

LOCAL ECONOMIC DEVELOPMENT  
YIMPAS CASE

A THESIS SUBMITTED TO THE GRADUATE SCHOOL OF NATURAL AND  
APPLIED SCIENCES OF THE MIDDLE EAST TECHNICAL UNIVERSITY

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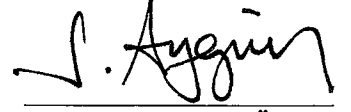
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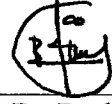
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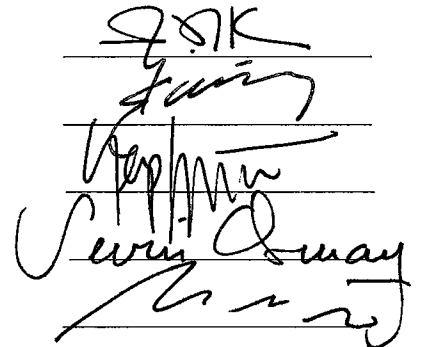
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## **ABSTRACT**

### **LOCAL ECONOMIC DEVELOPMENT, YIMPAS CASE**

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Local economic development, generally speaking, is mentioned together with SMEs (Small and Medium Size Entrepreneurs) in many countries all over the world together with Turkey. It is true that SMEs have had considerable impacts in development of many towns, yet there may be other ways for achieving economic development.

In Turkey, besides SMEs, another path to economic development which is endemic to Turkey has been observed; development with Labour Investment Partnerships (LIPs). LIPs are in fact private firms founded with savings of workers who had gone abroad, especially to West Europe. Characterized on the one hand with hierarchical structuring in administration and on the other hand with a social network among the share holders (partners), LIPs may have considerable influences on development of towns.

This thesis examines whether LIPs can be considered as a medium in local economic development. Yimpas is examined as a case study about which the information had been acquired through interviews made with responsible persons related with the subject. Since LIPs are generally mentioned with *Islamic capital*, debates on this subject are also reviewed.

**Key Words:** Local economic development, Yimpas, LIPs, organization form of firms (hierarchy, heterarchy, market).



## ÖZ

### YEREL EKONOMİK KALKINMA, YIMPAS ÖRNEĞİ

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Yerel ekonomik kalkınma, Türkiye de dahil olmak üzere dünyanın birçok ülkesinde KOBİ'lerle (Küçük ve Orta Büyüklükte İşletmeler) beraber anılmaktadır. KOBİ'lerin son dönemde yerel sermayenin değerlendirilmesi ve ekonomik kalkınmanın sağlanmasındaki payı yadsınamaz, ancak ekonomik kalkınma için tek yol bu değildir.

Türkiye'de, KOBİ'lerin dışında, Türkiye'ye özgü bir başka yol daha gözlenmiştir: İşçi Yatırım Ortaklıklarıyla (İYO) kalkınma. İYO'lar, yurtdışına, özellikle Batı Avrupa'ya çalışmak için gitmiş işçilerin birikimleri ile kurulan özel şirketlerdir. Karar ve yönetim aşamasında hiyerarşik yapılanan, ancak ortakları arasında sosyal bir ağ yapılanması söz konusu olan bu şirketler, ekonomik kalkınmada önemli etkilere sahip olabilirler.

Bu tez, İYO'ların yerel ekonomik kalkınmada bir araç olup olmayacağını incelemektedir. Örnek olarak, Yimpaş çalışılmıştır. Yimpaş hakkındaki bilgiler konuyla ilgili ve sorumlu kişilerle yapılan ikili mülakatlarla elde edilmiştir. İYO'lar, genelde *Yeşil Sermaye* ile anıldığı için bu konudaki tartışmalar da incelenmiştir.

Anahtar Kelimeler: Yerel ekonomik kalkınma, Yimpaş, İşçi Yatırım Ortaklıkları (İYO'lar), Organizasyon formlar (hierarchy, heterarchy, piyasa).



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## LIST of ABBREVIATIONS

- AKP: Adalet ve Kalkınma Partisi  
CAR: Central Anatolian Region  
CMB: Capital Markets Board of Turkey  
DM: Deutche Mark  
EAR: East Anatolian Region  
GDP: Gross Domestic Product  
İİBK: İş ve İşçi Bulma Kurumu  
ISE: İstanbul Stock Exchange  
İYO: İşçi Yatırım Ortaklığı  
KOBİ: Küçük ve Orta Büyüklükte İşletme  
LDCs: Less Developed Countries  
LIP: Labour Investment Partnership  
MGK: Milli Güvenlik Kurulu- National Security Council  
MÜSİAD: Müstakil İşadamları Derneği (Independent Businessmen's Association)  
NEC: North East Central  
OIZ: Organized Industrial Zone  
REFAHYOL: Refah and Doğruyol Parties government  
R&D: Research and Development  
PRD: Priority Regions in Development  
SIS: State Institute of Statistics  
SMEs: Small and Medium Size Entrepreneurs  
SPO: State Planning Organization  
TCE: Transaction Cost Economics  
TDN: Turkish Daily News  
TÜSİAD: Türk Sanayi İşadamları Derneği (Turkish Businessmen's Association)  
YCCI: Yozgat Chamber of Commerce and Industry

