the localities set up these collective firms especially in Denizli. Denizli was one of the localities, which sent a lot of its citizens to Germany as workers. People, who gained enough capital as well as enough manufacturing experiences in Germany, used these potentials in their localities. Thus, during 1971-1982 period, 19 multi-partnered or workers' enterprises were set up in Denizli (Mutluer, 1995). They covered many sectors especially in fabricated metal products, textiles, non-metallic minerals industries. Although these enterprises had provided a great help to industrial development of Denizli, they came to an end in the 1980s.

During the 1950s, there were also attempts of entrepreneurs for coming together to prevent competition and increase solidarity among them, especially in Babadağ district of Denizli. One of owners of the earlier established firms in Denizli narrates:

“We established our first firm in Babadağ in 1950. It was a family firm, with three partners; two brothers and a cousin. In 1954, in order to *prevent too much competition* among Babadağ producers, we established a partnership with 50 partners. This partnership continued until 1967. In 1967, the partners made a mutual agreement to break up this partnership. We, together with, two brothers, cousin and a few friends established another partnership. We went on together till 1985. In 1985, we preferred to establish our own firms separately with our sons.”

As seen, this collective partnership action loses its importance after the 1980s. However, with these experiences entrepreneurs learned collective responsibility and had continuously consolidated mutual trust among producers. Similarly a sack producer in Gaziantep narrates that

"In 1954, my father established a flour factory in Gaziantep which was the second flour factory in Gaziantep. It was the biggest one in Southeast Anatolia and Mediterranean. In 1974, I took over the business from my father. In 1976, the millers of Gaziantep came together and established a sack factory. We were all friends with these people and we had certain shares in this business. The aim was to decrease the production cost as there was not a sack production in near region and we were buying sacks from Trabzon. Instead of buying it from Trabzon, we decided to produce it here in Gaziantep. We were making sack production which was enough for our needs. However, after a while these 11 firms could not get along with each other and broke up. In 1994, sack sector boomed with the opportunities in Russian market. My experience in this sector encouraged me to enter sack production individually in 1996".

As seen, in the recent years, instead of multi-partner enterprises, producers have begun to prefer establishing firms with fewer partners who are generally family members. Firms are becoming smaller and more closed in their administrative organisation.

Besides the information get from the entrepreneurs, this organisational transformation towards introverted structure is supported with the distribution of enterprise capital shown in Table 5.8. It is seen that both in Denizli and in Gaziantep, there is the dominance of families in the share of capital in partnership structures.

**Table 5.8.** The distribution of enterprise capital (%)

	Denizli								Gaziantep							
	1	2	3	4	5	6	7	8**	1	2	3	4	5	6	7	8**
31	87	-	4	4	-	4	-	18	88	2	2	-	2	2	2	16
32	85	3	8	3	-	-	1	14	86	2	9	2	-	-	1	23
33	50	25	25	-	-	-	-	33	67	-	33	-	-	-	-	14
34	83	-	-	-	-	-	17	14	88	13	-	-	-	-	-	-
35	79	7	14	-	-	-	-	13	83	-	4	13	-	-	-	18
36	78	6	11	6	-	-	-	15	86	14	-	-	-	-	-	17
37	96	5	-	-	-	-	-	8	80	-	20	-	-	-	-	-
38	80	3	10	5	-	-	3	3	96	-	4	-	-	-	-	14
<b>Tot</b>	<b>84</b>	<b>3</b>	<b>7</b>	<b>3</b>	<b>-</b>	<b>0.3</b>	<b>1.4</b>	<b>13</b>	<b>86</b>	<b>2.3</b>	<b>7.3</b>	<b>2.3</b>	<b>0.4</b>	<b>0.4</b>	<b>1.2</b>	<b>19</b>

1. Family 2. Greatest share belonging to a person not from the family 3. People from locality

4. National companies 5. Foreign companies 6. Public institutions 7. Other

8. Individual enterprises

\*\* 8 the percentage in total number of firms; 1-7 the percentage except individual enterprises

From the table, Denizli appears as a place, which has not attracted any important foreign investment. Pınarcıoğlu (2000) indicates that only one foreign investment certificate was given in textiles and clothing to a small investment, which was a firm established by several Turkish migrants in Germany.

On the other side from the field survey, we find out that in Gaziantep, there are two foreign investments. One of them is in food sector that belongs to an entrepreneur from Syria. The other one is a multinational US enterprise, which has just entered the local production market on carpet manufacturing. Gaziantep as being a border town has close relations with neighbour countries. Similar cultural backgrounds help people to make business with each other, as in the example of Syrian entrepreneur. On the other side in addition to physical proximity, social relations may also play roles in the attraction of foreign investments. In the example of US carpet company, we observe that personal relations affected the locational choice of the international company.

#### *Family as a financial support*

It is seen from the interviews that entrepreneurs have dominantly used their personal savings or money coming from their family as initial capital. They do not prefer bank credits, unless necessary. Instead they prefer to utilise the own financial resources. It is emphasised in both localities that the entrepreneurs who make business with their personal or family capitals are the ones that overcame the crises more quickly when compared to the others.

As seen from Table 5.9, capital accumulation of the entrepreneurs is provided generally from manufacturing industry and secondly from trade. The dominance of manufacturing sector for the capital accumulation is because the firms are generally family firms and the coming generations enlarge the capital from the previous businesses.

Trade has also an important share in capital accumulation, because generally while making commercial business, entrepreneurs gain experience about the production of the products they sell. When they provide enough capital, they enter to the manufacturing sector.



**Table 5.9.** The sector that entrepreneurs provide the capital accumulation

	Denizli		Gaziantep	
	1-9	10+	1-9	10+
Agriculture	748	9	373	15
Mining	52	2	35	-
Trade	266	121	378	79
Manufacturing industry	1791	171	1663	110
Tourism	10	3	1	1
Construction	41	9	84	7
Transportation	57	1	22	1
Service	235	-	68	
Working at foreign countries	173	-	147	
Other	232	-	781	
<b>Total*</b>	<b>3605</b>	<b>328</b>	<b>3552</b>	<b>214</b>

\*More than one answers

### V.1.3. Role of entrepreneurs

As the enterprises are generally small and medium-sized, they generally do not have a professional management structure. The division of labour, which derives production specialisation such that people focus on their immediate tasks to the exclusion of adjacent tasks is not so clear-cut. The owners or the partners take the responsibility of different departments and try to control all the business by themselves. The last word is given by the entrepreneurs, although it seems that there are independent departments responsible from different businesses like trading, finance, exporting and so on.

**Table 5.10.** Decision-making process / place of authority (%)

#### Denizli

Size	Sector	Firms	1	2	3	4	5	6
1-9	31	469	88	5	3	-	4	-
	32	3219	89	1	7	-	3	-
	33	914	97	-	2	-	1	-
	34	54	93	6	2	-	-	-
	35	87	74	17	-	-	9	-
	36	126	91	5	-	-	4	-
	37	3	100	-	-	-	-	-
	38	1046	97	1	1	-	1	-
	39	5	100	-	-	-	-	-
	<b>Total</b>	<b>5923</b>	<b>91</b>	<b>2</b>	<b>4</b>	<b>-</b>	<b>3</b>	<b>-</b>
10+	31	28	36	18	4	-	43	-
	32	274	49	20	2	1	27	-
	33	6	67	33	-	-	-	-
	34	7	71	14	-	-	14	-
	35	16	56	13	-	-	31	-
	36	20	45	20	5	5	25	-
	37	24	46	17	-	-	38	-
	38	40	48	23	-	3	28	-
		<b>Total</b>	<b>415</b>	<b>48</b>	<b>20</b>	<b>2</b>	<b>1</b>	<b>28</b>



**Gaziantep**

Size	Sector	Firms	1	2	3	4	5	6	
1-9	31	1542	88	1	7	-	1	2	
	32	1856	92	1	4	1	2	-	
	33	1215	85	1	9	1	4	1	
	34	149	93	7	-	-	-	-	
	35	222	65	14	13	-	8	-	
	36	161	92	-	8	-	-	-	
	37	23	100	-	-	-	-	-	
	38	917	93	-	4	-	2	1	
	39	18	100	-	-	-	-	-	
		<b>Total</b>	<b>6103</b>	<b>89</b>	<b>2</b>	<b>6</b>	<b>-</b>	<b>2</b>	<b>1</b>
10+	31	49	45	43	4	-	8	-	
	32	180	51	33	3	1	12	-	
	33	7	43	29	14	-	14	-	
	34	8	50	50	-	-	-	-	
	35	28	43	46	-	-	11	-	
	36	6	50	33	17	-	-	-	
	37	10	40	20	-	-	40	-	
	38	28	57	32	4	-	7	-	
		<b>Total</b>	<b>316</b>	<b>49</b>	<b>35</b>	<b>3</b>	<b>1</b>	<b>11</b>	<b>-</b>

1. Owner 2. Board of directors 3. With family and relatives 4. Professional manager  
5. Together with partners 6. Other

The exercise of authority in fact defines power, which becomes an invisible part of the work environment. As the firms expand in size, entrepreneurial control is gradually divided among the partners (Table 5.10). However, as most of the firms are family firms, generally the partners are either wives or children. Thus, the control over the business is generally in the hands of the entrepreneurs and they generally do not want to leave this power to the professionals.

**V.1.4. Labour force**

The employees in both localities are mostly unqualified. Most of them are primary or secondary school graduates. They are generally trained on the job. If they work for a long time at the same firm, they become experienced on the business and were promoted. Educated employees generally take part in technical processes or in administrative units of the firms.

When we examine the sectors separately, we see the dominance of male workers in most of the sectors. However, especially in Denizli, labour intensive textile and clothing sector is in the dominance of women labour. Denizli is one of the provinces with the highest ratio of female workers. Based on the population censuses, this ratio reaches to 52 percent in 1990. The majority of these female workers come from villages around firms and appear to be very docile, mostly unaware of their legal rights, content with their basic wages, good at fine works and thus highly

preferable for entrepreneurs (Pınarcıoğlu, 2000). Woman labour force has taken its place in the production beginning from the earlier stages of industrial development. Family members, especially women, were the main labour forces of the handlooms. Today, women take part in different stages of production, especially where fine work is needed, like packaging, embroidery making or ready-made clothing.

On the other side in Gaziantep, few women take part in production, except in some textile firms and in knitting sector. There are also cultural barriers that local people are not get used to see women working. However, for the last years women become relatively more active in production. From the observations you can feel the dominance of female labour force in Denizli. Especially in organised industry zone you can see many women in the streets, but on the other side in Gaziantep you can not meet much women in the streets.

#### *Way of recruiting the employees*

The way of recruiting the employees changes. Some enterprises are more professional that they have special application forms and have special departments making the decision of recruitment. On the other hand, most of the firms prefer to recruit their employees by the reference given by acquaintances or by the experienced workers from the firm. In both ways the common point is that, the new workers are given a trial period and given on job training. Besides capability and the way of doing the job, their personality and ethics is also important for some entrepreneurs.

Especially in Denizli as there is high turnover of labour force, when they find another job with higher earning, workers easily leave the business. Labour transfer among firms creates problems. The relatively institutionalised firms state that they prefer employees who did not work for another firm before, in order to train them according to their way of production. However, generally entrepreneurs prefer experienced workers. In Gaziantep, it is quite difficult to find experienced workers and labour transfers are relatively low depending on the differentiation of the sectors.

#### **V.1.5. Relations among workers and entrepreneurs in the firm**

As most of the enterprises are family enterprises, family members generally take part either in the board of directors or in administrative units. Some of the

entrepreneurs consciously do not want any family member to be employed in their enterprises, except their taking place in the board of directors, in order not to face with productivity decrease. On the other side, some of the entrepreneurs prefer to work with their relatives and try to charge them as managers or as master workers.

Entrepreneurs generally establish close relations with the administrative staff. They generally prefer to have lunch all together or come together frequently outside the firm. It is also possible in many firms to see the entrepreneurs have their lunch with workers. Pınarcıoğlu (2000) explains this with the fast social transformation which hides a clear cut division between bosses and workers. This also related with the close community relations in the localities.

For large-sized enterprises, as it is very difficult to get know every worker one by one, entrepreneurs generally do not have close relations with their employees. On the other side for small and medium-sized enterprises, entrepreneurs try to keep close relations with their workers, as if they are families.

Generally entrepreneurs have special mechanisms to motivate their workers and to make them feel as if they are a family. Some of the firms have special arrangements like organising dinners, picnics where all the employees and employers come together to strengthen the relations among them. Besides, some of the firms have rewarding systems like choosing the worker of the month and giving extra payments to the most efficient workers in the firm. These attempts are also for preventing high turnover of labour force.

The social relations in the firm through acquaintanceship and family ties which was very important in the initial stages of development, now has started to loose its importance. With the growing size of the firms the close and friendly social relations within the firm between workers and management has begun to leave its place to hierarchical worker-employer relations.

## **V.2. Interfirm Networks**

Firms come together in business environments and they continuously compete and cooperate with each other. Interfirm relations, comprise this externalised and institutional transactions and relationships among firms.

For Denizli and Gaziantep cases, interfirm networks are examined under three subtitles; resource relations, production relations and market relations. The aim in this section is to analyse the changing organisational structure of production and put forward the supplier-buyer relations of firms as well as considering the social mechanisms lying behind these relations.

### V.2.1. Resource relations - raw material supply

It depends on the sector where the entrepreneurs supply the raw material used for production. From the Table 5.11, we see that a great part of the raw material comes from private sector both in Denizli and in Gaziantep. On the other hand we see that, the role of state economic enterprises (SEEs) is important in some sectors like; manufacture of chemicals, rubber and plastic, basic metal industries and manufacture of fabricated metal products, machinery and equipment, transportation vehicles, scientific and professional measuring and controlling equipment.

**Table 5.11.** The place of raw material (main input) supply

	Denizli						Gaziantep					
	Firm	National			Imported		Firm	National			Imported	
		1	2	3	4	5		1	2	3	4	5
31	28	2	2	88	5	3	48	3	12	47	20	18
32	184	9	2	61	7	23	170	2	2	78	8	10
33	6	-	0	59	-	41	7	-	69	27	0	4
34	7	-	59	18	5	18	8	0	37	26	14	22
35	13	2	88	9	0	1	28	9	22	14	19	35
36	19	29	1	49	3	18	8	11	-	84	5	-
37	23	-	15	46	4	35	10	-	47	52	1	-
38	40	1	13	38	24	24	28	6	35	47	13	-
<b>Total</b>	<b>320</b>	<b>6</b>	<b>9</b>	<b>57</b>	<b>7</b>	<b>22</b>	<b>307</b>	<b>3</b>	<b>10</b>	<b>60</b>	<b>12</b>	<b>15</b>

1. By the firm 2. State economic enterprises 3. Private sector 4. From domestic market  
5. By the firm

Also an important part of the raw material is imported by the firms. While, entrepreneurs in Denizli prefer to import raw materials by themselves, we see that entrepreneurs use local traders relatively more for supplying imported raw materials in Gaziantep. Considering this, we may conclude that Denizli entrepreneurs individually make connections with foreign markets, in other words relatively more internationalised in raw material supply, when compared to Gaziantep entrepreneurs. The crucial question here is how do they establish these relations?

#### *The way of establishing supplier relations*

As seen from Table 5.11, in some sectors, there is monopoly of state economic enterprises (SEEs) producing the necessary raw material. In such sectors

entrepreneurs have no other chance to buy their raw materials from different places within the country.

For the last years, the importing of the raw materials has increased. There are foreign firm representatives that establish direct business linkages with local firms. They reach to the entrepreneurs. On the other side, entrepreneurs by themselves make market researches and try to find the most suitable raw material supplier. They prefer the ones who sell most qualified materials or who has suitable prices. They learn about the market after a while by gaining experience.

Generally, entrepreneurs make researches and try to reach the supplier, and sometimes suppliers reach to the entrepreneurs. One of the entrepreneurs in Denizli indicates that they have experience in the sector and they know about who sells the necessary materials to what prices. Thus, they generally realise their own business connections. Another entrepreneur adds:

“For domestic market we generally establish our relations by ourselves and make decisions according to the quality of the raw material they sell. For the imported raw materials, previously we were working with exporting firms. Now as we are making exports, we import the raw material without paying taxes. By utilising inward processing, we make production here and export them. We establish the foreign firm relations by making researches. For example, we examine the firm list of producers in Bangladesh and contact with well-arranged one or two firms. We make the contacts by ourselves”.

#### *Role of brokers: filling the structural holes in networks*

The brokerage principle in network theory says that there is a competitive advantage to building bridge relationships where there is a structural hole. Brokers are the people who provide indirect connections between other wise disconnected groups (Burt, 1992). Although many of the entrepreneurs in both localities find the raw material suppliers by themselves, it depends on the sectors that sometimes brokers take place as important actors for establishing business relations. One of the entrepreneurs in food sector in Gaziantep says:

“We rarely import our main input from foreign countries, we generally obtain it from domestic market, from near regions. For spaghetti production we need hard wheat and the wheat of near region like Mardin, Urfa is suitable for our aim. Especially in food sector, there are commissioners acting as brokers among the producers and raw material suppliers”.

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Especially in textile sector derivatives, representatives of foreign producer firms, which have administrative offices in İstanbul and İzmir, reach to local entrepreneurs and built up relations among local and international firms. One of the entrepreneurs points out:

“Previously we were importing the raw material of polyurethane by ourselves. It was difficult, as you need a financial resource to provide that amount of money. Now, when the amount of producers in this sector increased, foreign firm distributors, representatives or intermediary firms took their places throughout Turkey. There are distributors in İstanbul, we generally prefer to buy the necessary material from them”.