## **CHAPTER 1**

### **1. INTRODUCTION**

#### **1.1. AIM OF THE STUDY**

In the last two decades together with many other countries, Turkey experienced local economic development processes stemming from entrepreneurial soul of local people and network organizations of SMEs. This sort of development is distinct from what occurred in previous decades where state intervention and direct state undertakings were the determinants in economic development. Beginning with success of Denizli, today in Turkey several medium sized towns including Gaziantep, Kayseri, Çorum etc. are on a growing trend with their local capabilities, entrepreneurships and horizontal networks created among SMEs.

However, local economic development is not necessarily achieved with SMEs. There can be another path in which a hierarchical structuring founded with social network of the local people plays the primary role. This is different from both direct state interventions and horizontal networks of localities. There is a good example of this sort which is examined as the case study of this thesis as well; Yimpaş.

Although today Yimpaş is one of the biggest holding companies in Turkey, it was founded as a Labour Investment Partnership (LIP) in 1982, with savings of people originally from Yozgat who were working abroad. Yimpaş has had considerable influence on the economic development of the town Yozgat, since, unlike other

commercial companies, it is strongly related with its place of origin. It is a holding company; yet, in addition to vertical integration within daughter firms, there is also horizontal collaboration and integration among its participants. It has also socio-cultural effects on Yozgat people apart from economic impacts. Further, it is characterized, on the one hand with highly doubtful attitude to out-siders, and on the other hand, highly trustworthy relations among its participants. The organization form of Yimpaş is somewhat distinct from usual cases; it can not be described with half-tone organization forms. Further, the case study, Yimpaş, has not been studied from the perspective of firm-town relations before in academic literature. Therefore, Yimpaş Holding defines a process, which must be studied with its positive and negative aspects.

This thesis aims to tackle the following questions for background:

- What are hierarchy, market and network as three main forms of production organizations? What are characteristics of them?
- How has the idea of LIPs generalized? What is the place of Yimpaş in other LIPs?

While tackling those questions, this thesis also attempts to take an account of three critical points in particular:

- Where does Yimpaş stand among those organization forms? What are its distinctive characteristics?
- What is the socio-economic situation of Yozgat before and after the foundation of Yimpaş?
- Can Yimpaş be an alternative development model for local economic development and what is its applicability?

The overall question is: Can such an organization form (hierarchic structuring which is also dominated by a social network) initiate local economic development like SMEs in networks achieved in several towns such as Denizli and Gaziantep?



## 1.2. SCOPE OF THE STUDY

The term 'local economic development' is used to mean utilizing local resources in undertakings of local entrepreneurs without direct state interventions in that locale. Local economic development can be considered as a function of natural resources, labor, capital investment, entrepreneurship, transport, communication, industrial composition, technology, size, export market, international economic situation, local government capacity, national and state government spending and development supports (Blakely, 1994). In addition to these, perhaps, the ability of local people in constructing local sense of network, local features such as degree of townsmanship, trust etc. can be included, too. In local economic development, emphasis is on endogenous policies using potentially available human, institutional and physical resources. It is a process in which new institutions are developed, better products are produced, new markets are identified and new firms/enterprises are nurtured (Blakely, 1994). As Giloth and Meier (1989) argue, the primary goal of local economic development is increasing the number and variety of job opportunities available to local people. Thus, local economic development and foundation of new firms always mentioned together.

The importance of local economic development has increased mainly after global relations had forced firms to create alternative ways of organizing themselves in order not to lose their competitive power in fierce competition environment. Since the late 1970s, as Blakely argues (1994) there is a move towards an 'enterprise' state and the history of last three decades is full of successful stories of small and medium sized entrepreneurs (SMEs) apart from stories of power symbol of the previous era; large entrepreneurs. This topic attracted attention of a variety of disciplines including city planning, geography and economy and today, the literature on local economic development with SMEs/industrial districts/clusters is a bulk (Amin and Thrift; 1992, Eraydın; 1997, 1998, Pınarcıoğlu; 2000, Schmitz; 1995, 1999, Storper; 1996, 1999, Visser; 1999 etc.). However, many of these studies have dealt with local economic development achieved through horizontally integrated firms and subcontracting issues. It is true that local economic

development usually associates with SMEs, yet horizontal network is not necessarily the only path to local economic development.

The difference between these two ways of local economic development, (horizontally networked firms and hierarchic firms) in fact, lies in the decision of firms about carrying their transactions. Thus, in this thesis, it is necessary to examine different forms of carrying transactions open to firms. Transactions can be carried in various ways. It is like a spectrum, on the one end there is 'Market', and on the other there is 'Hierarchy'. Market is a coordination mechanism that tries to utilize rationality and consistency for self-interest individuals and firms in economic relations (Powell, 1991). In a market relation, which depends on demand-supply balance, individuals decide on activities and there is no authority regulating activities. Market, apart from its inefficiencies especially in the provision of public goods and problems like natural monopolies, is a good coordinator in which there is no need for collaboration/trust/cooperation. In a hierarchic relation, on the other hand, as Powell (1991) denotes, the visible hand of management substitutes the invisible hand of market as a coordinator of demand and supply. In a hierarchic organization, administration divides tasks among departments, makes the work schedule and creates an order in which sub-units are responsible to super divisions.

This is an interdependent form of organization; mother and daughter firms are bounded each other on joint assets. In addition to these two main forms of organization (Market and Hierarchy), there is another: the choice of SMEs, namely network type of organization. Although it resembles to market since transactions are carried across other firms, is distinct from both. It is like webbing in which several firms are connected to each other with cooperation. As Noteboom (1992) argues, network relations develop competence in a dynamic environment, seeking for cooperation opportunities. Hence, network relations mainly depend on trust available between parties.

In this thesis, these three organization forms are examined in order to understand the dilemma that firms may face, and in order to evaluate the differences between local economic development paths stemming from firms' structures. While doing this, it is necessary to evaluate the history of LIPs since Yimpaş was founded as a LIP. Examining LIPs in general, helps to see the process of Turkish migration to West Europe beginning in 1970s, the socio-economic conditions workers were in and their efforts on utilizing their savings. Additionally, it is necessary to evaluate the situation of LIPs because in several cases they are mentioned with *Islamic or Green Capital*. Without doing those, it would have been difficult to assess the development of Yimpaş.

Further, in this thesis, the foundation and history of Yimpaş, sectoral functioning areas, and internal and external elements, which influenced the development of Yimpaş, are analyzed. In addition to these, the socio-economic situation of the town of Yozgat before and after Yimpaş is taken into account.

### **1.3. METHODOLOGY and THE DATA USED**

In order to verify the tasks of this thesis, interviewing was used primarily for acquiring information. In-depth interviewing provides qualitative information, which can not be, acquired elsewhere. Further, since the archive of Yimpaş has not been properly developed yet, the necessary information could have been gathered only by interviews. Today among Yimpaş employees required information especially on the first years are gathered orally, too.

The interviews lasted not less than thirty minutes and not arranged in a questionnaire form. The questions were not exactly same for each interviewee. In interviews with Yimpaş members, questions on the process of foundation and development process, how they evaluate the situation of Yimpaş today, future plans, what made it successful, whether it can be an alternative development model etc. was asked.

For the second group, who are not directly related with Yimpaş, questions like their opinions on development of Yimpaş, positive and negative aspects associate with its development and information on its foundation etc. were asked. For people from Yozgat or who lived there for a particular period of time enough to observe the changes in Yozgat, the impacts of Yimpaş on the town, that is, whether Yimpaş caused a transformation in Yozgat were asked as well. Several questions were asked to all groups for verification. List of interviewees and the questions asked are presented in Appendices A and B.

In addition to those primary data sources, for assessing the socio-economic situation of Yozgat, statistics from SIS including general industrial establishment census, GDP and population statistics were employed. The required data from SIS was acquired in digital format (xls. format) but not taken through its publications. Reports of State Planning Organization (SPO), State Institute of Statistics (SIS), and Yozgat Chamber of Commerce and Industry (YCCI) were used, too. These data was used for determining industrial potential, relative industrial significance and development of Yozgat. Further, broadcasts of some local and national TVs and newspapers were reviewed. Finally, visual material (such as photographs) in relation to the issues was displayed.

## CHAPTER 2

### 2. DIFFERENT FORMS OF PRODUCTION ORGANIZATIONS

Manufacturing is a complex phenomenon under which different tasks are carried on. Apart from manufacturing of particular parts of the complete product, there are also related activities like distribution of products, marketing, provision of maintenance services etc. So, sometimes it is necessary for firms to work together with other firms in order to share some activities out which are necessary for the manufacturing of the product. This is the organization of the firm, which is also defined by Marshall (1964) to be the fourth factor of production. For organization, roughly, the firm can sub-contract some activities to another firm on the basis of written contracts which determines the regulations and duration of the relationship, or alternatively, it can establish/buy a firm which will be responsible for that particular task as a subsidiary of the mother firm. These forms are the two opposite ends of the spectrum, market and hierarchy, respectively. There are of course mixed forms in between which have some characteristics of both ends.

The decision to determine the most convenient form for the firm is hard to give and it may result in a dilemma since the efficiency and appropriateness of alternatives depend on particular sectors, local characteristics and the governments' attitude. Thus, the preference of the firm may not yield expected results in all circumstances. Further, all alternatives have both beneficiary and adverse features which gain/lose importance in time. That is to say, a very efficient and convenient form which is once considered to be the best, may turn out not to be later.

In the following sections, three main organization forms will be discussed: market, hierarchy, and heterarchy (networks). The organization of Yimpaş holding company is distinct from the three, having characteristics both from hierarchy and heterarchy.