We see that if the sector gains importance in foreign markets, after a while foreign supplier firm representatives directly take their places either in the localities or in big cities.

On the other side, some traders act as brokers and provide connections among producers and raw material suppliers. After a while, when the bridge is established, in other words when the structural holes are filled among the buyer and the seller, brokers quit out the network.

#### *Strength of supplier relations*

Entrepreneurs generally have long-term buyer-seller relationships, when they supply their raw material from State Economic Enterprises (SEEs). On the other side, sometimes they prefer to import such materials instead of obtaining them from SEEs.

Most of the entrepreneurs prefer to make long-term businesses if they are satisfied with the products. “We generally try to keep our relations with the same firms, if there is not any problem in the quality or if we do not face with problems by the firms”. In case of dissatisfaction like in the case of flour producers, they may change the supplier. “The raw material quality may change every year, we have to test the quality of wheat and may change the supplier due to the results of the product”.

As seen supplier-buyer relations are not dependent. If buyers are satisfied with the quality and price of the raw material, they prefer to establish long-term relations. Such long-term relations provide benefits like the flexibility in payments.



## **V.2.2. Production relations**

There are different production relations among the producers in both localities, depending to the sectors or to the size of firms. In some sectors there are intensive subcontracting relationships which necessitates continuous relations among the local firms, on the other side in some sectors we observe hierarchically organised firms which integrate the production within the firm and have less contacts with other firms in the locality.

The organisation of production differs depending on the sectors. Because of their production process that could be broken down into several stages, generally textile and ready-made clothing sector and fabricated metal products and machinery sectors have an increased dependence on outsourcing and external market mechanisms, such as subcontracting. Besides their multi-stage production process, subcontracting relations are a common feature of those industrial sectors which are faced with uncertain and fluctuating markets that are probably going through times of crises. Product configuration of these sectors differs depending on a number of factors, which may range from seasons to fashion, or may be just according to the demands of the markets. These sectors generally rely on low-skill, low-wage labour that is most docile and therefore, flexible (Kayasü, 1995). Such horizontally integrated specialised firms in these sectors prevalently take place in both localities.

However, for the last years, with the entrance to the foreign markets and working for high quality EU and US markets, entrepreneurs had to be more careful about quality of their products and the delivery time schedules in outsourcing relations. Technical and managerial weakness of subcontractors may create unsatisfactory relationships. Thus, in order to improve their quality and not to face with problems during these outsourcing relations, producers begin to increase their control on the products by integrating the production stages inside the firm, which brings vertical integration. We observe both structures of horizontally and vertically integrated organisational structure both in Denizli and in Gaziantep.

### *Subcontracting relations*

In a general sense, a subcontracting relationship exists when a company (called contractor or parent firm) places an order with another company (called the subcontractor) for the production of parts, components, subassemblies or

assemblies to be incorporated into a product to be sold by the contractor. Holmes (1986, p: 84) more clearly defines subcontracting as:

“... the term ‘subcontracting’ refers to a situation where the firm offering the subcontract request another independent enterprise to undertake the production or carry out the processing of a material component, part of subassembly for it according to the specifications or plans, provided by the firm offering the subcontract”.

Holmes (1986) identifies three broad sets of explanatory hypothesis on subcontracting relations depending on the structure and temporal stability of product markets; the nature of production technology used in the labour process; and the structure and nature of labour supply conditions.

When we examine the cases of Denizli and Gaziantep, we see that production depend relatively much on subcontracting relations in Denizli, when compared to Gaziantep (Table 5.12 and Table 5.13). Nearly half of the producers in Denizli have subcontracting relations, but in Gaziantep this ratio is quite low. It is observed that only 20% of the producers have subcontracting relations in Gaziantep.

**Table 5.12. Do you give subcontracting (contractor)?**  
1-9 Employees

	Denizli					Gaziantep				
	Firm	Yes		No		Firm	Yes		No	
		Nmb	%	Nmb	%		Nmb	%	Nmb	%
31	469	8	2	461	98	1542	28	2	1514	98
32	3219	118	4	3101	96	1856	156	8	1700	92
33	914	16	2	898	98	1215	22	2	1193	98
34	54	1	2	53	98	149	34	23	115	77
35	87	10	11	77	89	222	38	17	184	83
36	126	4	3	122	97	161	2	1	159	99
37	3	-	-	3	100	23	-	-	23	100
38	1046	52	5	994	95	917	49	5	868	95
39	5	-	-	5	100	18	1	6	17	94
<b>Total</b>	<b>5923</b>	<b>209</b>	<b>4</b>	<b>5714</b>	<b>96</b>	<b>6103</b>	<b>330</b>	<b>5</b>	<b>5773</b>	<b>96</b>

**10+ Employees**

	Denizli					Gaziantep				
	Firm	Yes		No		Firm	Yes		No	
		Nmb	%	Nmb	%		Nmb	%	Nmb	%
31	28	3	10.7	25	89.3	50	5	10	45	90
32	274	117	42.7	157	57.3	181	23	12.7	158	87.3
33	6	2	33.3	4	66.7	7	3	42.9	4	57.1
34	7	-	-	7	100	8	-	-	8	100
35	16	2	12.5	14	87.5	28	2	7.1	26	92.9
36	21	4	19	17	81	8	1	12.5	7	87.5
37	24	6	25	18	75	10	2	20	8	80
38	40	12	30	28	70	28	7	25	21	75
<b>Total</b>	<b>416</b>	<b>146</b>	<b>35.1</b>	<b>270</b>	<b>64.9</b>	<b>320</b>	<b>43</b>	<b>13.4</b>	<b>277</b>	<b>86.6</b>

When we consider firm sizes, we see that generally micro or small firms act as subcontractors, and medium or larger firms, generally taking place in national and international markets, act as contractors / parent firms.

In Denizli especially textile, the dominant sector, emerges as a sector which has intensive subcontracting relations. On the other side in Gaziantep, sectors that have subcontracting relations differentiate.

**Table 5.13.** Do you take subcontracting (subcontractor)?  
1-9 Employees

	Denizli					Gaziantep				
	Firm	Yes		No		Firm	Yes		No	
		Nmb	%	Nmb	%		Nmb	%	Nmb	%
31	469	114	24	355	76	1542	224	15	1318	85
32	3219	2429	75	790	25	1856	528	28	1328	72
33	914	261	29	653	71	1215	238	20	977	80
34	54	-	-	54	100	149	39	26	110	74
35	87	18	21	69	79	222	21	9	201	91
36	126	23	18	103	82	161	12	7	149	93
37	3	1	33	2	67	23	10	43	13	57
38	1046	275	26	771	74	917	173	19	744	81
39	5	2	40	3	60	18	7	39	11	61
<b>Total</b>	<b>5923</b>	<b>3123</b>	<b>53</b>	<b>2800</b>	<b>47</b>	<b>6103</b>	<b>1252</b>	<b>21</b>	<b>4851</b>	<b>79</b>

**10+ Employees**

	Denizli					Gaziantep				
	Firm	Yes		No		Firm	Yes		No	
		Nmb	%	Nmb	%		Nmb	%	Nmb	%
31	28	1	3.6	27	96.4	50	5	10	45	90
32	274	188	68.6	86	31.4	181	31	17.1	150	82.9
33	6	1	16.7	5	83.3	7	1	14.3	6	85.7
34	7	-	-	7	100	8	-	-	8	100
35	16	5	31.3	11	68.8	28	3	10.7	25	89.3
36	21	3	14.3	18	85.7	8	-	-	8	100
37	24	11	45.8	13	54.2	10	3	30	7	70
38	40	8	20	32	80	28	7	25	21	75
<b>Total</b>	<b>416</b>	<b>217</b>	<b>52.2</b>	<b>199</b>	<b>47.8</b>	<b>320</b>	<b>50</b>	<b>15.6</b>	<b>270</b>	<b>84.4</b>

The presence of abundant experienced labour in textile sector and the technological capacity of the subcontracting firms give the chance to establish extensive subcontracting relations in Denizli. Dyeing, printing, weaving and ready-made clothing stages are being subcontracted to small and medium-sized firms taking place either in small industry site or in organised industrial zone.

The establishment of such subcontracting relations possesses risks for both parent firm and the subcontractor alike. For the subcontractor, the main risk is that the client might prematurely terminate a contract after the subcontractor has made a generalised capacity expansion. For the client firm, the principle risk is the late

delivery or delivery of poor-quality components. To cope with these risks is by establishing the rules of behaviour that contribute the building up trust between clients and subcontractors (Lorenz, 1993).

In Denizli, the parent and the subcontractor firm together define these rules of behaviour. With the enlargement in size and the extension in the capacity, the parent firms become rather independent in building subcontracting relationships. However, they still sometimes could not response the unexpected seasonal or temporary increase in orders. In order not to loose their subcontractors and to motivate them, parent firms have some support mechanisms towards their subcontractors. They sometimes give business to their subcontractors, although they do not need that production at that time. When they buy new technology machines, they sell the old ones to their subcontractors. Sometimes the parent firms also give training to their subcontractors according to the quality they want. That's why they do not want to make short-term businesses with them. They try to build up trust and solidarity among them which results in long-term relations

Most of the firms having subcontracting relations with each other work just like partners. Most of the subcontractors work as a dependent producer and act as a department of the large firm. The parent firm tries to overcome the managerial weakness of subcontractors in quality control, by making continuous visits to the subcontractors during production. Being spatially close, thus taking place at the same localities, helps the contractor to realise this easily.

Besides these local production relations, we see that subcontracting relations also take part in global production relations. In Denizli some of the medium or large sized exporting firms make production under the name of famous world trademarks. Similar to the role small-sized firms in the locality play as subcontractors, these medium and large sized firms act as subcontractors of international firms.

In Gaziantep as there is a sectoral differentiation, subcontracting relations are not as if it is in Denizli. Generally, exporting enterprises prefer to integrate instead of making subcontracting businesses, as they generally face with problems. In the production space of Gaziantep, the lack of modern technologies in small-sized firms appears as an obstacle for the establishment of subcontracting relations. Subcontractors generally can not provide the quality needed for the exporting contractors. Subcontracting generally takes place among small producers in sectors

of machinery, knitting, carpet, and shoe manufacturing generally serving to the local and regional markets.

Enterprises, which can not complete the business or do not have the necessary equipment, prefer to give subcontracting. Contrary to Denizli, there is not so much dependence on certain subcontracting firms. There are also cases to give subcontracting to the firms outside Gaziantep. However, it may create some problems, because of difficulties in controlling the product. The owner of an embroidery firm complains:

“Once we gave a part of our production as subcontracting to a firm in Bursa. We could not control the process and it resulted with failure. They were our clients. That was a bad experience and now we prefer to complete the business inside the firm”.

#### *The way of establishing subcontracting relations and the role of brokers*

The ‘quasi-integration’ arrangement of extensive and long-term relationships among contractors and subcontractors form intermediate organisations logically between the pure market and the vertically integrated firm. Intermediate forms of this kind are bound up with networks of personal relations (Granovetter, 1985).

Both of the localities are small enough for the producers to have extensive personal relations with the other local producers. They have knowledge about most of the other producers taking place in the locality and the way of their production. Firms according to their wishes and their priorities decide to work with subcontractors. They give a trial period to the subcontractor to see the quality of the product. If they are satisfied, they try to make long-term businesses.

Generally entrepreneurs try to establish the subcontracting relations by their own attempts, or sometimes the subcontractor establish this relationship. However, for entering new foreign markets, and being a subcontractor of an international firm, entrepreneurs may need a broker for establishing such relations.

In the early stages of industrial development in Anatolia, we see that merchants were acting as brokers giving subcontracting business to the artisans. Hüsrev (1932) points out this organisation structure, which is prevalent throughout the whole country, in the example of Kadikoy weavers. He identifies all the weavers in Kadikoy



as homeworkers who deal with middlemen. He classifies them into two categories: dependent and independent weavers. He also classifies the dependent weavers in two categories: those who get payment from sales and those who are paid for each item they produce.

“Those who are paid from sales have to sell their products to the same middlemen they do business with. In appearance, there seems to be a mutual agreement between the producer and the tradesman, but in reality the producer becomes tied to the merchant because of the loans and raw materials he gets from him. As for the weavers who are paid per item, they only produce as many as they are asked. In this case raw material and even the production equipment belongs to the merchants. This method is especially very prevalent in home knitting in Istanbul. The merchants distribute items to homes, thus tying the workers to them. Independent weavers provide the raw materials by themselves. They are free to sell their products to whoever they want. They are in a better economic situation. But there are the cases when independent weavers become dependent. For example during the years of Great Depression many weavers in Buldan became dependent to merchants”

As seen producers had to establish compulsory and dependent relations, in order to make their livings and survival. In Denizli, as subcontracting relations are more intensive than Gaziantep, it is important to establish long-term relations. We may also classify these relations into groups: dependent subcontractors who produce only for a certain firm, and interdependent subcontractors who are specialised in certain stages and work for many firms.

We observe homeworker relations given in the example of Kadiköy producers in Gaziantep also. They use homeworkers, especially female labour in the knitting sector. Entrepreneurs give needlework to homes. This system separates the labour-intensive stages of production from the firm and use homeworkers for these stages. For entrepreneurs, this leads to a reduction in constant and variable costs within the firm and provides the opportunity of realising production at lower costs than before. It is seen that such homeworking is still important in more specialised tasks, such as embroidery, designing patterns, needlework or knitting.

### **V.2.3. Market relations**

Until the 1980s, entrepreneurs were generally producing for the local markets. For some specialised products, the market was the whole country in both localities. For example Okçuoğlu states that in Antep, Mardin and Diyarbakır the existing craft-based production was composed of textile, handicrafts, silk and carpet which had



economic values and the market of these manufactures was nearly the whole country. According to the census of 1927, only in Antep the number of looms was around 3,000 making production for the region and for the whole country (Okçuoğlu, 1999: 255).

Hüsrev (1932) defines the marketing relations of local producers during that period as:

“Mr Cemal from Buldan is a textile weaver. He gets in touch with the consumers directly without the help of a middleman. Consumers in the town are his customers. Because he is a rich man, he can participate in exhibitions. But, contrary to Mr. Cemal, Mr Asim who exhibits his goods in the pavilion next to Mr. Cemal’s is not a producer. He is a middleman who places orders with the weavers and takes these goods as far to Diyarbakir and sells them. The weavers to whom Mr. Asim places orders do not work for consumers directly but for the middle-man”.

In the first example, weavers get in touch directly with the market. Producing and selling functions are not separated. In the second example weavers are isolated from the market by the middleman merchants who originate generally as weavers. When they become wealthy enough, they prefer to specialise in selling rather than producing.

For being competitive or just for survival, enlarging the markets or finding niche markets is crucial. With the increase in transportation facilities, entrepreneurs in many sectors, have caught the chance to reach to national markets whereas previously it was limited to local market. Entrepreneurs use different methods for entering to different markets. These different methods cause the entrepreneurs gain different experiences. Recently, we see that in national markets, firms in a great amount sell their products by themselves (Table 5.14). Additionally, for some small sized firms personal contacts and business visits also play an important role.

**Table 5.14.** The way of selling products in the national market (%)  
**Denizli**

	Firms	By the firm	Via trader firms	Distributing to retailers	Via wholesalers	Finding customers via fairs	Via Personal contacts / visits	Other
<b>1-9</b>	4751	47,9	1.9	4.3	16.9	0.5	23.0	5.3
<b>10+</b>	294	81.6	3.4	-	6.8	0.3	4.8	3.1

**Gaziantep**

	Firms	By the firm	Via trader firms	Distributing to retailers	Via wholesalers	Finding customers via fairs	Via Personal contacts / visits	Other
<b>1-9</b>	7318	61,4	2,3	4,3	9,0	0.5	19.0	4.2
<b>10+</b>	297	81.5	1.7	2.4	8.4	-	4.7	1.3

Besides the enlargement of local markets to national markets, with the export orientation policies beginning in the 1980s, entrepreneurs in many sectors eagerly enlarged their national markets to global markets and engaged in exports since then.

### **Entering to the global market**

Denizli and Gaziantep are the two localities that caught the opportunity of entering to global markets. It is seen that these towns are the leading ones among other Anatolian towns having a crucial share in exporting and importing activities (see Appendix B - Export and import structures of towns in Turkey). It is seen that, in Denizli there are nearly 313 textile firms making direct exports and 427 firms making imports, and in Gaziantep, these numbers increase to 457 in exporting and 579 in importing. Except these, there are lots of firms making indirect exports by their products that are used for the exported goods. In Denizli, the dominance of exporting firms are in textile and apparels sector. However, in Gaziantep it is observed that besides textiles and derivatives exporting in food sector is also dominant.

#### *Ways of entering to global markets: the role of brokers*

Entrepreneurs have used different methods to enter global markets. Begin exporting is really a great experience for the entrepreneurs. Although some of the entrepreneurs try to find foreign market niches by their own effort and research, many of the entrepreneurs need some assistance.

From the interviews, it is concluded that the leading firms that begin exporting in the 1980s intensively used their social networks, which provide them the necessary assistance. Relatives or acquaintances living in foreign countries were important bridges for making the first connections with these countries. Contrary to the 'strength of weak ties' argument of Granovetter (1973) or 'structural hole' argument of Burt (1992), where the bridges indirectly connecting individuals to isolated social groups are weak ties, we see it is strong ties of relatives and acquaintances living in foreign countries that play crucial roles in the initial stages of entering to global markets. Krackhardt (1992) argues that the strength of strong ties appears in cases of severe change and uncertainty. Strong ties constitute a base of trust that can provide comfort in face of uncertainty.