## **2.1. MARKET**

Market is the first of organization types, which will be examined for the aims of this thesis. It is appropriate to begin with it, since this allows us to follow the major shifts in the organization forms clearly.

Market is a mechanism for exchange of goods and services between independent parties of a commercial relationship on the basis of oral/written agreements. In market, parties are as they are strangers to each other, they come together only for an economic activity after which no further relationship is expected. As Powell (1991) denotes, it is open to all comers, yet it does not build up strong links among them. There is no need for trust in an exchange, since contracts try to minimize risks involved. This type of organization is preferable when there are short-term commitments and when the concentration of firms is on price (Morgan and Cooke, 1998). The shortness of the relation duration and the price concentration prevents firms' creating collaborative environment. Market is the best organization type if firms seek profit maximization ONLY with price concentrations.

In addition, market type of commercial relationships is known to be poor in information sharing; especially exchange of tacit knowledge is almost impossible under competitive market conditions. For Powell (1991), this is because of using of a simplifying mechanism; price, which is unsuccessful at making use of complex, idiosyncratic and dynamic exchange including transfer of technological knowledge and know-how.

Markets offer choice and flexibility according to Powell (1991). Prices determine the exchange; there is no need to be dependent to others. Market allows

individuals decide by themselves. Thus, market type of relations is generally preferred in Western countries that are known to be individualistic societies (Fukuyama, 1995) and thus who avoid close relations with other parties. Lacking co-operative working ability, contrary to group oriented societies like Japan; market is perhaps the best alternative for such individualistic countries.

Although market is a good allocator of resources, it involves some prerequisites such as presence of perfect competition, perfect information, and no barriers to entry/exit in order to operate efficiently. These prerequisites are hardly provided in real terms, thus; generally speaking, operation of market yields worse results than it promises.

Markets fail, firstly because of presence of externalities. By the term externality, the influence of an economic action to other individuals is meant. Externalities may be positive or negative, in other words they may impose costs or involve benefits, yet the common thing is, as Levacic denotes (1991), that they are not reflected in market prices. Popular example for a negative externality is the adverse effect of the smoke of coal mining to people living nearby, and for a positive externality increase of value of a particular type of good such as housing due to infrastructural changes nearby.

Another problem related with externality topic is the excludability. In some goods like law and defence, individuals cannot be excluded from consuming it. Likewise, consumption of commons (air, sea etc) can not be prevented since property rights in them are not assigned to individual owners (Levacic, 1991). Further, there is rivalry in consumption of some of these goods like houses, food in which one's consumption decreases the consumption of the other. However, there are goods, which are non-rivalry in consumption like public goods (defence, public health etc.) and toll goods (motorways etc.).

As a result of this four-sided classification, the following table occurs:

**Table 2.1.** Private, common, public and toll goods

	Rivalry in consumption	Non-rivalry in consumption
Excludable	Private goods: e.g. ..., houses	Toll goods: e.g. Golf courses, motorways
Non-excludable	Common goods: e.g. fisheries, wild animals	Public Goods: e.g. defence, public health
<b>Ref:</b> Levacic, 1991:39.		

Market can not price all these goods; can not provide some other (like public goods) either. Thus, again, market inevitably fails.

Secondly, markets require competitive environment in order to operate efficiently. As Levacic (1991) argues, opportunity costs of goods should be reflected in prices in order for markets to allocate them efficiently. Yet, in the lack of competition, it is not possible. Related with competition, there is another significant problem which markets can not prevent natural monopolies. In provision of some goods (like telephone and water supplies), it is inevitable that monopolies occur. Public ownership as in the case of UK or private ownership under government regulation as in case of USA still can not solve the problem of natural monopolies. Therefore, again, markets can not work efficiently.

Thirdly, markets may fail due to inadequate information. For efficiency of market, all buyers and sellers must have enough information in order to make their voluntary exchanges. Levacic (1991) states that the outcome of market transactions is unavoidably uncertain hence required amount of information exchange can not be established. Regulations about product standards, firms' informing consumers about conditions or safety and health legislations for worker's working in safe conditions are all developed to eliminate the inefficiency problem yet they are only justified on paternalistic grounds in Levacic (1991) terms. Inadequate information problem can also occur in case of uncertainty about future. Since firms seek short-term profits, they may not be interested in long-term



projects, which will provide profit later. For this reason, private firms do not undertake provision of some goods like nuclear reactors and aerospace crafts etc.

As a result, market, in spite of being a good allocator of resources, can not work efficiently in the lack of its prerequisites and further can not yield expected results in particular countries due to cultural reasons. However, it is still the fundamental part of all economic organizations.

## **2.2. HIERARCHICAL ORGANIZATION**

Hierarchical structuring is the second type of organization types, which will be explained. Hierarchy is used for arrangements where one takes over the ownership of physical assets and supervises the activities of other party (Dow, 1983). A hierarchical structuring, according to Powell (1991), means clear departmental boundaries, clean lines of authority, formal decision makings and developed reporting mechanisms. Hierarchical structuring, in other words means that different stages of production are brought under one control. The control mentioned is not solely administrative control; rather vertical integration also provides power to the mother firm in financial issues, marketing, research and development activities etc.