Another way for entrepreneurs in getting assistance at the initial stage of exporting were the experienced firms in exporting located in İstanbul. For some entrepreneurs, previous clients or acquaintances taking place in the local market also provided assistance for making connections with foreign markets.

In the second stage of development, after gaining experience in foreign markets, entrepreneurs try to enlarge their market by their own efforts, like making market researches either over Internet or directly by making visits to potential foreign markets in order to recognise that market. Sometimes after a while if they enlarge their market, they establish representative offices in these countries and go on their businesses and connections via these offices.

The owner of one of the biggest firms in Gaziantep says:

“We prefer to make our own contacts and continue our relations via representative offices taking place in various countries or with the help of our head office taking place in big cities. We have agents in different cities of Turkey and in foreign countries. We generally reach our clients with these agents. Additionally, we have our sales staff for exporting. They make visits to many countries to make business connections.

Participating to international fairs really helps the entrepreneurs for making export connections. Many of the firms try to follow the international fairs about their sector and try to attend these fairs either as an active participator or as an observer.

Besides such personal efforts of the entrepreneurs, sometimes clients reach the entrepreneurs. The entrepreneur’s reputation in the local market sometimes brings clients to the entrepreneurs. After getting information from local people or from the local institutions like Chamber of Industry or clients directly make connections with the entrepreneurs. Thus, having reputation in the local market, known by others is crucial for reaching opportunities.

“A French firm was looking for a local firm to make business. From the local market via Chamber of Industry, we are referred as one of the qualified firms. The client came and found us”.

“We realised our first export by the reference of a local firm from a different sector in Gaziantep. That local firm had relations with Egypt. The Egyptian firms asked for a soap producer in Gaziantep and they contacted us.

Also exporting companies or companies having relations with the entrepreneurs either on raw material or on technical basis sometimes act as brokers between entrepreneurs and importing companies.

Table 5.15 also supports that the most efficient way of exporting is individual efforts of entrepreneurs. It is seen that representative firms located in foreign countries also take an important share. In both localities, we also see the assistance of sectoral foreign trade firms or company groups in exporting.

**Table 5.15. Way of exporting the products (%)**

**Denizli**

Sector	Exporting firms	1	2	3			4	5
				A	B	c		
31	6	83.3	16.7	-	-	-	33.3	-
32	112	56.3	16.1	34.8	3.6	-	22.3	2.7
33	1	100	-	-	-	-	-	-
34	2	100						
35								
36	7	85.7	14.3				28.6	
37	8	37.5	-	12.5	-	-	75.0	
38	12	66.7	25.0	8.3	-	-	8.3	-
<b>Total</b>	<b>148</b>	<b>59.5</b>	<b>15.5</b>	<b>27.7</b>	<b>2.7</b>	<b>-</b>	<b>24.3</b>	<b>2.0</b>

**Gaziantep**

Sector	Exporting firms	1	2	3			4	5
				A	B	c		
31	24	62.5	12.5	-	4.2	12.5	58.3	-
32	56	73.2	3.6	1.8	-	3.6	32.1	1.8
33	1	-	-	-	-	-	100	-
34	3	66.7	-	-	-	-	-	33.3
35	12	83.3	-	8.3	-	-	25.0	-
36	1	100	-	-	-	-	-	-
37	-	-	-	-	-	-	-	-
38	16	68.8	6.3	12.5	-	-	31.3	-
<b>Total</b>	<b>113</b>	<b>70.8</b>	<b>5.3</b>	<b>3.5</b>	<b>0.9</b>	<b>4.4</b>	<b>36.3</b>	<b>1.8</b>

1. By the firm itself 2. Via related holding or company group 3. Via foreign trade company  
a. Sectoral b. International c. Administred by Turks living in foreign countries 4. Via a firm placed in a foreign country 5. Other

We see that in both localities several institutions specialised in export activities such as foreign trade companies, associations of small exporters, sectoral associations and semi-public exporters associations have developed just after 1980. These new institutions attracted many firms to export activities (Özelçi, 2002).

As a result, we see that in the first stages of entering to new markets, entrepreneurs need the assistance of people acting as brokers. In the later stages they prefer to make their own contacts. In all stages the crucial role belongs to the social networks of the entrepreneurs.

#### **V.2.4. Sources of Information and Innovation: Reaching information about new markets, new technology and new products**

Network benefits in competition are of two kinds: information and control. Opportunities spring up everywhere. The information benefits of a network define who knows about these opportunities, when they know, and who gets to participate in them. Players with a network optimally structured to provide these benefits enjoy higher rates of return to their investments. Information benefits occur in three forms: access, timing and referrals. Early warning is an opportunity to act on the information. A large, diverse network is the best guarantee of having a contact present where useful information is aired. More contacts can mean more exposure to valuable information.

What matters here is the non-redundant contacts (no direct contacts with one another). Contacts are redundant to the extent that they lead to the same people and so provide the same information benefits. In non-redundant contacts, no one of the contacts gets you to the same people reached by the other contacts. In the dense network, each relationship puts you in contact with the same people you reach through the other relationships. The dense network is a virtually worthless monitoring device because the strong relations between people in the network means that each person knows what other people know, so they'll discover the same opportunities at the same time. A solution is to put more time and energy into adding non-redundant contacts to the dense network (Burt, 1992).

We see that entrepreneurs try to create their non-redundant contacts in several ways. From the interviews made by entrepreneurs we see that fairs, specially international ones, are very effective to reach information about new markets. Firms participating to these fairs have the chance to establish connections with the non-redundant contacts. These contacts provide them new opportunities that others can not utilise.

Making researches over internet or following international journals are also other ways of reaching information. However, internet, the new information source, has not been used for making business contacts yet, it is used just for getting information about foreign markets. Some of them regularly visit potential markets in order to find a niche for their products, thus enlarge their non-redundant contacts.

Previous business experiences are also important references for clients to find the entrepreneurs. They also use contacts of their clients, foreign representatives or commercial attaché to reach different markets. Some of them believe in advertisement to enlarge their markets. Being a member of different associations provides the chance in reaching opportunities also. Such associations inform their members about these new opportunities.

Besides these entrepreneurs also utilise information channels that other local entrepreneurs can reach also. Following the activities or the publications of such institutions like local chambers or sectoral associations provide that opportunity. The most crucial thing is not to be captured in the spontaneous opportunities appeared in the local production environment, but trying to reach different sources of information.

In both localities, most of the entrepreneurs try to follow the latest developments and innovations about their sector. For getting information about new technology, the most effective way is participating to international/national fairs. Besides fairs especially in textile sector following magazines, catalogues and other publications about their sector is another way of following the latest products (Table 5.16). For some of the entrepreneurs participating to conferences or getting assistance from international associations may also help for getting information about recent developments in the sector.

**Table 5.16.** Ways of following the latest developments and innovations about the production

	Denizli		Gaziantep	
	Number	%	Number	%
Do not follow	40	9.6	29	9.1
Do follow	376	90.4	291	90.9
National fairs	252	67	204	70.1
International fairs	175	46.5	108	37.1
Catalogues and publications about the product	274	72.9	156	53.6
Cooperation with TUBITAK, KOSGEB, MPM, TSE	72	19.1	42	14.4
Experiences of other producers	233	62	151	51.9
Other	5	1.3	3	1.0
<b>Total firm number</b>	<b>416</b>		<b>320</b>	

In both localities, following some international or national leaders in the sector and imitating them is also very prevalent (Table 5.17). It is may be the easiest and cheapest way of adaptation to new tendencies. Many of the entrepreneurs also produce according to the demands of the clients besides using their experiences.



**Table 5.17.** Types of innovations taking place during 1990-1996 period

	Denizli		Gaziantep	
	Number	%	Number	%
Following the innovations	376	90.4	291	90.9
Not making innovations	66	17.6	72	24.7
Development and renewal of the existing product	254	67.6	171	58.8
Diversification of the products	182	48.4	146	50.2
Imitation of the products	19	5.1	12	4.1
Adaptation of foreign products to national market	38	10.1	16	5.5
New product designs	100	26.6	57	19.6
Adaptation of national-foreign production technologies	98	26.1	48	16.5
Development of original production technologies	44	11.7	12	4.1
<b>Total firm number</b>	<b>416</b>		<b>320</b>	

Although most of the firms try to follow the recent developments in their sector, they do not attempt in making innovations, except the renewal of the existing product and the diversification of the products. In most of the firms there is not a special R&D department in the firm (Table 5.18). From the interviews it is seen that for the last years, there is a tendency to build up such departments in the firms.

**Table 5.18.** Does the firm have R&D department?

	Denizli		Gaziantep	
	Number	%	Number	%
Yes	32	7.7	39	12.2
No	384	92.3	281	87.8
<b>Total</b>	<b>416</b>		<b>320</b>	

There are some extreme cases of enterprises especially in machinery sector in Gaziantep that have innovative capacities. One of the entrepreneurs, famous with his individual innovation capability, narrates his story emphasising the roles of different business experiences he lived learning by doing, his social networks and the assistance of local and national institutions including the university.

"In 1975, I established my own firm with one of my friends from the apprenticeship. We occupied with iron work, then produced frames for doors and windows, then entered metal works. We produced money safe and produced the accessories which was first in Gaziantep. We brought metal injection machine from İstanbul, that was also first in Gaziantep. We have many attempts, which were first in Gaziantep like, bringing copy mechanism in metal turner machines, forming molds, bringing SNC workbench from İstanbul in the production of money safe. With this workbench, our productivity had increased very much. Meanwhile, we started to produce automotive accessories. We were producing 20.000 pieces in 3 months time. We learned quality control in this sector. Meanwhile, I established a rolling mill (haddehane) in Syria. I met a friend there who later took me to Syria, to show a machine and ask whether it was good or not. After I turned back I thought that I might produce the same machine in Gaziantep. With the help of They found us from TTGV and provide us credits. They thought that this kind of production may activate the other producers too. We talked to the University also and decided to study over it together. The problem in Turkey is

there is no cooperation between industry and university. A professor from the department of machinery became our consultant, later we took him as a partner to the firm. TÜBİTAK trusted us and gave us 2.600.000 dollars of credits for the production of the machine without making any contracts. Today, there are 4 machines in the trademark of our firm, operating in Turkey. There are 5 producers of that machine in the world and our firm is the 6<sup>th</sup> one”.

Beside such extreme cases in machinery sector, we observe some examples in textile and apparels sector also. In fact, the characteristics of textile sector do not give possibilities to radical innovations, there are some enthusiastic entrepreneurs - very few in numbers- creating versions of current products or developing products by using different techniques. One of these enthusiastic entrepreneurs in Denizli narrates:

“I integrate a special weaving technique used in the carpet manufacturing to the textile weaving. Thus, the woven textile in this method is more durable and can be used in special fields of home-furnishing”.

#### **V.2.5. Social mechanisms: building up trust and solidarity among producers**

Trust lies at the foundation of relationships between firms and individuals, whose collective activity in competing and cooperating within a regional setting is a key aspect of innovative local economies. Trust among economic actors within a place helps to explain regional economic performance and regional differentiation. According to Sabel (1993) trust refers to the mutual confidence that no party involved in an exchange transaction in the market will exploit the others' vulnerability. For Sabel, such trust requires time to evolve. When it evolves, it makes possible an environment of cooperation existing alongside competition that becomes a source of mutual benefit for firms and individuals. This helps explain how regional economies engendering such trust in certain localities is actually a process of learning –a process of determining how to create forms of consensus building among economic actors with both competing and mutual interests. The associations of mutual confidence that emerge from this learning process result in 'studied trust' (Sabel, 1993).

Sustaining cooperation in flexible production systems requires that the actors place trust in one another. The action of placing trust by the trustor allows the other –the trustee- to undertake actions that would not have been possible otherwise, possibly because resources are put at the trustee's disposal. The situation is one of risk for the trustor because new possibilities of action are made available without any

binding commitment from the trustee on how he will make use of them. The decision of an agent to place trust in another depends on her believing that he will act in a way that makes her better off rather than worse off. This notion of trust in the subcontracting relation is the buildup of trust among client firms and their subcontractors (Lorenz, 1993).

For measuring the degree of trust, we may look at the written contracts made among the producers. In Denizli, formerly verbal agreements were just like written contracts. 'Babadağ pusulası / senedi' (a signed paper given by the person who borrowed money or made an agreement on production) was accepted among all producers who made business with each other. People in business relation accepted this informal contract more valuable and trustable than a formal cheque. There were trust and solidarity among producers. This tradition has partially its reflections among Babadağ entrepreneurs, in the form of mutual trust. Generally they still make business relations without contract, such as while giving subcontracting businesses or lending money. They regulate their relations with what Lorenz (1993) defines as "moral contracts" rather than with detailed written agreements.

However, in a general sense when we ask firms, although many of them say that they believe and trust people whom they make business, they generally prefer to make written contracts not to face with problems. As a rule, this written document serves as a reference point for ongoing discussions.

"Formally you make written contracts, but fundamentally the important thing is trust. These written contracts are just for reminding the business. People do not often face with problems. And sometimes you have to make written contracts, as it is a necessary official act for some international business contacts".

Similarly in Gaziantep, it was emphasised by the some of the entrepreneurs that formerly the relations were much closer, and people blindly believed each other. One of the machine producers narrates a story:

"Once upon a time, a Turkish boy educated in Germany said to his teacher that, there was something, which was more important than cheque was that, the promise. But today, it becomes more and more difficult to believe these doubtful promises".

On the other side, some others believe that there is still trust among people. One of the entrepreneurs in carpet sector emphasises:

“We have established our firm in crises period. We made an oral contract with one of the yarn suppliers, in fifteen days the economic crises occurred. If the contract was over Turkish liras, he would loose much money, but we kept our promise and paid him over dollars. For the survival of the firm you have to build your business relations over trust. You should have a good reputation in the local market. We might have benefit from the local market while buying our resources but we did not”.

*Competition or cooperation: Support networks*

Naturally all of the entrepreneurs see the other firms in their sector as their competitors. However, there are also solidarity groups among firms. The degree of this solidarity changes. It may be just on informational basis or even goes to borrowing machines, accessories or raw materials, or getting technical assistance from other firms. Solidarity is generally more prevalent among the sectors which have intense subcontracting relations like in textile (knitting, carpet, sack producers) or machinery sectors.

Of course it is quite difficult to borrow machines in large integrated firms, thus such borrowing mechanisms especially, borrowing machine and accessories are more intensive among small-sized firms (ex: machine producers, knitting workshops...). One of the small-sized machine producers in Gaziantep says:

“We have support relations among firms in this site of SMEs. We support each other in various subjects. When we require raw material or accessories, we borrow them from each other. We help each other to establish business connections with foreign countries if we have acquaintances there. We exchange machines if we need. Among all firms we have such support relations. You can not expect harm from the people occupied with metal works. The sufferings lived here, can only be understood by the others lived them. Difficulties that we face with make us come closer and help to each other each other”.

Some firms are willing to share knowledge with other firms. They can even teach some production techniques to other firms. The benchmarks always direct the sector. More than small firms, large ones come together and direct the small firms.

The entrepreneur of a leader firm in Denizli says:

“We try to act as a leader and try to guide the new firms entering to the market. Our factory is open to every producer who wants to get information and benefit from our experience”.

On the other side, such solidarity relations are not prevalent in every sector. One of the sack producers in Gaziantep says:

“We have support relations among firms in our sector of sack producers. We help each other in borrowing money or raw material or machine accessories. Such kind of lending, borrowing relations take place in our sector. Among sack producers, relations are so different. I think this support relation has started when there was a few sack producers and goes on like this. However in many sectors you can not observe such relations. For example while we were establishing our firm in spaghetti sector, we ask for one or two firms to visit their factories, just to have an idea, but they did not permit us to visit their factories”.

These support mechanisms do not go beyond moral or informational basis in crises periods. Most of the firms say that in these crises period, solidarity means obtaining money for the entrepreneurs who are affected by the crises. The other local firms may support them morally or give advice to them, but no one give financial supports. Thus, firms try to survive by themselves. They try to solve the problems inside the firm. One of the soap producers emphasises this situation as:

“In crises period people try to rescue themselves. It is just like in the example of deserts. When there is a storm in desert, people run away to their tents and break off their relations to others. For 2-3 years, everybody has run away from each other and has not trusted to anyone”.

For some sectors there are sectoral platforms to talk about their problems and try to come over it together. But for some others they even do not have information about each other. Establishing these sectoral platforms are provided generally by individual efforts or by the Chambers. For discussing their sectoral problems, for example sack producers come together once in 1 or 2 months. There is not a special organisation committee, but one of the friends establishes the connections and they meet informally.

Chambers also sometimes helpful in discussing sectoral problems, they try to act together, but it is emphasised that these efforts generally do not provide abstract solutions to the problems. However, acting together and being insistent sometimes help to overcome the problems. For example Chamber of Industry in Gaziantep, forced banks to extent the deadlines of the credit payments in the crises period, which really helped many firms not to bankrupt.



Some entrepreneurs also have support networks in other cities especially with firms they supply raw material or business relations. For example, the entrepreneurs of the biggest firm in Gaziantep, supported the firms that they have business relations in Denizli, like giving long extensions to payments.