It is here appropriate to remind that although vertical integration and holding (H form) calls each other, there are also other ways of integration such as U form (Unitary), M form (Multidivisional), M' (Transitional Multidivisional), M form (Corrupted Multidivisional) and the X form (Mixed) (Williamson, 1975). However, details of these forms are beyond the scope of this thesis.

Transaction Cost Economics (TCE), which stems from neoclassic efficiency concerns, deals with the topic of vertical integration and the hierarchy created. This type of organization has generally been evaluated from the point of view of transaction cost savings it creates. By transaction costs, costs involved in trading between buyers and suppliers are meant (Sako, 1992). Authors like Coase,

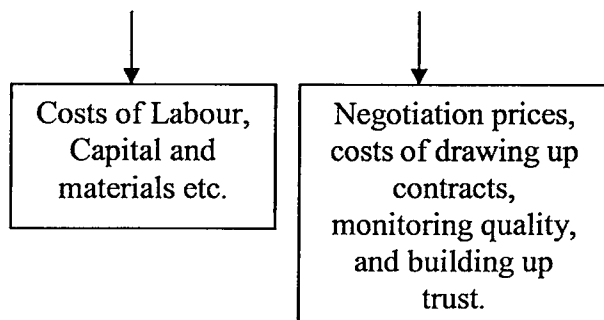
Williamson, and Chandler can be mentioned as the most important names in the TCE literature.

The discussion begins with a question asked by Coase: Why do firms exist at all if market is the best allocator? In other words, if out-contracting, that is market yields the best results then why should not every single part of a product be produced in different firms and put together in another? He answers this question by stating that firms exist because in certain cases, they are more efficient means of resource allocation. According to him, main reason for the establishment of the firm is the cost of using price mechanism, which is market. He points out that

“Outside the firm... production ...is coordinated through a series of exchange transactions on the market. Within a firm those market transactions are eliminated” (1937:388)

Eliminating transaction costs means a lot to firms. As seen from the below equation, reducing transaction costs will lower total cost and then eventually lead to increases in profits.

$$\text{Total cost} = \text{Production costs} + \text{Transaction costs}$$



Thus, according to him, markets fail and then firms replace them since the former involves higher transaction costs.

Transaction costs savings created by hierarchical structuring were emphasized by Williamson (1975), too. According to him, transaction costs increase through bilateral bargaining, since each party has its own profit stream. However,

integrated ownership limits these distortions by merging profit streams of two parties. This prevents firms from behaving opportunistically.

Generally speaking, transaction costs savings of hierarchy stems from decrease in number of contracts made. However, it is not to say that vertical integration fully eliminates transaction costs, rather it may have transaction costs of its own. Nevertheless, these are still, relatively lesser than those created on market.

### **2.2.1. Reasons Lying Behind the Preference for Vertical Integration**

This type of organization is preferred when the trust to other parties is low. Trust is a significant factor in bilateral relations of firms, and affects the organization form of the firms. So, before examining the reasons (opportunism, bounded rationality and asset specificity) for vertical integration, it is appropriate here to stop for a while and explain what is meant by trust and why it is important in inter-firm relations.

Trust is defined to be a *scarce resource* since the degree of it varies from country to country and from time to time. It is, by contrast, regarded as a *renewable resource* since it needs to be lubricated continually in order to flourish. Likewise, it fades with non-use. It is also an *intangible capital asset*, which is slowly acquired, yet quickly destroyed. These explanations, although all are true, are for different sorts of trust. Thus, apart from them, Sako's classification makes us understand trust more clearly. According to Sako (1992), there are three types of trust:

- Contractual Trust
- Competence Trust
- Goodwill Trust

First one is the confidence raised by parties, which have involved in a contractual relation about keeping the promises mentioned in the contract. This depends on universalistic ethical rules, which are applicable to business as a whole. Neither

party is expected to do more than the written nor orally given promises, yet lack of it is considered to be one of unpleasing attitudes of the business life which generally requires the punishment of cutting all the relations off with that party.

Competence trust, on the other hand, means the expectation of the one party that the other party will fulfill competently what it promised to do. In other words, it is the trust of one party to the other in its completing the given task on time and in predetermined quality standards. So, the task may be completed and the promise may be kept in this sense, yet the performance of the contractor firm may not win approval. It is crucial to distinguish between contractual and competence trust, since the lack of former demonstrates opportunistic attitude of the other party while the latter stems from inability of the firm which can be rectified in short time if a chance is given.

Third and most important type of trust in inter-firm relations is the goodwill trust. It is the willingness to do more than what has explicitly determined in contracts. It is this trust what distinguishes today's successful examples of horizontal networks from other forms of organizations. Sako gives an example in order to differentiate it from contractual trust. Withholding of crucial information from the other party about success/failure of a risky project involved, is not considered to be opportunistic according to contractual criterion if the partner has not been contracted to supply such information, whereas, it is opportunistic attitude of the trading partner according to goodwill trust. It is important here to remember that although there are differences between three types of trusts, it is really difficult to assess which one is responsible for which particular type of behaviour. Thus, it is more appropriate to consider the three together.

Some countries are lucky since they already have this valuable asset due to their local characteristics. US, Japan, Germany, for instance, are high-trust, group oriented countries, whereas, Anglo-Saxon countries are known to be individualistic societies. According to Fukuyama (1995), all countries can be placed on this scale. He also denotes that, in a low trust society, preference for

network type of organizations will probably not yield expected results, yet still it would be a formula for paralysis and inaction.

Trust, unfortunately, cannot be readily bought and sold (Sako, 1992). In Cooke and Morgan's view (1998), it has to be earned by discharging one's obligations or by eschewing opportunities to exploit short term advantages. The difficulty in acquiring trust, together with high set up costs involved, have made it necessary to develop mechanisms such as law and contract to provide a basis for stability of economic actions, that is to substitute for 'trust'. Vertical integration of firms is another way of avoiding such mistrustful behaviours of parties in an economic relation. As Williamson (1975) points out, vertical integration is necessary firstly because people are '*opportunistic*' (seeking self interest) and they are not trustworthy every time. By the term trust, Williamson does not mean the capability of one party in economic relations (competence trust in Sako's classification), rather he means the willingness to engage in transactions with that party without receiving safeguards (goodwill trust). In his view, due to the opportunistic behaviour, out-contracting may fall below expected and may leave the mother firm in a loss condition. Yet, in vertical integration, the mother firm has the power to control other firms, which prevents their cheating and behaving opportunistically. Rather, since they gather under single ownership, it is beneficial for the two sides to avoid opportunism. Ownership easily removes the problem of selfish attitude of the firms.

Secondly, people are characterized with '*Bounded Rationality*' meaning that there are limits for acquisition and process of information (Williamson, 1975). In other words, there are environmental uncertainties, which humans may ignore. Complete decision tree is really complex to develop. As Simon (1961) argues, human behaviour is intendedly rational but only limitedly so, thus there is always need for organization and administration. So, even trustworthiness in economic life, that is willingness to engage in transactions with that party without receiving safeguards in Williamson's words, is present, this may not be sufficient to fulfill the given

promises due to the unforeseen conditions. In such situations, vertical integration may function as buffer.

Due to bounded rationality, Klein (1991) believes that contracts are drawn up incomplete, in other words, they do not include all the possible contingencies. Hence, contractual relations are subject to holdup (possible hazards to parties due to imperfect contracts) problems. One party may take advantage of the incomplete contracts. Klein (1991) argues that vertical integration eliminates holdup problems and related costs. According to him, primary transaction cost savings of vertical integration is the costs related with contractually induced holdups rather than 'ink costs' associated with contracts. He suggests that instead of rigidity created by contracts and the potential holdup problem, by vertical integration the relationship is more flexible to contingencies.

Thirdly, the asset specificity of firms affects the choice of organization form. By asset specificity, a firm's investments made for specific purposes are meant. The degree of specificity is important because if they are too specific, that is if they serve for a particular task, which would not continuously, pursued; it creates problems after the transaction is over. Williamson (1983) defines four types of asset specificity.

**Site Specificity:** Partners are in close relationship, and try to decrease their inventory and transportation costs. Common ownership is dominant type of response. The assets are highly immobile when sited once.

**Physical Asset Specificity:** Investments in equipment and machinery, which are specific to that transaction may create physical asset specificity. For this type of specificity, he gives the example of specialized dies for producing a component.

**Human Asset Specificity:** Investments in human capital arising out of learning by doing process.

**Dedicated Assets:** General investments for a particular contractual requirement which otherwise would not be done. If the contract were terminated, supplier would be in case of excess supply.

All asset specificity types have in common that: the assets' alternative use is not as valuable as their instant use.

These sorts of asset specificity, no matter it is specific to site, machinery or human capital, may cause firms to be dependent on relations with other firms. Thus, firms may be locked in inefficient transactions; further asset specificity may make firms hard to exit such relations. Such problems arising out of asset specificity of firms, according to Williamson, can be solved by vertical integration. Since different stages of production are carried under one control, investments made are not specific for particular tasks; rather they are all necessary for manufacturing of the product.

Hierarchical structuring is not related only with management, but it has reflections in information structure of firms as well. Although TCE is good at efficiency concern of the firm, it is not successful in workplace organization and human capital. Aoki (1986) compares American firm (denoted by A firm), which is characterized with hierarchical structuring, and Japanese firm (denoted by J firm), which is distinguished with its horizontal integration on the basis of their information structures. In an A firm, workers ask to chiefs etc, in unexpected events, which slow downs the process and creates a bureaucracy within the firm. There is a rational hierarchical control in which decisions are hierarchically organized. In a J Firm, workers rotate and thus become capable of coping with emergent problems. Collective learning is achieved by doing. According to him:

“The fact that detailed specification of appropriate actions cannot be formulated *ex ante* is the essence of Hierarchy.” (Italics mine)

**Table 2.2.** Comparison of A Firm and J Firm

<b>A Firm</b>	<b>J Firm</b>
Specialization	Learning
Hierarchical control	Horizontal Coordination
Integration	Quasi Disintegration
Efficiency through rational technocratic control	Efficiency through use of knowledge and rapid problem solving
<b>Ref:</b> Derived from Aoki (1986).	