### **V.3. Extrafirm Networks**

Extrafirm networks refer to any relationship between the firm and other institutions embedded in the society. Network governance structures generally characterise the webs developed and reinforced by a supportive tissue of local institutions, which allows firms to create the synergy. The combination of factors, including this synergy and inter-institutional interaction, collective representation by main bodies, a common industrial purpose, and shared cultural norms and values all defines local 'institutional thickness' (Amin and Thrift, 1995).

Amin and Thrift (1995) determine the factors that contribute towards the construction of institutional thickness as;

- A strong institutional presence, that is plethora of institutions of different kinds including; firms, financial institutions, local chambers of commerce, training agencies, trade associations, local authorities, development agencies, innovation centres, clerical bodies, unions, government agencies providing premises of land and infrastructure, business service organisations and marketing boards.
- High levels of interaction amongst the institutions in local area, displaying high levels of contact, cooperation, and information exchange which may lead to a degree of mutual isomorphism. These contacts and interchanges are often embodied in shared rules, conventions and knowledge that serve to constitute the 'social atmosphere' of a particular region.
- Development, as a result of these high levels of interaction defined in the collective representation
- Development of a mutual awareness amongst participants that they are involved in a common enterprise.

In Denizli and Gaziantep, the extrafirm networks will be analysed trying to put forward the institutional thickness in these localities, concerning the relations with central/local government structures, business associations, creation of trust and solidarity amongst participants all of which create the local institutional atmosphere. Without such external relations and disconnections between entrepreneurs and their business environment may leave the entrepreneurs unaware of the benefits they could offer one another.



### V.3.1. Public Institutions

There are several public institutions in both localities having the roles of supporting local entrepreneurs. These are the institutions of central governments and the local government units.

#### *Role of central and local governments*

Although it is a common argument that both of the localities has managed to develop by themselves without any state support, it is observed that many of the entrepreneurs actually have enjoyed state incentives.

Denizli has seemed to benefit largely from state incentives and became the third privileged province in terms of real value of the investment incentive certificates on textiles and clothing (Pınarcıoğlu 2000). The decrease in the minimum size to be eligible for encouragement incentives in the 1990s made possible many small firms to import machinery without paying any custom duties and enlarged their production capacities.

However, it should not be ignored that they have shown an extraordinary success in export markets. Denizli eagerly used the state incentives that were also open for the other entrepreneurs in other provinces. Some of the entrepreneurs used them for personal consumption instead of making investments, most of whom went bankrupt after a while, and some others used it for investments as well as exporting who catch the success. In Gaziantep, more than consuming it for personal expenditures, entrepreneurs have used it for big investments. However, with the depression in the 1990s, many of the factories stayed incomplete.

From a historical outlook besides these incentives, we see that state and governmental policies had direct effects on both localities (see Chapter IV for details).

When we examine local governmental activities, it is seen that most of the entrepreneurs are not satisfied with the activities of the governments (Table 5.19). It is seen that local governmental bodies are not sensitive towards a corporation with firms or effective in choosing and implementing local projects. Only the infrastructure facilities provided by the government is seen as relatively satisfactory.

**Table 5.19.** Sufficiency of municipal and governmental activities

	Denizli		Gaziantep	
	Number	%	Number	%
Insufficient	319	76.7	175	54.7
Sensitive towards corporation with firms	26	6.3	19	5.9
Effective in choosing and implementing local projects	27	6.5	16	5.0
Infrastructure facilities	88	21.2	129	40.3
<b>Total firm number</b>	<b>416</b>		<b>320</b>	

Besides the role of state in providing incentives and the municipal bodies in infrastructure facilities, we see other governmental institutions taking role in the local industrial activities. One of them is the Institution for Supporting and Developing Small and Medium Sized Enterprises (KOSGEB) which is a part of Ministry of Industry and Trade for filling the need for real services of SMEs in Turkey.

Real services are an attempt to enhance the capability of production networks through the collective provision of corporate services. Examples of services include research and development facilities, prototyping and scale-up plants, quality diagnosis, testing and certification laboratories, consultancy and feasibility studies, and marketing, sales and trade promotion services. Carney (1998) suggests three factors differentiate real service agencies from traditional mechanisms of state support. First agencies have a principle mandate to assist local industries and firms. Secondly, to meet the definition of a real service the agency should provide specific programs of activity such as quality assurance, product testing market research. Third real service agencies must have permanent staffs with functional expertise and equipped with industry specific assets that are not available commercially.

#### *KOSGEB in Denizli and Gaziantep*

Many industrialised countries have developed business service programs to increase the knowledge recognition, transfer, and assimilation capacity of small and medium-sized businesses (Glasmeier, 1999). Besides, to increase their capabilities and therefore their effectiveness and to improve the competitiveness of businesses, additional services have been given by various institutions.

In order to support SMEs, KOSGEB gives services in; quality development and general consultancy, sectoral specialisation, workshops for common-use machines and equipment, technology development, market research, investment analysis and education. KOSGEB have also projects in the fields of regional planning,

development of entrepreneurship and cooperation, quality improvement, modernisation of machinery and development of infrastructure. It also act as a contact point of the European Union's support programs for internationalisation of SMEs such as, Euro Info Centre (EIC) and BC-NET Business Cooperation Network.

KOSGEB was established in 1990 in Denizli. Although given so much assistance, the head of KOSGEB in Denizli complains that plenty of incentives given by the government are not used efficiently by the entrepreneurs. KOSGEB tries to introduce those incentives by the help of chambers, local media and their central office but they are not satisfied with the level that they access to the producers. In Denizli, by the government-KOSGEB initiation a 'textile modernisation project' has been obtained from European Union for the districts of Buldan, Babadağ, Kızılcabölük districts.

Really, as seen from Table 5.20 that, the utilisation of KOSGEB in providing research facilities both in initial and in following investments is not efficient enough in both localities.

**Table 5.20.** Utilisation of institutions providing research facilities

			1	2	3	4	5	6	7
<b>Denizli 10+</b>	From locality	Initial investment	6	9	8	10	42	157	63
		Other investments	6	11	7	9	29	87	36
		<b>Total (%)</b>	<b>75</b>	<b>91</b>	<b>88</b>	<b>48</b>	<b>84</b>	<b>82</b>	<b>79</b>
	Outside locality	Initial investment	2	1	1	10	8	30	13
		Other investments	2	1	1	11	6	22	14
		<b>Total (%)</b>	<b>25</b>	<b>9</b>	<b>12</b>	<b>53</b>	<b>16</b>	<b>18</b>	<b>21</b>
<b>Gaziantep 10+</b>	From locality	Initial investment	7	16	7	6	33	52	31
		Other investments	5	11	9	4	16	30	23
		<b>Total (%)</b>	<b>92</b>	<b>96</b>	<b>73</b>	<b>100</b>	<b>91</b>	<b>78</b>	<b>87</b>
	Outside locality	Initial investment	1	1	5	-	3	15	3
		Other investments	-	-	1	-	2	8	5
		<b>Total (%)</b>	<b>8</b>	<b>4</b>	<b>27</b>	<b>-</b>	<b>9</b>	<b>22</b>	<b>13</b>

1. University 2. KOSGEB 3. Investment banks 4. Other public institutions 5. Chambers of Professionals 6. Private institutions 7. Other

On the other side in Gaziantep, one of the earliest attempts in development of small and medium sized industries had been realised by the establishment of KÜSGEM (Small-sized Industry Development Centre) and Pilot Industrial District. It was jointly

realised by the Ministry of Industry and Commerce and United Nations Industrial Development Organisation (UNIDO) in the 1970s. This site has been established for the purpose of being sample and incentive to small and medium-sized industries from the point of operation, volume and production methods. In Pilot Industrial District 50 sample business places are settled in a covered area of 800 sqm, each on a land of 350.000 sqm in total.

KOSGEB, which has been established for the purpose of serving industry in this region, offers services of training, engineering, consultancy and laboratory to the operations in the region. Additionally, there is a centre of MEKSA (Foundation for Supporting Vocational Training and Small Sized Industry) in the district. MEKSA, a non-profit, public interest foundation, was established with the initiative of BGZ (Berlin Institute for Economic Cooperation) in 1985, MEKSA Foundation's main target is the promotion of vocational training and small industry in Turkey. It designs and implements pilot projects in the various provinces, like Gaziantep in order to activate the social partners and non-governmental organizations to take part in the vocational training system. These projects of training, which are mainly financed by the international development funds, are functioning as a model for the local organisations operating in the province/sector of the implemented project. For Gaziantep the development projects are machine-fitting training, foreign trade training and welding training where different partners like Association of Craftsmen and Tradesmen Chambers of Gaziantep, Chamber of Industry of Gaziantep and Development Policies and Cooperation Institute take place.

The relations of most of the entrepreneurs are not very strong with these institutions although they locate in the same district. Most of the firms even do not know the role of these support units. Most of them do not utilise the facilities provided by these institutions. However, besides these unaware small producers, there are also attentive small producers who try to utilise from the opportunities that these institutions.

### *Universities*

In the subject of training and education we see technical schools and universities in both localities; Pamukkale University in Denizli, and Gaziantep University in Gaziantep. However, entrepreneurs do not have so much close relations with the industry. Rather than universities, technical schools and training centres seems to

be more effective due to their relations with industry. It is also observed that some firms benefit the facilities of the university by cooperating with the professors in developing new production processes but this is very rare.

After such a cooperation, an associated professor in the department of mechanical engineering became a partner of a company in Gaziantep. He manufactured a synthetic yarn machine by integrating the tacit knowledge of his partner with his technical knowledge (Milliyet, 30.05.2002).

Besides KOSGEB and universities, there are also other quasi-governmental organisations, which indirectly effect the local economic development. The institutions supporting entrepreneurs in both localities are like; TESK-The Confederation of the Unions of Merchants and Artisans providing education and training, also infrastructure facilities and developing policies and visions for the small and medium-sized enterprises; TOBB-The Union of Chambers providing information, conducting research and developing policies and visions for the sectors, IKV-Foundation of Economic Development making economic researches, TSE-Turkish Standards Institution, and some technology support institutions such as TUBITAK-Scientific and Technical Research Council of Turkey, TTGV-Foundation of Turkish Technology Development, and Patent Institution (Özelçi, 2002).

Although KOSGEB, universities, other public institutions try to reach the entrepreneurs and give them the necessary assistance, from Table 5.21 we see that private institutions play more effective roles in providing R&D facilities to the firms.

**Table 5.21.** Places where R&D services being provided (%)

**Denizli**

Firms*	Firms' own R&D		1	2	3	4	5	6
49	28.6	From locality	12.2	18.4	8.2	12.2	38.8	10.2
		Outside locality	-	-	-	-	-	-

**Gaziantep**

Firms*	Firms' own R&D		1	2	3	4	5	6
41	43.9	From locality	29.3	7.3	14.6	17.1	29.3	-
		Outside locality	-	-	2.4	-	4.9	-

1. University 2. KOSGEB 3. Other public institutions 4. Chambers 5. Private institutions 6. Other

\*Number of firms making R&D

### Financial Supporters: Families or Banks

Besides personal savings and capital generally provided by the family, entrepreneurs also get credits dominantly from private banks in both localities, more in Denizli. Moreover, some of the entrepreneurs even get international credits. The availability of credits both from public and private banks led the increase in new establishments and modernisation of the old ones.

From Table 5.22, we see that especially for small sized enterprises family and acquaintances are important sources of initial capital. With the enlargement in size, getting credits from bank increases.

**Table 5.22.** The resources they borrow money for initial capital

	Denizli				Gaziantep			
	1-9		10+		1-9		10+	
	Firm	%	Firm	%	Firm	%	Firm	%
Peoples Bank	577	40	20	22	122	14	6	18
Turkish Development Bank	-	-	3	3	-	-	2	6
Other public banks	2	-	7	8	-	-	6	18
Private banks	15	1	30	33	32	4	9	27
Foreign finance institutions	-	-	-	-	-	-	1	3
Private finance institutions	5	-	1	1	-	-	-	-
Family and acquaintances	654	45	24	26	440	49	5	15
Local traders	39	3	4	4	118	13	1	3
Other	150	10	3	3	178	20	3	9
<b>Total</b>	<b>1442</b>	<b>100</b>	<b>92</b>	<b>100</b>	<b>891</b>	<b>100</b>	<b>33</b>	<b>100</b>

In the initial stage, the importance of family is clear. However, in the development stages we observe that entrepreneurs prefer to borrow money from formal ways. In both localities, most of the entrepreneurs prefer to get credits from banks first. In Denizli, secondly they prefer to ask for people or firms that they make business and then ask for their family, acquaintances or friends. In Gaziantep we see that in the second place more than asking for people or firms that they make business, entrepreneurs prefer to ask their family, acquaintances or friends (Table 5.23).

**Table 5.23.** Support sources in case of financial problems

	Denizli		Gaziantep	
	1-9	10+	1-9	10+
Family relatives and friends	3770	118	4128	124
Firms having commercial relations	2076	147	1483	86
Local people or firms	428	20	331	12
Banks	1042	229	291	138
Other	181	15	249	19
No additional finance –support sources	236	25	478	33
<b>Total</b>	<b>7733</b>	<b>554</b>	<b>6960</b>	<b>412</b>

\*more than one answers



This is related with the intensity of the business relations. In Denizli entrepreneurs have larger business environments and more intensive relations when compared to Gaziantep. Thus, in Denizli, second source is business related people rather than families.

From the interviews, it is emphasised that for the last years with the economic unstability, it becomes more difficult to borrow money from someone. One of the entrepreneurs says:

“Previously it was more prevalent to borrow money from family, acquaintances or friends, but now we can not ask for it. We have no chance to borrow money even from our family. Previously we were asking families for financial support, then we began to ask to our business environment and friends, then for the last years more formally to banks, but now no one. No one believes that their money will turn back”.

### **V.3.2. Institutions related to exporting activities**

After the 1980s, with the export-oriented policies, we see a sharp increase in local institutions that are related with exporting issues. Several institutions specialised in export activities have developed just after 1980, such as foreign trade companies, associations of small exporters, sectoral associations and semi-public exporters associations. These new institutions and financial incentives in the 1980s attracted many firms to make export.

#### *Exporters' Union*

This semi-public organisation has the mission of bridging the relations with government and private industrial sectors. They are subordinate organisations of Undersecretariat of Foreign Trade and the private sector. They serve the function of allocating quotas to existing firms. They provide the solidarity among their members, obtain information for exporters keeping up with the developments that occur in the foreign markets. They serve members with marketing researches, finding new markets, presentation and organisation of expositions. Exporters' Unions have to ensure the quality in the production of Turkish export products, for the satisfaction of consumers, and to enable the marketing of these products in observance to competitive free market rules.

With these aims, DETKIB (Denizli Textile and Ready-made Clothing Exporters Union) was established in 1993 in Denizli. It recently has over 500 members.

Because of the more differentiated sectoral structure, four exporters' union were founded in Gaziantep. Two of them are Live Animals-Seafood and Products Exporters' Union, and Dried Fruits and Components Exporters' Union founded in 1984, the third one is Cereals-Pulses, Seeds and Oily-seeds and Products Exporters' Union founded in 1986, and the last one is Textile and Apparels Exporters' Union founded in 1989. However with the Gulf War and thus the Iraq embargo, Live Animals-Seafood and Products Exporters' Union could not continue its task.

We see that Gaziantep as being a border town had met such unions until the 1930s. Stock markets and exporters unions were established for the agricultural products, which were important for this region, to be processed and marketed with modern technics. The merchants and producers organised around corporations to provide the development in the region. The foundation of Gaziantep Tobacco Growers Co-operatives Co. in 1933, the foundation of Hasankeyf Tobacco Exporters Union in 1938 and the foundation of Gaziantep Pistachio Exporters Union in 1939 were all to ensure the production of tobacco and pistachio all of which provided more income to the economic life in the region (Kılıç, 1999).

#### *Foreign trade companies and sectoral foreign trade firms*

With the given incentives by the state, foreign trade companies appear as organisations gathering the exporters together, and to facilitate the bureaucratic difficulties.

In Denizli, EGS (The Aegean Clothing Industry and Foreign Trade Inc) arises as the leading sectoral foreign trade firm, which is established in 1993 mostly by small and medium enterprises having competitive power and export potentials. This cooperation has not been limited to Denizli: at the beginning it was a joint venture of 90 textile and clothing producer exporters mainly from Denizli and İzmir. In 1995, the number of its members increased to 196, again mainly from the Aegean region as well as a small number of firms from Istanbul and Bursa. Although the aim of the company was to bring small and medium sized firms together, it is observed that majority of the firms are either medium-sized or big firms. The rapidly increasing

number of partners helped the cooperation to enter different sectors also such as transportation, insurance, and supply of raw materials, and intermediary goods. Finally in 1995, EGS Bank was established to solve the financial problems. All of these services provided by EGS group had been very influential in promoting exports. EGS Foreign Trade Company became the leading export group in Turkey. EGS had been a strategic cooperation between the firms of Denizli linked to a common expectation about mutual behaviour for the benefit of all partners in the system.

However, recently, the EGS Bank have gone to bankrupt. The aim of the company which was helping the export firms to minimise the problems that they have faced in foreign trade and increasing exports, have changed its direction and the company have attempted many different fields such as trade. The professionals in the board of directors began to be partners of some firms in the group and misuse of authority began to give damage to the company. EGS company lost its efficiency and finally bankrupted.