After examining why hierarchy is preferred, it will be supplementary to remind when, that is under which circumstances, vertical integration is expected. Hart (1991) notes that there are three main circumstances, which favor vertical integration. According to him, vertical integration will be preferred firstly, when one individual is entirely responsible for the return of the asset, secondly, when there are increasing returns to management. Thirdly, hierarchy will be the dominant form in a declining industry, because in this case, it is almost certain that firms merge in order to save on overheads rather than make contracts. However, he suggests that if two firms have only small business fractions in the other's total business and vice versa, instead of buying one another, long term contracts will be expected. It can be inferred from these examples that, vertical integration yields better results and preferred if relations between the parties are high, long lasting or expected to do so.

### **2.2.2. Coming of Large Enterprise**

Apart from these theoretical views, what happened in practice can also help us understand what makes hierarchy desirable. Since big corporation is a product of US due to its large domestic market and newness of the market compared to other countries in Europe, examining its history will be helpful.



As Chandler (1968) states, in 1880 almost all manufacturing firms in US were engaged solely in manufacturing, yet by the first years of 1900s, many firms had their own distributing organizations, purchasing systems and retailing outlets. The popularity of hierarchical structuring among firms accelerated with the beginning years of 20th century with the increased demand from different countries especially from overseas. This increase in demand caused firms to decide whether to subcontract some of its activities or do all in same ownership, in other words whether 'to make' or 'to buy'. Although tried, working together with other firms for particular activities of the mother firm, did not satisfy the desires of the mother firms. In addition to insufficiencies of the services provided by these subcontractor firms, increased transaction costs led firms change their policies.

Chandler (1968) believes that, in US, manufacturers who found wholesalers inadequate pioneered integrated firm. Durable goods wholesalers, for instance, were found to be unable to handle with the making of the initial demonstration to the customers, unable to provide necessary consumer credit, and unable to ensure continuing repair and service of the good sold (Chandler, 1968). In perishable goods wholesalers, the situation was worse; they were found to be inadequate for even storing and distributing the products. This simple but basic complaint of mother firms, together with the impact of new technology and government regulations started vertical integration of firms in US.

The trend of vertical integration was not exactly followed by European firms, firstly because the wholesalers in Europe existed for several generations and secondly, the relations between producers and wholesalers which were characterized with family relations, were much different from those of US. According to Chandler (1968), Europeans' preference meant that, especially in old industries such as iron-steel, textiles and agricultural processing continued to be run by non-integrated family firms while the distribution side was fragmented in the hands of a many smaller family firms. However, in the newer industries such as chemicals, electronics, automobiles, it was easier to form larger plants from the

beginning due to market and technical characteristics of these sectors (Chandler, 1968).

What we can conclude is that the changing environment of the 20th century convinced firms that the usual relations are inconvenient for further development, and thus new arrangements are necessary. As Williamson suggests;

“Whether a set of transactions ought to be executed across markets or within a firm depends on the relative efficiency of each mode” (1975:8)

Entrepreneurs in that era mostly believed that efficiency is more like to be achieved by hierarchy, so made their preference in favour of vertical integration. As Powell (1991) denotes, high volume, high speed orientations require managerial organization. As a result, big corporation gained importance in almost all industrialized countries and became one of the symbols of modernism. However, this trend continued up to the crisis of 1970s, in which vertical integration proved to be inefficient for entrepreneurs due to changing conditions. The winner of the previous period became the loser after the economic crisis of 1970s.

### **2.2.3. Limit for Firm Size**

Firms get larger by additional transactions undertaken, and gets smaller by leaving some of these to other firms. Coase suggests that other things being equal, the firm is likely to get bigger if;

- The costs of organizing are less and these costs rise slower with an increase in the transactions organized
- The entrepreneur makes less mistakes and the increase in mistakes with an increase in the transactions organized are small.
- The supply price of factors of production to firms can be lowered with the larger size (1937:24).

This means that there is limit for the firm size. This limit is due to diminishing returns to management (Coase, 1937). In other words, the bigger the firm, the harder it gets to control it. In addition to this basic problem involved in firm size, Williamson (1975) claims that internalization will continue up to the point when cost of organizing same transactions is same for the firm and market. Afterwards, no further internalization will take place. This is directly related what hierarchy indeed stems from; when the need for eliminating transaction costs is removed, there will be no reason for the firm to internalize its activities.

Despite the fact that there are substantial transaction cost savings, the firm can not get bigger continuously. The limit can be increased with improvements in management techniques as Coase (1937) argues; yet it can not be extended more than a particular limit.