Recently, there have been similar cooperations among smaller groups of entrepreneurs. In Denizli, we see some attempts of a few entrepreneurs coming together to establish a new foreign trade company.

In order to orientate small and medium sized firms toward global markets, the Undersecretariat for Foreign Trade created a system known as "Sectoral Foreign Trade Companies (SFTC)". This organizational structure, encourages SME's in their ambition to open to the outside markets and engage in foreign trade activities. Main element of this new model is to create a framework in which certain numbers of SME's come together and form a new joint company. Today, there are 31 SFTC's in operational status.

We see three of these firms in Gaziantep. GTS (Gaziantep Textile Industrialists Foreign Trade Company) with 48 members, GBS (Gaziantep United Industrialists Foreign Trade Company) with 30 members and DGS (Natural Food Industrialists Foreign Trade Company) with 10 members.

These firms are founded due to the opportunities given to foreign trade firms in exporting. However, it is argued by the entrepreneurs that they do not operate as the way it has to be. The crucial thing here is how do they come together and survive?

One of the members of the United Industrialists Foreign Trade Company in Gaziantep emphasises that the company has lost its previous importance. Although there were previously 30 partners at the establishment stage, recently only 10 partners left.

“I had the partnership of the firm 5 months later of its establishment. Everybody could be the partner, there was not a special criteria for being members. The break offs was due to crises and we expelled some of the partners from the company. Now there are 10 partners now. We faced with problems because of value added tax notification and joint liability. In such companies, you take the responsibility of the other firms that do not carry out their duties. Now I generally export via my independent marketing firm and use the sectoral foreign trade firm for credit transmitted exports only”.

On the other side, one of the partners of the newly established Foreign Trade Company in Denizli says:

“We faced with some problems with EGS, arising because of too much partners of it. Our new company composed of 9 partners, and we do not want to enlarge it. We try to bring the entrepreneurs that all know and trust each other. It is quite a closed organisation. We are at the first step now and we want to step our further steps strongly and safely”.

### **V.3.3. Business Associations**

Enterprise associations formed by local entrepreneurs get a special emphasis in creating formal networks among the entrepreneurs. We can classify them into two groups according to the membership; compulsory and voluntary memberships. Until the late 1960s, business association activity was limited to Chambers with compulsory membership and was under close government control. The formation of voluntary associations began in the 1960s, but they became significant mainly in the late 1970s and especially, in the 1980s (Buğra, 1994).

#### **V.3.3.1. Compulsory Associations: Chambers of Industry and Commerce**

Few studies on Chambers of Industry and Commerce all emphasise the extent of government control as well as political patronage involved in the activities of these organisations (Buğra, 1994). The public functions which they fulfilled, and the advantages which they could confer to their members, have mostly been based on the extension of the relations of patronage that relationship had with government

authorities to their constituency. Often political alliances and personal relations with bureaucrats are used to obtain incentives and credits (Özcan 1995). Large companies and businessmen, who have political and financial power, often have influence on the chamber's politics. Because of these advantages taking control of the Chambers of Industry and Commerce is important for the businessmen.

Denizli Chamber of Industry was established in 1973. Besides its formal tasks of providing various facilities to its members, it has been lobbying amongst state agencies for a while on the construction of an airport and entering into the defence industry by arranging meetings with the military authorities. Also the chamber attempt to develop strategies to compete with rival provinces, to get more subsidies from the government. On the other hand they also attempt to communicate with the local authorities of Gaziantep to collaborate for their mutual benefits against the policies of central government that have negative effects for the local economies (Özelçi, 2002).

Gaziantep Chamber of Industry was officially established following the decision of the Ministry of Trade and Industry in 1985 and founded in 1989. The chamber, which had 280 members in its foundation year, has increased its membership to nearly 1000 members as at 1998. It has taken over different missions; like giving many seminars and meetings towards increasing the competitive power of Gaziantep industry, organising national and international fairs, establishing communications network and connecting its members to the Internet. Furthermore, it has established the "Gaziantep Textile Industrialists Foreign Trade Company", to gather the small and medium-scale businesses, which have the export power but do not have sufficient power to compete individually.

The Chamber also tries to come together with Gaziantep University, KOSGEB, and the National Productivity Centre (MPM) in certain projects. "MPM Gaziantep Project" has been carried out with the cooperation of the Gaziantep Chamber of Industry in 1998. It is hoped to assist Gaziantep businessmen and industrialists in the achievement of the quality standards they are striving for and in the achievement of the power they need complete in the International arena.

When it comes to the networks of the entrepreneurs and the Chambers, there is a polarisation among entrepreneurs. Some of them have really strong relations with the Chamber of Industry and participate all meetings of the Chamber and take place

in all the activities that the Chamber organise. These entrepreneurs are generally the ones that either take place in the board of directors of the Chamber or take place in the Sector Committees.

Except these entrepreneurs, there is another group who try to follow the organisations of the Chambers via faxes sent by the Chambers and participate some of their organisations or consult the Chambers when necessary. They have positive but weak relations.

As a third group, there are a few entrepreneurs who do not have relations with the Chambers unless they have to. They think that these institutions have political dimension and believe that there is a great deal of personal interest and therefore conflicts in the chambers.

We see that Chambers have activities in cooperation with different central and local institutions. These cooperations are generally based on technical infrastructure related to industrial activities. There had been successful attempts of the chambers to establish the organised industrial zones and free trade zones.

#### *Organised Industrial Zones (OIZ)*

Organised Industrial Zones have been planned with the aim of promoting industrial development especially in underdeveloped regions as well as preventing the negative effects of industrialisation on urban development. They have served as a means of state subsidy in granting various incentives to the firms.

In Denizli during the developments in exports and increase in production, the producers in the region initiated to establish an organised industrial zone with the leadership of chamber of industry. In Denizli, the first organised industrial zone was included in the plan in 1975. The nationalisation process of the land was started till this period. However due to financial problems, the infrastructure of the zone was constructed in 1985 with the credit provided by the state. There are 139 parcels and 130 firms of different size and sectors in the zone. Due to the high demand for locating in the zone, a second industrial zone with 100 parcels started to be built in Çardak (a district of Denizli) and completed in 1997. There are also five more projects of industrial organised zone planned to be built in various districts of Denizli with the leadership of Denizli Chamber of Industry.



The attempts for collaborating for infrastructure and energy subjects seem effective. With the leadership of the Chamber, the industrialists in the organised industry zone have established a refinery for industrial wastes and electric producing company, which will solve the energy problem of the zone and will meet the whole electric energy need.

In Gaziantep, the establishment of the organised industrial zone is relatively early. The first OIZ was planned in 1967 but could be established in 1972. In the establishment stage Gaziantep people came together and expropriated the land and started to establish the infrastructure. The second OIZ was established in 1987. With the increasing demand of investment, the third OIZ was planned by the Chamber of Industry in 1991. Chamber has now put the third zone into operation. In accordance with the continuing demand, it is going ahead with the opening up of the fourth one - the biggest in Turkey - with a total area of 400 000 m<sup>2</sup>. All of them have helped to promote and establish an industrial structure, which gives a high added value, brand names, patents, and improved customer liaison.

#### *Free Trade Zone Management*

Among new projects there is a 'Free Trade Zone' (DENSER) which will provide tax and investment advantages to exporting firms and will increase the foreign trade potential of the region. However, although free trade zone had been opened recently, because of the crises conditions there are only few firms established in the zone.

Another infrastructure initiation is the establishment of a technology centre, which is seen by the local authorities as the basis of a future techno-park. The technology centre (TEKMER) is a collaborative initiation of university, chamber of industry, and KOSGEB.

In Gaziantep, due to the increasing volume of international trade, there was the need to establish a "Free Trade Zone". , The Chamber has taken on the leadership for this project, and it has been built up recently. It was another crucial step towards the completion of Gaziantep's industrial infrastructure.

#### **V.3.3.2. Voluntary Associations**

Beside chambers, civil society organisations also play important roles in establishing networks among entrepreneurs. Since the 1980s, especially during the 1990s, civil

society organisations have emerged and become important actors in Turkish politics. Since the mid-1970s, 'Association of Turkish Industrialists and Businessmen-TUSIAD' has acted as a dominant organisation representing the businessmen. In the early 1990s, 'The Association of Industrialists and Businessmen-SIAD' has occurred as an economic organisation. Additionally, during this period we observe the rise of 'Islamic capital' as a powerful economic actor, which had been institutionalised by the establishment of the 'Association of Independent Industrialists and Businessmen-MUSIAD'. With the establishment of MUSIAD and SIADs, the Turkish economic life witnessed the pluralisation of economic actors with different discourses and strategies, bringing together a large number of enterprises of different sizes located in different geographical regions of Turkey (Keyman and Özbudun, 1999).

In the last decade, regional-based industrialists and business organisations (SIADs) have been organised independently from TUSIAD in most of the Anatolian towns representing small and medium scale enterprises. SIADs main characteristic is that they represent local development. Keyman and Özbudun (1999) define the basis of this kind of economic organisation as "the link between free trade and traditional/communitarian cultural identity".

In both localities of Denizli and Gaziantep it is observed that entrepreneurs increasingly forming local initiatives and active groups through business organisations. Especially after the 1990s, plenty of business associations appear in the business platform.

Especially In Denizli, there are various organisations forming Denizli platform. These are DESIAD (Denizli Industrialists and Businessmen Association), DETIAD (Denizli Tradesmen and Businessmen Association), DEGIAD (Denizli Young Businessmen Association), GETIAD (Young Businessmen and Tradesmen Association) DENSABID (Denizli Industrialists, Businessmen and Bankers Association), DOSYÖD (Denizli SME and Self-Employed Persons and Managers Association), MUSIAD (The Association of Independent Industrialists and Businessmen), BASIAD (Babadağ Industrialists and Businessmen Association), TABA (Denizli Branch of Turkish-American Businessman Association), DETGIS (Denizli Textile and Wearing Apparel Industrialists Association), USIAD (International Industrialists and Businessmen Association).

All of these groups address to different entrepreneurs representing themselves in different platforms. These associations appear both as mechanisms of interest representation and as agents of different class strategies (Buğra, 1998). Their social roles go much beyond narrowly defined representation of sectional interests. Buğra (1998) defines the aim of MUSIAD as bringing together a large group of enterprises that manifest a greater diversity of size and geographic location throughout Turkey. The Islamic character of Turkish society is emphasised in an attempt using religion as a resource to foster a sense of solidarity among those segments of national and international business communities that stand to gain from enhanced cooperation in MUSIAD.

The chairman of board of directors of MUSIAD in Denizli frankly emphasises that there is the moral cooperation among the members, but for the last years they try to give priority to economic interests. They try to motivate their members in exporting, making researches for new markets and give training courses.

However, in Gaziantep, there are not so much business organisations when compared to Denizli. We see GAGIAD (Gaziantep Young Businessmen Association) as the most active voluntary business organisation in Gaziantep. GAGIAD is defined as a closed business group by local entrepreneurs as they have close information networks among them. On the other side MUSIAD appears as an association which is not so effective in business environment in Gaziantep.

The networks established among the members cause new opportunities which are not open to everyone. Besides these sectoral platforms and subcontracting solidarities, there are other more closed type of solidarity groups among producers like Hemşehri associations, clubs, religious communities. They are either open but generally closed groups, where people share common interests.

#### *Solidarity of closed-groups*

The upside down of settled social order in the 1980s carried the communitarian approach based on different interest groups. The unstable economy and weakening of social state caused people to organise around an 'identity' like ethnic, religious, 'hemşehri' and to establish support relations among them.

This movement also showed its effects in business environment. Entering different markets or trying to survive in severe production environment entrepreneurs begin to gaze for groups sharing the similar point of views or interests. In Denizli it is seen that there are two main groups among producers who are coming from Babadağ district or from Denizli province. There is always a competition among these two groups. Especially entrepreneurs originate from Babadağ try to keep up the solidarity among their 'hemşehri's. They have a special business platform of BASIAD (Babadağ Industrialists and Businessmen Association) which aims to bring Babadağ industrialists together and provide solidarity among them.

Although it is claimed that such organisations are generally for social activities, we observe its repercussions in the business environment also. They prefer to make business with each other like buying materials from each other or establishing subcontracting relations.

Non-local people having investments in Denizli, emphasise that they do not have closed relations with local producers, as if the local producers have among themselves. If you have buyer-supplier relations there is no problem, but local producers do not prefer to make business like subcontracting business with the non-local producers unless they have to. One of a non-local producer emphasises that:

"If you are different, local people get jealous of you. This is not hate but being far away from you. As you are not included Babadağ or Denizli group this may bring some advantages also. You do not have to give an explanation to anyone. For example we innovate a special textile material, and I heard that one of a famous firm imitated our material, I insisted on my rights by legal ways. If I were a local producer, local people would persuade me to keep silent. Solidarity means not to keep silent when you are done wrong. As local people all know each other, the information diffusion is very fast but this brings imitation".

Many people believe that hemşehri solidarity is because of the feeling of trust.

"If you know the background of someone, the family and the characteristics of him, 'your hemşehri', you can guess how he will act or guess whether you will face with problems with him or not. You may weight how much you can trust him. That's why it may be a preference to recruit people of your locality and it may be more tasteful to make business with your close environment".

On the other side it is emphasised by many producers in Denizli that besides these hemşehri groups, there are closed religious groups, representing different communities. These are not emphasised directly by the members of these groups but the information about them collected rather in a cognitive way from different

actors even not being industrialists. These have various types; some of them form around religious sects, some of them are more radical or some others are more open. There is solidarity among these groups in business relations. They prefer to make business with other. However, if they have more interest or profit, especially in buyer-seller relations, they may prefer others also.

MUSIAD appearing as a business association with the Islamic character also try to provide the solidarity among their members. They try to encourage their members to make business with each other, even making some discounts in their products supplied to the members. Especially subcontractor firms in textile sector try to make subcontracting businesses among each other. There are also foreign trade organisations of the members. A formally established trade company with three partners collects money from their informal fifty members to make their market connections and exhibit the products of these members in the US.

In Gaziantep, there are not business groups like Babadağ or Denizli polarisation. We observe people of the subdistricts Besni or Nizip try to provide solidarity among them. They always meet and arrange social activities among them. During these social activities, they may make business contacts. We see such hemşehri solidarity especially in the Chamber elections for instance. People coming from the same region generally support each other. But such solidarity is not dominant in business relations. It is more effective in social activities.

For some of the entrepreneurs, 'hemşehrilik' is not so much important. They think that most of the producers act as professionals and act as actors of capitalist system, thus if you do the same business you are competitors. Who have more suitable prices or beneficial to them is the reason of preference for making business. Everybody struggles for survival. Rather than these small solidarity groups, professional trade relations are more dominant. People generally prefer to buy goods where they can buy them to more suitable prices.

When they are in the same locality, people do not realise the importance of 'hemşehrilik', but when they go outside, people come together with their 'hemşehri's. We observe a more heterogeneous structure of entrepreneurs in Gaziantep when compared to Denizli. There are many non-local producers, especially emigrated from east regions because of terrorism, and made their investments in Gaziantep. These non-local people generally support each other generally because of minority psychology.



“In flour sector, 60-70% of the flour producers in Gaziantep is from Siirt. However, we, as non-local producers, have equal distance in our relations with all the producers. Their coming from Siirt does not mean that we support them and exclude producers from Gaziantep. But I should say that we had effect for their location. We encouraged them to make investments in Gaziantep. The terror in southeast makes people immigrate. Gaziantep is safe in this region. The poor people immigrate to Mersin and Adana as farm workers and the rich one preferred Gaziantep for making their investments. There are support relations among smaller groups. In business relations you can not make business with 50 producers, instead you have relations with the ones you feel close”.

There are also solidarity groups among Kurdish producers. They prefer to buy goods from people speaking Kurdish for example. This ethnic relationship especially takes place in trading sector. As Özcan (1995a) emphasises the Kurdish traders emigrated from eastern towns to Gaziantep as a result of ethnic unrest and economic deprivation in their home town have been successful in getting into these markets by using their kinship and friendship ties.

Although taking place in different sectors, people coming from Mardin or Urfa support each other both morally and financially. In some special sectors like yarn producers or in carpet sector, these types of solidarity groups are observed. In seller-buyer relations, in lending looms, people use this kind of relations. For new starters, they even give their looms to encourage them. But, this type of hemşehri relations are more efficient among traders, not so much effective among industrialists. More than hemşehri relations, we observe solidarity networks among relative groups.

In both localities closed business groups, like hemşehri solidarity, were more dominant before. Nowadays such relations have relatively lost its importance. More than Denizli, especially for people of Gaziantep, there is not such relations left. Groups are generally formed for individual interests, they are generally showpiece and short-term. They believe the proverb ‘Her koyun kendi bacağından asılır (everybody is responsible from himself)’.

#### **V.4. Spatial Dynamics**

The concrete realisation of network relations is embedded in place. The local embeddedness of network relations refers to transformations of extremely complex networks of firms contingently constructed and constituted in differentiated geographical territories. Changing relations of dynamic networks show themselves in the changing spaces also.



In both localities, entrepreneurs generally prefer to invest at the place they born and even though they go other cities for their education, they turn back to their home and make their investment there. In both localities, people are very fond of their cities. In fact they are a bit nationalists. At the same time, they are ambitious to make investment, in other words their entrepreneurial character causes them to invest. As seen from Table 5.4 the entrepreneurs' wish to invest is the prior reason of investment.

Besides we see that, for small-sized firms, raw material supply, being close to market (generally local or regional market), labour supply, agglomeration economies (existence of other industries in the locality) are effective in their location choices. For enterprises more than 10 employees, raw material supply and existence of the main industry are the prior reasons to invest in Denizli. On the other side for Gaziantep, entrepreneurs being close to the market and the raw material supply are prior. As Gaziantep is one of the most industrialised cities in the region, it generally serves to the East and Southeast Anatolia market alone.

For some sectors, we see that some of the industrial location factors becomes relatively less important, like transportation costs. The argument of being near to resources for making the production is not valid for some sectors in Gaziantep. In fact, because of being far away to resources (raw material, qualified labour, market), entrepreneurs face with problems. One of the entrepreneurs in embroidery sector complains that:

“Our raw material is coming from Bursa or exported from foreign countries. We produce the goods in our locality and then using the same route, we send it to Anatolia, İstanbul or foreign markets. We have the disadvantage of distance. We may decrease transportation costs and earn much by locating close to the market, but our social environment is here. This is prior. More than this all of us have the wish to develop our own localities”.

As seen more than financial capital, social capital becomes prior. Their social networks in the locality tie them to their locality. Besides, the production culture in both localities, thus production space of experienced labour cause entrepreneurs to invest to their localities.

#### **V.4.1. Raw material supply**

In supply of raw material, we see that there is no dependency on space, as most of the entrepreneurs, with more than 10 employees, prefer to buy their raw material

from various places both in Turkey and in the world. Previously, it was more difficult to obtain the necessary or the most suitable raw materials from wherever they want. Entrepreneurs had to buy the raw materials from certain places. These places were either State Economic Enterprises (SEEs) or local markets or İstanbul. But, for the recent years, with the increasing transportation and communication facilities, entrepreneurs have different choices to obtain the necessary material for production. We see the effects of globalisation in supply of raw materials. Some of the entrepreneurs prefer to import the raw material directly by themselves or buy the imported materials or require them from local or national market. The preferences of the entrepreneurs become more important.

**Table 5.25. Reasons for preferring other cities for raw material supply**

	Denizli				Gaziantep			
	1-9		10+		1-9		10+	
	Nmbr	%	Nmbr	%	Nmbr	%	Nmbr	%
Cheaper costs	1154	17	112	36.0	1383	15	80	28.7
Suitable payment conditions	1617	24	129	41.5	1923	20	86	30.8
Being qualified	842	12	130	41.8	841	9	92	33.0
Low transportation costs	1785	26	127	40.8	2295	24	95	34.1
Personal relationships	1200	17	107	34.4	1611	17	94	33.7
No other choice for supplier	229	3	63	20.3	857	9	99	35.5
Other	52	1	12	3.9	611	6	20	7.2
<b>Total firm number*</b>	<b>5923</b>		<b>311</b>		<b>6103</b>		<b>279</b>	

\* total number of firms that answer the question

From Table 5.25, it is seen that with the increase in size, firms begin to act more independent from the space. While for small-sized enterprises low transportation costs are prior, but for enterprises with more than 10 employees the reasons change. In Denizli quality and suitable payment conditions are prior to the entrepreneurs, on the other side in Gaziantep the reasons of having no other choice for the supplier especially for the sectors buying from SEEs, low transportation costs and personal relations are prior.

We see that the entrepreneurs' personal relations with the suppliers in other words their social networks play important role in the choice of raw material supplier. In Denizli especially in textiles, wood products and paper products this choice is over the average, on the other side in Gaziantep in food and in metal products it is over the average. These sectors are generally the ones, which have relative importance in the locality, when compared to other sectors.

#### V.4.2. Production Space in Denizli and Gaziantep

When we look at the production space, we see that production relations dominantly take place in the local environment. We observe that the production units of the firms generally locate in the localities (Table 5.26). In Denizli, only in sectors of food, textile, chemicals, non-metallic products, and basic metal industries very few firms have production units in other cities. Especially in textiles metropolises are preferred.

**Table 5.26. Places of other production units of the firm  
Denizli**

	Firm	No other production unit		In Metropolises		In other cities in the region		In other cities out of the region		In foreign countries	
		no	%	no	%	No	%	no	%	no	%
31	28	26	92.9	-	-	2	7.1	-	-	-	-
32	274	265	96.7	5	1.8	1	0.4	2	0.7	1	0.4
33	6	6	100	-	-	-	-	-	-	-	-
34	7	7	100	-	-	-	-	-	-	-	-
35	16	15	93.8	-	-	1	6.3	1	6.3	-	-
36	21	17	81	-	-	3	14.3	1	4.8	-	-
37	24	23	95.8	1	4.2	-	-	-	-	-	-
38	40	40	100	-	-	-	-	-	-	-	-
<b>Total</b>	<b>416</b>	<b>399</b>	<b>95.5</b>	<b>6</b>	<b>1.4</b>	<b>7</b>	<b>1.7</b>	<b>4</b>	<b>1</b>	<b>1</b>	<b>2</b>

#### Gaziantep

	Firm	No other production unit		In Metropolises		In other cities in the region		In other cities out of the region		In foreign countries	
		no	%	no	%	No	%	no	%	no	%
31	50	49	98.0	-	-	1	2	-	-	-	-
32	181	179	98.9	1	0.6	-	-	1	0.6	1	0.66
33	7	6	85.7	1	14.3	-	-	-	-	-	-
34	8	7	87.5	-	-	-	-	1	12.5	-	-
35	28	27	96.4	1	3.6	-	-	-	-	-	-
36	8	5	62.5	2	25	1	12.5	1	12.5	-	-
37	10	10	100	-	-	-	-	-	-	-	-
38	28	26	92.9	-	-	1	3.6	-	-	2	7.1
<b>Total</b>	<b>320</b>	<b>309</b>	<b>96.6</b>	<b>5</b>	<b>1.6</b>	<b>3</b>	<b>0.9</b>	<b>3</b>	<b>0.9</b>	<b>3</b>	<b>0.9</b>

In Gaziantep there are less firms having production units out of the locality. Although they are very few, there are firms having production units out of the locality in all sectors, except basic metal industries.

We see that there is a tendency to make business or establish subcontracting relations with local firms. In Denizli, dyeing, weaving and ready-made clothing stages of textile production are subcontracted to small-sized firms taking place in small industry site or in organised industrial zone of Denizli. In other sectors in metal

for example, subcontracting may be given to the firms locating in closer cities like İzmir or to the firms specialised in that sector but locating in various cities.

In Gaziantep, also subcontracting relations generally take place among small firms that generally take place among small industry site firms in the locality. These type of relations generally take place among carpet producers, knitting sector and basic metal industries. Most of the exporting firms do not prefer to give subcontracting, as they face with quality problems.

There is also a trend to recognise different production spaces and try to establish new business relations with metropolitan cities like İstanbul or İzmir. However, this tendency is minor when we examine the future plans of the entrepreneurs for their new investments. Very few of the entrepreneurs in both localities plan to make investments different than their localities (Table 5.27).

The entrepreneurs that prefer to make investments in different cities generally choose the cities, which are specialised in that sector. This is generally because of utilising the agglomeration economies.

When compared to Gaziantep, Denizli seems to be more homogeneous in terms of investments dominantly made by local entrepreneurs.

**Table 5.27. Cities where the entrepreneurs plan to make investments in five years time Denizli**

	Sector	Firm nmb	Denizli	İstanbul	Ankara	İzmir	Adana	Bursa	Same region	Differen region
1-9	31	112	112	-	-	-	-	-	-	-
	32	621	609	-	-	-	-	-	11	Diyarb
	33	139	139	-	-	-	-	-	-	-
	34	23	23	-	-	-	-	-	-	-
	35	64	64	-	-	-	-	-	-	-
	36	4	4	-	-	-	-	-	-	-
	37	94	94	-	-	-	-	-	-	-
	38	51	48	1	1	-	-	-	1	-
	39	105	105	-	-	-	-	-	-	-
	Other	13	10	-	-	-	-	-	3	-
	<b>Total</b>	<b>1226</b>	<b>1208</b>	<b>1</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15</b>	<b>1</b>
10+	31	19	17	-	-	1	-	-	Isparta	-
	32	224	222	1	-	-	-	-	1	-
	33	2	2	-	-	-	-	-	-	-
	34	5	5	-	-	-	-	-	-	-
	35	7	6	-	-	-	-	-	-	Konya
	36	7	5	-	-	-	-	1	Burdur	-
	37	17	15	-	-	2	-	-	-	-
	38	10	9	-	-	1	-	-	-	-
	39	34	32	-	1	-	-	-	Burdur	-
	<b>Total</b>	<b>325</b>	<b>313</b>	<b>1</b>	<b>1</b>	<b>4</b>	<b>-</b>	<b>1</b>		

### Gaziantep

	Sector	Firm nimb	Gazi antep	Istanbul	Ankara	Izmir	Adana	Bursa	Same region	Differen region
1-9	31	326	324	-	-	-	-	-	2	-
	32	610	547	13	-	17	-	1	26	Uşak
	33	187	187	-	-	-	-	-	-	-
	34	69	69	-	-	-	-	-	-	-
	35	122	112	-	-	-	-	-	10van	-
	36	47	47	-	-	-	-	-	-	-
	37	23	23	-	-	-	-	-	-	-
	38	212	212	-	-	-	-	-	-	-
	39	32	25	-	-	-	-	-	7	-
	Other	48	48	-	-	-	-	-	-	-
	<b>Total</b>	<b>1676</b>	<b>1594</b>	<b>13</b>	<b>-</b>	<b>17</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>
10+	31	28	28	-	-	-	-	-	-	-
	32	139	133	2	-	-	-	-	2	2
	33	5	4	-	-	-	-	-	-	1
	34	5	4	-	-	-	-	-	-	1
	35	18	18	-	-	-	-	-	-	-
	36	3	2	-	-	-	-	-	1	-
	37	5	4	-	-	-	-	-	-	1
	38	17	16	1	-	-	-	-	-	-
	39	5	4	-	-	-	-	-	-	1
	<b>Total</b>	<b>225</b>	<b>213</b>	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>6</b>

On the other side, especially in Gaziantep, we observe that many entrepreneurs coming from eastern cities make investments in Gaziantep. This is especially because of escaping from terrorism. These non-local entrepreneurs have different reasons for choosing Gaziantep like; its moderate climate, being near to the markets, having industrial infrastructure.

For the last years, there is a tendency to make investments in foreign countries also, especially in textile sector. During the period of integration to European Union, certain candidate countries like Bulgaria and Romania provide certain promotions to the foreign investments. These promotions, as well as relatively low production costs like electricity, value added taxes, and labour, motivate entrepreneurs to carry a certain part of the factories to these countries and make exports from there. However, the main production units of these firms stay in the localities.

On the other side, we witness some foreign firms coming and investing in the localities. For example, as being a border town, Gaziantep attracts some neighbours to invest there. An entrepreneur coming from Syria invests to Gaziantep and go on his life in Gaziantep. Besides an American multinational carpet firm also makes an investment in Gaziantep.

“The owner of the American multinational firm, was making business with our company which was one of the biggest carpet companies in Istanbul. Five years ago, during the privatization period, he had bought a firm in Romania. We met the American entrepreneur in Istanbul, while we were working for the Turkish company. After a while our company bankrupted. We, as five friends, contacted to the American entrepreneur and persuaded him to establish his second firm in Turkey, in Gaziantep”.

Thus, it is seen that personal relations also play an important role to attract foreign investments.

#### **V.4.3. Market**

When we observe market relations, we see a transformed structure. Previously before the 1970s, entrepreneurs were highly dependent to their local market. With the increase in transportation facilities, they began to take place in regional or national markets and finally with the export-oriented strategies of the 1980s, they enlarged their marketing area and entered to international markets.

Although the domestic market of the firms in both localities is the whole country, From the Figure 5.2 and Figure 5.3, it is seen that Denizli firms serve entirely to the markets in the west with a concentration in the near region and in metropolises. On the other side, Gaziantep firms including some eastern towns generally serve to the markets of western towns and metropolitan areas. Firms, which have a market share in the eastern towns or near regions, are generally small-sized firms. Medium and large- sized firms sell their products generally to the western towns and metropolitan cities.

In both localities, especially small sized firms not using recent production technologies generally produce for local or regional markets. The most important transformation in the market area occurs after 1980. With the exporting facilities firms have begun to take place in global markets. When we examine the foreign countries that the local firms have exporting relations, we see that both localities have a really wide scope of exporting (Table 5.28).

It is seen that for Denizli these countries are generally advanced countries, which require qualified products. In fact Denizli, in towel and bathrobe products as well as home textiles have a special place in foreign countries.



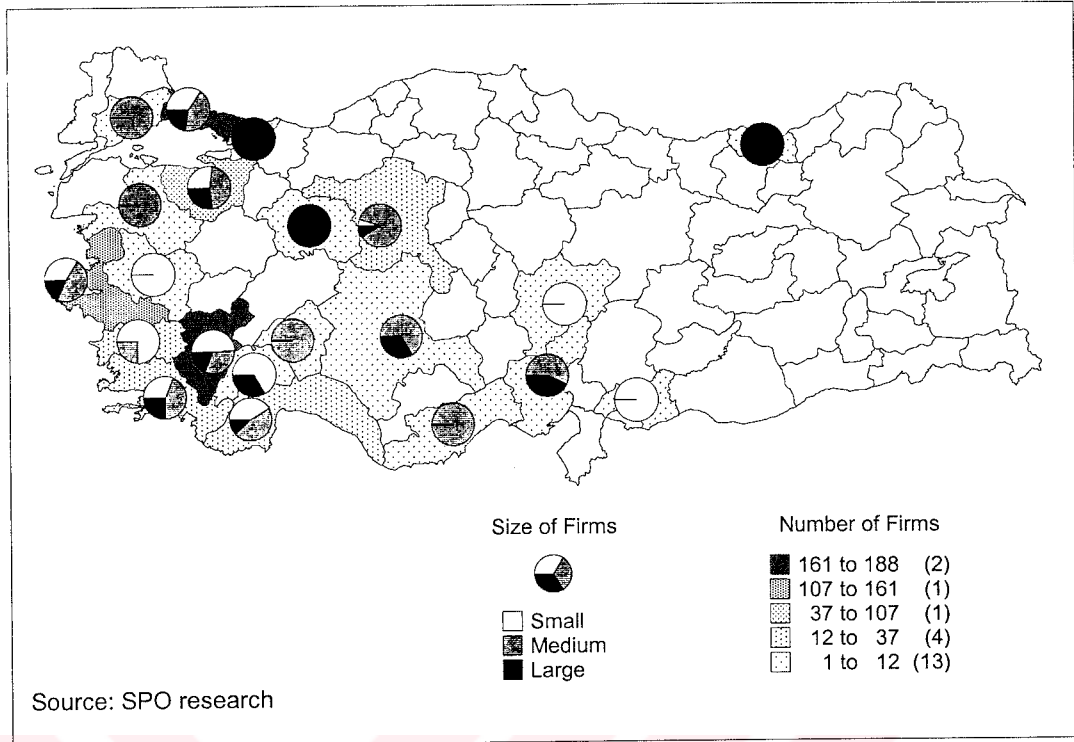


Figure 5. 2. The spatial distribution of domestic market area of Denizli firms considering the firm sizes (1996)

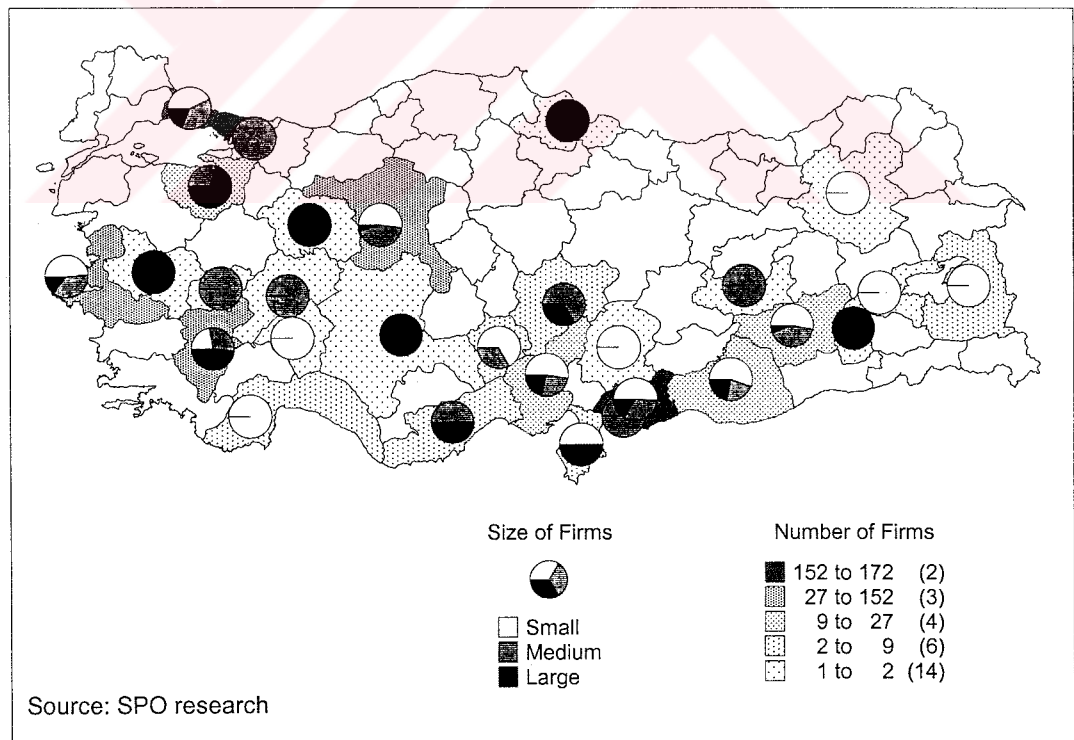


Figure 5. 3. The spatial distribution of domestic market area of Gaziantep firms considering the firm sizes (1996)

**Table 5.28. The important export countries of Denizli and Gaziantep in 2000**

<b>Denizli</b>	<b>Million dollars</b>	<b>Gaziantep</b>	<b>Million dollars</b>
USA	95.7	Italy	38.4
Germany	85.1	Syria	33.0
United Kingdom	65.9	Germany	27.3
France	23.4	United Kingdom	26.8
Holland	11.1	Romania	24.2
Italy	16.8	USA	24.1
Belgium	14.9	Saudi Arabia	17.2
Canada	2.5	France	13.5
Austria	4.4	Israel	13.3
Israel	2.7	Greece	10.2
Other countries	23.3	Azerbaijan	9.1
		Portugal	8.8
		Kazakhstan	8.7
		Belgium	5.0

Exporting firms generally have special markets in foreign countries depending on the demand, entrepreneurial efforts and the assistance the local initiative. For example for textile sector in Denizli, European countries and USA is a great market. On the other side for Gaziantep, in food sector Middle East and Turkish Republics, in carpet sector, Belgium and Iran are the special markets. The important thing is to discover the niches in foreign markets and differentiate the products with the preferences of the market.

Entrepreneurs begin to have representative/contact offices or sales agencies in these foreign markets. Gaziantep, when compared to Denizli, has a dominant foreign market of Middle East and Turkish Republics besides European and USA market. From the interviews, we see that reasons to open such offices in different cities or countries are more about marketing. For being close to foreign markets or being close to raw material supply.

In the case of Gaziantep, cultural similarities and border trade may also be effective in taking place in close foreign markets. Syria as being a neighbour country takes an important share of exports for Gaziantep (Table 5.28). Also before the Gulf War, Iraq was the most important foreign market especially for the food producers. Many of the large firms were established high capacity investments for this foreign market but now can not function in full capacity.

On the other side, the leader firms entering to a different foreign market may attract the other firms behind them. For example after one or two firms finding a niche market in Russia, many others followed them, and Russia became a crucial market for a certain period. The less qualified but cheaper products have found niches in this market and many local entrepreneurs enlarge their businesses with this experience.

## CHAPTER VI

### CONCLUSION

The main objective of this thesis has been to provide an account of the recent success stories of local development with special reference to the networks of entrepreneurs with social, economic as well as spatial dimensions. In this concluding chapter, it is aimed to provide a brief summary of the thesis and to examine to what extent it has fulfilled its objectives.

As in many other developing countries, Turkey has also been living different experiences in the globalisation process. Some of the towns having traditional industrial structures previously have undergone an unusual development by finding niches in global markets. In finding these niches, entrepreneurs have emerged as the main actors. Motivated entrepreneurs finding niches in opportunity structures have provided the success. Entrepreneurs catching the success in exporting have greatly helped to encourage other entrepreneurs and local actors to enter foreign markets also. This collective motivation and joint action have brought the local / regional success.

What are the dynamics hidden behind this success? The answer to this question has tried to be given by focusing on the network relationships in the cases of two Anatolian Tigers; Denizli and Gaziantep. A comparative analysis of these cases has been realised by abstractions at different levels and layers of intrafirm, interfirm and extrafirm networks. Concluding remarks will be given due to these three levels of network analysis.

Before the general findings of the intrafirm networks, the nature of entrepreneurship considering the characteristics of the entrepreneurs will be given in order to have a full understanding in the formation of the entrepreneurial motivation.

General characteristics of the entrepreneurs show that there are relatively younger entrepreneurs in Denizli when compared to Gaziantep. This is the result of plenty of new entrepreneurs' entering to the production market and their attempts to utilise the exporting facilities of textile sector in Denizli. There are two groups of entrepreneurs. First one is the first generation entrepreneurs who are generally uneducated but experienced because of their artisanal backgrounds. They are ambitious, which is one of the crucial factors for being successful. More than speaking a foreign language, being ambitious made them enter to the foreign markets.

Second group of entrepreneurs are the new generation who are younger and educated. This group can also be divided into two groups. One is trying to continue family business without having much ambition and wants to earn money easily. The second group has the motivation and advantages of being educated and attempt to reach different opportunities by using technological facilities.

Entrepreneurs need capital and other resources in order to take the advantage of perceived opportunities. They bring three kinds of capital to the competitive arena: financial capital, human capital and social capital. Financial capital is needed for raw materials and production facilities. Human capital is the natural abilities -charm, health, intelligence, and looks- combine with skills acquired in formal education and job experience which is needed to craft the raw materials into a competitive product. Relations within and beyond the firm are social capital. It is through friends, colleagues, and general contacts the entrepreneur receives opportunities to use his or her financial capital and human capital.

We have just gazed at the characteristics of entrepreneurs describing the human capital of the locality. Now, the social capital will be given in the intrafirm, interfirm and extrafirm networks of the entrepreneurs.

#### **Intrafirm networks: becoming smaller and closer, having more power**

The working of intra-firm networks is influenced by internal social norms and administrative structures. The atmosphere in these networks depends on the level of centralisation and control.

In administrative organisation, we generally observe the dominance of family firms in both localities. Entrepreneurs who do not want to lose the *control and power* prefer to be organised as family firms, rather than being multi-partnered enterprises. The collective, multi-partnered enterprise structure of the 1950s abolishes by time, firms begin to enlarge by size but becoming smaller and closer in administrative organisation.

We see that family members were taking active roles in the enterprises beginning from the earlier stages of industrial development. We see that the family members were acting as the main sources of labour and capital while the production was held in homes. Intensive social networks consisting family, friends and acquaintances was crucial during this period. This role of family members and the social networks among them helped the second generation to get used to the production and provided the continuity of the business in the district. Families as social institutions provided cultural accumulation by transferring the knowledge and know-how in textile production related to their experience.

After a while, we see business-focused networks and cooperative partnership relations. These relations include intensive social networks of friends and acquaintances, as the community is not so large and everybody knows the other. Finally, after the 1980s with the export orientation policies and entering to foreign markets, these social-based communitarian networks leave its place to market oriented strategic networks. Families still take place in production, however more than being labour force they take their places in the board of directors of the enterprise.

Entrepreneurs try to provide the family identity inside the firm by establishing strong relations with their workers. However with the enlargement of the sizes of the firms, this close relations leave its place to classical employer-employee relations.

We see different organisational structures of firms, which plays active roles in both localities. One is the enlarging business from traditional artisanal structures, the integration of different families may sometimes cause this enlargement. The other firm type is small and medium-sized more dynamic firms, trying to catch success not by enlarging so much, but by using new technologies. Finally, the last one, which is seen mostly in Gaziantep, is directly establishing the business as large firms with big doubting capitals - possibly gained by informal ways. Besides these types there are

ordinary small and medium sized firms going on production with old technology generally serving to local and national markets.

These different firm typologies are also related with the sectoral structure. In sectors having many production steps like textiles or fabricated metal products, it is prevalent to see small sized horizontally integrated firms. On the other side for sectors like food, chemicals, non-metallic mineral products more integrated firms are prevalent. Thus, Denizli having textile as the dominant sector possesses a more horizontally integrated structure, on the other side Gaziantep has more integrated structure.

### **Interfirm networks: vertically integrated isolation or horizontally integrated synergy**

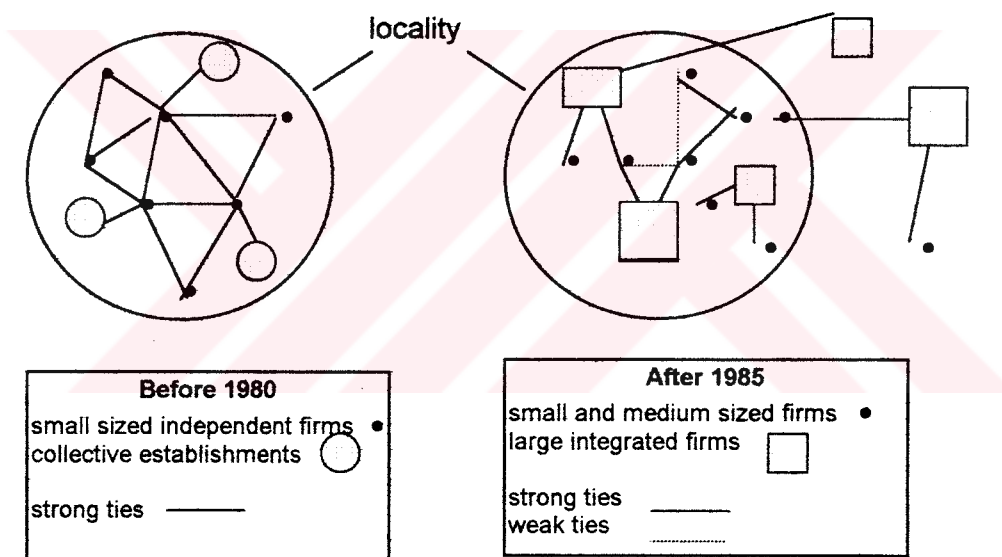
Entrepreneurs are embedded in a social context. Entrepreneurial forces could not emerge without a supportive social context. For success, besides knowledge, confidence, innovativeness etc., the entrepreneurs' relations with others play a crucial role. Therefore, in analysing interfirm networks only as economic relations is not sufficient to understand the network formations. The social causes lying behind these relations are concepts like trust, power and reciprocity.

*In resource relations* of entrepreneurs, it is seen that for the last years there has been an increase in importing raw materials. Denizli entrepreneurs have more personally internationalised relations for importing, while Gaziantep entrepreneurs use local traders relatively more. Just like local traders, foreign firm representatives acts as brokers in raw material supply. Previously, brokers were more actively taking place in the market, but for the last years entrepreneurs prefer to establish their own connections.

*In production relations* of entrepreneurs with other entrepreneurs, we conclude that Denizli with its textile dominant industrial structure have intense subcontracting relations. On the other side in Gaziantep, we observe a rather integrated structure of production, as exporting entrepreneurs could not find suitable subcontracting firms having sufficient technology and qualified labour necessary for making production at least in certain standards.



In Denizli, entrepreneurs try to establish long-term subcontractor relations, most of whom work with their subcontractors as if they are partners. Most of the subcontractors work as dependent producers and act as a department of the large firm. Small and medium-sized firms prefer links to the large firms, especially formalised in the vertical rather than horizontal dimension. As Pınarcıoğlu (2000) concludes previously more egalitarian cooperative production networks, segmented with unequal degrees of power among firms, transforms into an asymmetrical development. The entrepreneurs that had the possibility to acquire the necessary capital accumulation or to catch different opportunities in the business environment had the chance of seizing the power. Previously localised network with close circuit of producers, with more or less equal powers netted with close social and cultural even kinship ties and very high mutual trust, transforms into much more loose and segmented relations, with unequal degrees of power, stretching itself beyond its local boundaries.



On the other side, from the global point of view most of the textile firms in Denizli become the subcontractors of the international firms. They make production under the name of the international trademarks. While taking place in the upper layers of the local networks, they integrated to the lower layers of global networks.

Network positions are the result of the different power some actors have over the activities. As seen firms take their positions in local and global networks rather differently. This position provides the development possibilities and constraints of

the firm in the network. *Power*, the ability to influence the decisions or actions of others, is the central concept in this approach. Thus both local and global relations of the exporting firms are more or less asymmetrical, with respect to power.

On the other side in Gaziantep, we observe more independent networks among exporting firms due to the relatively integrated firm structures. Although they do not prefer much, generally small and medium-sized firms make subcontracting businesses with each other when they need. However, these relations are not dependent like in Denizli case, but rather interdependent. Besides, more than becoming the subcontractors of international firms, Gaziantep firms act more independently in the global markets.

Domestically-focused networks underlines the local embeddedness which is created by the intense networks of the firms. Depending on the intensity of relations we may conclude that local embeddedness is relatively higher in Denizli when compared to Gaziantep.

*In market relations*, with the export orientation policies beginning in the 1980s, entrepreneurs in many sectors eagerly changed their markets and engaged in exports since then. In entering to new markets especially in the early 1980s, the leading firms that began exporting intensively used their social networks, which provide them the necessary assistance. These networks were including strong ties of relatives or acquaintances living in foreign countries. They were important bridges for making the first connections with these countries. At the later stages different methods like participating to international fairs, using internet or establishing direct relations by making visits have begun to be used to find the niches in the global markets.

Entrepreneurs choose different ways for increasing the reachability and facilitate the spread of information and resources in network. In all stages of interfirm networks; either raw material supply, or production, or marketing, we see broker roles are central positions in the network, as they link persons having similar interests and transfer information. They act as bridges built over structural holes especially at the initial stages of different relations. However, these brokerage relations do not establish by weak ties only as Burt (1992) or Grannovetter (1973) argues. Instead we see strong ties i.e. of relatives, also acting as brokerage in the initial stages of

exporting. Entrepreneurs use these connections and at the following stages instead of using brokers, they make their direct connections.

### **Extrafirm networks: supporting mechanisms or not?**

There are several institutions taking place in the localities in order to provide support in various types. Especially after the 1980s, there has been a sharp increase in these institutions. State has a role of providing incentives, other public institutions having local representatives act as increasing knowledge and capabilities of enterprises thus, competitiveness by providing various services and infrastructure. Several institutions specialised in exporting activities obtain information, find new markets or just facilitate bureaucratic process. Both compulsory and voluntary business associations establish networks among entrepreneurs, represent their member entrepreneurs in different platforms watching their interests.

In localities living more intensive production relations like in Denizli, more and more institutions appears in terms of serving to different interests. All of these voluntary associations, business associations, public agencies and other social units create high local synergy and increase the probability of people making business contacts and exchanging information. They act as the carriers of learning process. However, due to the lack of these supporting mechanisms especially in the beginning of the exporting, most of the entrepreneurs had learned the procedures by themselves which generated individualistic behaviour (Özelçi, 2002). They still intensively use their social networks instead of utilising these institutions.

It is seen that relations of the entrepreneurs are generally not intensive and strong with the compulsory associations. On the other side most of the entrepreneurs are more ambitious to attend the voluntary business association activities and try to build relatively stronger relations. This is because voluntary associations gather the actors that share similar interests. Familiarities with partners taking place in the same platform breeds strong bonds of mutual understanding and trust that greatly facilitates cooperation. However, the same strong bonds may also serve as a filter for information and perspectives reaching the actors, generating a cognitive lock-in that isolates them from the outer world (Grabher, 1993). Firms may need to evolve networks beyond their community. They may need external sources of learning, knowledge and innovation.

Besides these business related formal institutions some informal relations including traditional socialisation patterns like kinship, hemşehri, acquaintanceship relations also family relations have helped the development of cooperation and adaptation to changing conditions.

### **Changing spaces: the local in global**

Geography plays a crucial role in influencing the formation of networks. Since the ingredients and/or members of a particular network are highly place-bound, networks and their relations are (re)constructed in localities and spread over space.

The local embeddedness of network relations refers to the multi-dimensional intersections and transformations of extremely complex networks of firms contingently constructed and constituted in differentiated geographical territories. The local socio-cultural milieu is a major influence on how firms evolve and behave even.

In both Denizli and Gaziantep, production relations dominantly take place in the local environment, whereas their market stretches beyond the local boundaries. Although their business operations are geographically very extensive, they continue to contain elements of the local within their modes of operation. The examples of choosing different spaces for the new investments do not change the reality of the main production units taking place in localities.

Entrepreneurs prefer to be close to each other for sustaining the effectiveness of their networks. Social and geographical proximity also facilitates the building of networks as entrepreneurs have a greater opportunity to develop face-to-face relations with those whom they work. Face-to-face relations make network organisations work, by quickly establishing the roles and identities in networks, by providing effective negotiation in case of uncertainty and ambiguity and by quickly mobilising the collective action to seize opportunities and deflect threat (Nohria and Eccles, 1992). Entrepreneurs' being close to each other help them to activate their latent networks for new projects/interests (Starkey, et al. 2000).

As a result, spatial proximity cause the diffusion of knowledge among firms in the localities. Agglomeration of firms in the localities offers external economies and provides a base for supportive business networks. Together these facilitate the low-

cost even costless transactions, efficient information channels and exploitable information and “knowledge capital” for innovation. However, at the same time this might bring some negative results like the imitation of other businesses and products instead of innovation.

All of these various forms of networks including social, economic, spatial dimensions provide local embeddedness. This helps the entrepreneurs for being competitive and in these cases for becoming successful by exporting. However, too much embeddedness can lock firms into a situation of blocked development processes. While they are being embedded socially interactive also necessitate global search for exploitable knowledge and know-how for innovation. Firms must develop new outlooks if they are to optimise on the initial endowments of embeddedness without being restrained by the drawbacks of “lock-in” (Grabher, 1993). For improvements to business performance, innovation and knowledge exploitation through encouraging and incentivising collaboration and networking and through extending the social capital beyond the home-base is needed.

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APPENDIX – A: Sample questionnaires for entrepreneurs and institutions

**GİRİŞİMCİLER ve AĞLARI ANKETİ**

Anket Tarihi: ...../...../2001

Anket No:.....

Firma adı: .....

Sektör: .....

Anket yapılan kişi/görevi: .....

**I. GİRİŞİMCİ(LER) / FİRMA YAPISI**

1) İşyeri sahibi / ortağın doğum yeri:

doğum yılı:

cinsiyeti:  K  E

Evli  Bekar

eğitim durumu/ şehri:

baba mesleği:

2) İşyerinin kuruluş tarihi:

3) Firmanın hukuki yapısı:  ferdi

çok ortaklı / yabancı ortak.....

diğer.....

4) İşinizi kurmak için neden G.Antep'i tercih ettiniz? .....

.....

.....

5) Başka bir yerde fabrikanız, yurtdışı/bölgesel temsilcilikleriniz veya başka bir girişiminiz var mı?.....

.....

.....

6) Kurulduğundan beri firma aynı yerde miydi?  evet  hayır / Neden yer değiştirdi? .....

.....

.....

Şu an yerinizi değiştirmeyi düşünüyor musunuz? Neden? Nereyi tercih edersiniz?.....

.....

.....

7) Bu işe başlamadan önce çalıştığınız işler (ne zaman, nasıl başladı?):.....

.....

.....

Şu anda bu işyerleriyle ilişkileriniz devam ediyor mu? Hangi konularda yardım alıyorsunuz?.....

.....

.....

8) İşyerinizi kurarken sermayeyi nereden sağladınız? Herhangi bir güçlükle karşılaştınız mı?.....

.....

.....

9) Firmanın hikayesi (kuruluş, nasıl bir gelişme ve dönüşüm yaşanmış?) .....

.....

.....

## II. FİRMA İÇİ İLİŞKİLER

10) İşyerinizde kaç kişi çalışıyor? .....  
Görev dağılımı: .....  
Kadın / Erkek: .....  
Eğitim düzeyleri: .....  
Geldikleri yerler: .....

11) İşyerinizde akraba, eş-çocuklardan çalışanlar var mı? .....

12) Ortak/ diğer çalışanlarla birlikte çalışmaya nasıl başladınız? İşçilerinizi nasıl işe alırsınız?.....

13) İşçileriniz arasından işten ayrılıp kendi işini kuranlar oldu mu? Size rakip hale gelebildiler mi?.....

14) Firmanın organizasyon yapısı/ iş dağılımı/ firma içi birimler nasıldır? İş alma, iş görüşmeleri, para, pazarlama gibi konuları kimler üstlenir? .....

15) Çalışanlarınızla / iş çevresinden insanlarla iş dışında bir araya gelir misiniz? Hangi zamanlarda?.....

Öğle yemeklerini nerede, kimlerle yersiniz? .....

## III. FİRMALARARASI İLİŞKİLER

### *Hammadde*

16) Hammaddeyi nereden temin ediyorsunuz? Eskiden nereden temin ediyordunuz? Neden değiştirdiniz?.....

a)Ne zamandır aynı yerle çalışıyorsunuz? Hep aynı insanlarla mı bağlantı içindediniz? Eskiden nasıldı? .....

b)Bu bağlantıyı nasıl kurdunuz? .....

d)Aracı bir aktör var mı? .....

## Üretim

Sektörünüze ilişkin üretim aşamalarını sıralar mısınız? .....

.....  
.....  
.....

17) Üretimin tamamı kendi firmanızda mı yapılıyor?  evet  hayır

a) Dışarıya fason iş veriyor musunuz?  evet  hayır

Hangi işleri? Hangi sıklıkta? .....

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.....  
.....

Kime? Nerede? Firma büyüklüğü? .....

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.....

Ne zamandır aynı yerle çalışıyorsunuz? Sadece sizin için mi çalışıyor? .....

.....  
.....  
.....

b) Fason iş alıyor musunuz?  evet  hayır

Hangi işleri? Hangi sıklıkta? .....

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Kimden? Nereden? Firma büyüklüğü? .....

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Ne zamandır aynı yerle çalışıyorsunuz? Sadece onun için mi çalışıyorsunuz? .....

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c) Fason bağlantılarınızı nasıl kurdunuz? Aracı bir aktör var mı? .....

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.....  
.....

Genelde hep aynı insanlarla mı bağlantı içindediniz? Eskiden nasıldı? .....

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.....

d) Bu gibi işlerde herhangi bir yazılı anlaşma, kontrat yapılıyor mu? Karşılaşılan sorunlar var mı? .....

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.....

G. Antep dışında herhangi bir firmayla üretimle ilgili bir ilişkiniz var mı? Hangi konuda?

Bu bağlantı ne zaman kuruldu? .....

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.....  
.....



**Pazar**

18) Üretiminizin yüzde kaçını yurtdışına yapmaktasınız? Hangi ülkelere?.....

.....

a)İlk yurtdışı bağlantınızı (ihracatınızı) ne zaman yaptınız? Nasıl başladı? .....

.....

b)Aracı bir kurum/aktör var mı? Eskiden de böyle miydi? Aracılar daha sonra devreden çıkıyor mu?.....

.....

c)Ürününüzü satabileceğiniz piyasalar hakkında nasıl bilgi sağlıyorsunuz? Rakip firma, kamu kurumları, yayınlar, müşteriler, sergi, fuar, internet, diğer firmalar, vb. ....

.....

19) Geçmişle karşılaştırıldığında pazar alanınıza ilişkin mekansal açıdan nasıl bir değişim yaşandı?.....

.....

20) İş ilişkisi içinde olduğunuz 3 firmayı sıralar mısınız? Hangi konularda? Hangi sıklıkta görüşüyorsunuz?.....

.....

21) Dayanışma /yardımlaşma ilişkisi içinde olduğunuz firmalar var mı? Hangi konuda yardımlaşırsınız? Bunlar 20. Sorudaki firmalarla aynı firmalar mı?.....

.....

22) Kendinize rakip olarak gördüğünüz firmalar hangileridir? Büyüklük? G.Antep içi/ G.Antep dışı: .....

.....

23) Bir ihale, proje, iş teklifi vb. söz konusu olduğunda nereden/kimlerden haber alırsınız?.....

.....

24) Yeni ürün, yeni teknoloji, yeni pazar, vb. konularda bilgiye nasıl ulaşıyorsunuz? Buluşculuk, ARGE, .....

.....

25) Üretim alanınıza ve bu konuyla ilgili firmalara bakıldığında son yıllarda olan değişiklikler neler? Memnun musunuz? İşyerinizi kar eder görüyor musunuz? Geleceğe yönelik üretim alanınız ile ilgili beklentileriniz neler?.....

.....

.....

#### IV. FİRMADIŞI İLİŞKİLER

26) Sanayi ya da Ticaret Odasına hangi sıklıkta gidersiniz? Hangi faaliyetlerine katılıyorsunuz?.....  
.....  
.....

27) Mesleğinizle ilgili veya meslek dışı başka hangi derneklere/kurumlara kayıtlısınız? Ne gibi sosyal aktivitelerde yer alıyorsunuz?

1. Dernek- Kulüp- Yardımlaşma Kurumu .....
2. Başka Meslek Odaları .....
3. Diğer .....

Bunların iş ilişkilerinizde etkisi var mı? .....

28) Yerel yönetimlerle hangi konularda bağlantılarınız var? .....

29) Bu tür kurumlardan (merkezi/yerel/sivil toplum) herhangi bir konuda finansal destek görüyor musunuz? Fuarlara katılırken, yeni bir buluş geliştirirken, vb. ....

30) Politikayla aktif olarak ilgileniyor musunuz , ailenizde politikacı var mı? Bunun işinize etkisi var mı?.....

31) Ailenizin, akrabalarınızın iş almanıza etkisi oldu mu, olur mu? Ailenizden hangi konularda yardım gördünüz, görürsünüz? .....

32) Önceki iş yaptığınız kişiler/firmalar/kurumlarla ilişkileriniz daha sonra da devam eder mi? Ne şekilde? .....

33) İş çevresinde karşılaştığınız sorunlarda ve anlaşmazlıklarda kime başvurursunuz? (1. aile, 2. arkadaş, 3. çalışanlar, 4. ortak, 5. ilgili uzmanlar, 6. meslekdaşlar, 7. diğer)

1. mali sorunlar: .....
2. hukuksal sorunlar: .....
3. üretimle ilgili sorunlar: .....

34) Aniden (yükü miktarda) nakit para gerekirse kimlerden alırsınız? .....

35) Üretimi yetiştirememeye durumunda kimlerden yardım istersiniz?.....

## ANKET DIŐI GÖRÜŐME SORULARI

- İŐinizle ilgili kimlerle sohbet edip, tartiŐırsınız?
- Yeni iŐ ğevrelerine nasıl girersiniz? Daha ğok siz mi giriŐimde bulunursunuz yoksa baŐkaları mı sizinle baŐlantı kurar?
- Sektörde etkin olarak gördüğünüz (yenilikçi, yönlendirici, öncü,...) isimleri sıralar mısınız? Diđer üreticileri yönlendirici etkisi nedir? Tüm üreticilere hitap ediyor mu? KarŐı tavrı gruplaŐma var mı? Herhangi bir Őekilde bilgi, hammadde, pazar, vb. bu insanlar tarafından kontrol ediliyor mu?
- Kriz döneminde üreticilerarası bir dayanıŐmanız oldu mu? Hangi konularda? Yeni oluŐumlar gündeme geldi mi?
- Bölgede dıŐarıdan gelen yatırımcıya nasıl bakılıyor? Yerel iŐ ğevresine rahatğa girebiliyor mu, yoksa dıŐlanıyor mu?
- Aynı Őekilde siz baŐka bir pazara girerken zorlandınız veya dıŐlandınız mı?
- Sorunlarınızı nerede tartiŐırsınız? Sektördeki herkese ulaŐılabiliyor mu? Demokratik bir ortam var mı?
- Üreticiler arası iliŐkiler genelde size göre nasıl? Birbirlerini rakip olarak mı görüyorlar yoksa aralarında dayanıŐma var mı? Varsa, hangi konularda?
- Üreticiler arası birbirlerini tutan belli gruplar var mı? Bu gruba isteyen girebiliyor mu?
- Aynı yöreden olmanın (hemŐehirlik) sosyal ve iŐ hayatınızdaki önemi sizce nedir? Örneğın iŐi kurarken, hammadde alım-satımında, üretim süreci veya pazara ulaŐmada, ya da iŐi alırken hemŐehirlik sizce önemli mi?
- İŐyerinin devamiyetinin saėlanmasında, baŐarılı olmada sizce ne tip iliŐkiler geliŐtirilmeli, nasıl bir ğevre iğinde bulunulmalı?
- BaŐarılı bulduğunuz insanlar/giriŐimciler nasıl bir ğevreye sahipler iliŐkide buldukları insanlar/ kuruluşlar kimler?

## KADIN GİRİŐİMCİLER İĒİN

- Bir kadın giriŐimci olarak iŐ kurmada ve bu faaliyeti yürütmede zorluklarınız oldu mu?
- İŐ piyasasında tutunmada ve ğevre edinmede kadın giriŐimcilerin erkek giriŐimcilere göre avantajları ve dezavantajları size göre nelerdir?
- Evli iseniz, evliliğınızın iŐ iliŐkilerinize etkileri neler?

## KURUM ANKETİ

Kurum adı: .....

Adres:.....

Telefon:.....

Görüşme yapılan kişi/ Kurumdaki görevi:.....

Kurumun kuruluş tarihçesi (kuruluş amacı, kimler önyak oldu?):.....

.....  
.....  
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.....  
.....

Girişimciler ve diğer yerel aktörlerin rolleri/tavırları:.....

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.....  
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Tüm firmalara ulaşabiliyor musunuz? Kimlere?.....

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.....

Sizi en çok ziyaret edenler (firma, kurum, vd.)? Ziyaret amacı: .....

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Diğer kurumlarla ilişkiler:.....

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Kurumun etkinlikleri (seminer düzenleme, vb.) :.....

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APPENDIX – B: Export and import structures of towns in Turkey

	Export			Import		
	Export (thousand US dollars)	% in total export	Number of exporting firms	Import (thousand US dollars)	% in total import	Number of importing firms
Adana	872,995	3,1	370	1,030,769	1,9	487
Adiyaman	4,393	0,0	9	6,780	0,0	21
Afyon	46,229	0,2	89	23,098	0,04	70
Ağrı	4,677	0,02	28	22,513	0,041	95
Amasya	1,559	0,01	7	2,838	0,01	23
Ankara	992,368	3,57	1346	5,635,022	10,34	3860
Antalya	200,215	0,72	258	274,323	0,50	381
Artvin	2,797	0,01	29	31,383	0,06	71
Aydın	79,274	0,29	122	47,478	0,09	110
Balıkesir	56,585	0,20	95	143,281	0,26	129
Bilecik	3,891	0,01	13	23,749	0,04	21
Bingöl	-	-	-	-	-	-
Bitlis	-	-	-	347	0,0006	3
Bolu	10,130	0,04	66	59,229	0,11	133
Burdur	3,432	0,01	26	2,249	0,004	29
Bursa	1,978,556	7,1	1201	2,240,254	4,1	1379
Çanakkale	26,036	0,09	37	19,487	0,04	46
Çankırı	3,584	0,01	7	3,672	0,01	11
Çorum	23,243	0,08	50	17,335	0,03	72
Denizli	300,691	1,08	313	325,200	0,60	427
Diyarbakır	10,119	0,04	17	11,967	0,02	39
Edirne	8,843	0,03	49	43,370	0,08	37
Elazığ	4,620	0,02	18	12,153	0,02	35
Erzincan	709	0,003	7	3,111	0,01	8
Erzurum	8,552	0,03	30	3,863	0,01	26
Eskişehir	128,657	0,46	117	125,355	0,23	176
Gaziantep	379,355	1,4	457	465,336	0,9	579
Giresun	206,596	0,74	52	41,868	0,08	26
Gümüşhane	-	-	-	296	0,001	4
Hakkari	4,358	0,016	17	11,214	0,02	32
Hatay	216,824	0,78	327	185,874	0,34	227
Isparta	30,286	0,11	66	100,545	0,18	71
İçel	189,090	0,68	401	261,870	0,48	354
İstanbul	15,751,936	56,71	13644	29,613,669	54,33	22412
İzmir	2,918,719	10,51	2226	2,794,755	5,13	2772
Kars	1,495	0,01	6	989	0,002	10
Kastamonu	14,506	0,05	7	15,153	0,03	16
Kayseri	250,934	0,90	269	345,369	0,63	298
Kırklareli	20,418	0,07	26	33,295	0,06	43
Kırşehir	9,571	0,03	14	8,476	0,02	20
Kocaeli	396,915	1,43	243	5,620,473	10,31	434

Konya	89,702	0,32	347	177,729	0,33	387
Kütahya	36,102	0,13	39	22,697	0,04	43
Malatya	63,899	0,23	53	44,248	0,08	55
Manisa	266,705	0,96	127	189,137	0,35	147
K.Maraş	103,047	0,37	99	162,850	0,30	140
Mardin	48,124	0,17	76	43,991	0,08	153
Muğla	25,749	0,09	85	13,734	0,03	151
Muş	-	-	-	692	0,001	3
Nevşehir	4,902	0,02	34	9,667	0,02	44
Niğde	19,682	0,07	6	13,681	0,03	16
Ordu	90,814	0,33	68	49,496	0,09	54
Rize	34,085	0,12	67	7,321	0,01	37
Sakarya	78,646	0,28	114	72,684	0,13	206
Samsun	222,170	0,80	86	211,439	0,39	164
Siirt	310	0,001	3	697	0,001	4
Sinop	1,154	0,004	8	1,152	0,002	8
Sivas	5,009	0,02	16	132,126	0,024	34
Tekirdağ	53,834	0,19	63	93,548	0,17	119
Tokat	5,449	0,02	16	8,382	0,02	42
Trabzon	121,820	0,44	133	38,630	0,07	127
Tunceli	-	-	-	-	-	-
Ş.Urfa	17,164	0,05	44	80,304	0,12	206
Uşak	38,166	0,14	82	42,679	0,08	138
Van	1,938	0,01	23	35,038	0,06	69
Yozgat	10,343	0,04	25	23,000	0,04	35
Zonguldak	22,041	0,08	34	673,907	1,24	62
Aksaray	3,993	0,001	32	3,937	0,01	33
Bayburt	573	0,002	4	-	-	-
Karaman	34,215	0,012	39	10,039	0,02	30
Kırıkkale	189	0,001	5	3,240	0,006	22
Batman	507	0,002	7	-	-	-
Şırnak	14,538	0,05	36	43,641	0,08	98
Bartın	813	0,003	5	4,190	0,008	12
Ardahan	-	-	-	-	-	-
Iğdır	26,653	0,09	90	2,877	0,05	12
Yalova	6,934	0,02	10	6,613	0,01	29
Karabük	7,801	0,03	10	5,838	0,01	17
Kilis	9,765	0,04	4	3,253	0,01	13
Osmaniye	-	-	-	-	-	-

Source: Ticari, ekonomik ve sosyal göstergeler itibariyle illerimiz, T.C. Başbakanlık Dış Ticaret Müsteşarlığı, 2001

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## VITA

Çiğdem Varol was born in Ankara on February 28, 1972. She received her B.CP degree at the Department of City and Regional Planning, Gazi University as a second rank honour student in 1992. She received her M.RP degree in the Regional Planning Program of Middle East Technical University in 1996. The title of this study is 'Entrepreneurial Networks in Professional Businesses: A Case Study of Urban Planners in Ankara'.

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