#### **2.2.4. Vertical Integration in Different Sectors**

The preference for integration sort greatly depends on the type and the development period of the industry. Williamson (1975) suggests that the amount of vertical integration varies from industry to industry. That is to say for particular sectors the necessity and the degree of vertical integration may change. As a matter of fact, in some cases like automotive, it is really hard to avoid from vertical integration.

Likewise, in his famous book 'Trust', Fukuyama (1995) argues that the purposes of large and small companies are different. Fukuyama notes that:

“The purpose of large corporations is to exploit economies of scale in sectors that are highly capital intensive, involve highly complex manufacturing processes, or require extensive distribution networks. (Fukuyama, 1995: 340)”

He believes that large corporations generally involve in sectors such as automobiles, semiconductors, aerospace etc. Further, according to Smith (1963), vertical integration is extensive especially in firms of young industries, however, by the development of the industry disintegration takes place and finally in decline period of the industry, re-integration will be the prevalent organization of the industry.

In addition to those, sociological factors can also be included. When trust to outside suppliers is low, generally speaking, hierarchy is preferred. Although there are written contracts which obliges all sides, the parties still may not want to engage in out-contracting and may prefer to work with acquaintance businesses. Thus, in low trust environments hierarchy can be preferred.

To sum up, vertical integration is generally preferred when;

- The sector is capital intensive, and highly complex
- The demand is relatively stable
- The industry is newer.
- The environment is low trust.

### **2.3. HETERARCHICAL ORGANIZATION (NETWORKS)**

Due to hierarchy's being costly and bureaucratic, due to market's being poor conduit for exchanging knowledge and its emphasis on price, firms explored of a third option, namely networks (Morgan and Cooke, 1998). By network type of organization, clustering of a group of usually small or medium sized firms, their subcontracting and often co-operative relations is meant. In Fukuyama's views (1995), network type of organizations can reduce overhead and administrative costs of large corporations (as markets do), while achieving savings in transaction cost of large companies (as hierarchies do) (parenthesis mine). Thus, networks are also called as heterarchies meaning it is between market and hierarchy.

SMEs are characterized with their innovative capacity, high quality products produced and flexible working organizations. However, the survival of SMEs and their horizontal network require different spatial organizations than large firms did. Spatial proximity is crucial for SMEs in order to create and maintain trust and collaborative relations. Thus, clustering of firms and forming industrial districts have been new forms of production organizations, which were not prevalent in post war period when mass production was popular.

Clustering is defined as a

“process of geographical concentration of economic activities within a certain sub-sector and at a location where individual experience has been built up.”

by Visser (1999:1554). Geographical concentration is the key feature for heterarchies, since it creates the necessary environment for long term relations and makes it easier to develop reciprocity. Firms in clusters are dependent to each other and they may be considered as crucial parts of a network. It makes sense if they work collaboratively, yet it is less likely that individual works bring success. However, in economic relations, some kind of a dependency does not always lead to collective behaviour in the lack of trust among parties. Without trust, it is possible neither to build nor to sustain the network and collaborative behaviour functioning among SMEs.

As Uslaner (1999) denotes, trust is a rational gamble, and it is probable that co-operation with others will ultimately pay off. In his view, if you bet wrong way, you could lose a lot. The risk of losing makes people behave fearfully and hesitantly to trust and thus ignore the huge benefits it could provide. Creation of trust also requires repeated transactions between parties (Morgan and Cooke, 1998), long term relations, and consistent behaviour of parties or sometimes common cultural background, similar ethnicities etc. In addition to difficulties related with creating trust, networks require continuous efforts in post periods for

maintenance since trust can easily be destroyed even in the first false attitude of the parties. Hence, the success of industrial districts, at least for their success in creating the trustful environment in the competitive contemporary world, worth appreciation.

Agglomeration of firms allows firms to disseminate knowledge through the collaborative relations. Knowledge dissemination, not only helps firms adopt new technologies which is highly considerable in competitive environment, but also strengthens the relations between parties for further relationships. This is not to say that firms operating in markets or hierarchies, cannot experience any knowledge dissemination, yet generally speaking, it is really hard particularly for markets where high competition is prevalent. Parties having contractual relationships in market would avoid sharing and even conceal what they know from other parties thinking that it will result in losing their competitive power. In hierarchies, knowledge dissemination is possible compared to markets, yet the degree of it is considerably lower than networks.

What is meant here by the term knowledge is the tacit knowledge, the knowledge generated in society via habits, ways of lives that is learned through experience and practice. Transmission of codified knowledge, is possible for all organization types since it can be transmitted in a systematic way in libraries, universities etc (Gregersen and Johnson, 1997). Yet, it is almost impossible both for markets and for hierarchies to transmit the tacit knowledge since it is subjective and requires collective action to learn it. However, since transmission of codified knowledge is possible for many firms, at least in theory, what gives the competitive power and innovative capacity is the accumulation of tacit knowledge. Industrial clusters greatly obliged their competitive power and innovative skills to their ability in transmitting tacit knowledge, which is possible due to trustful environment and mutual relations in these clusters.

Industrial districts are also characterized with active local institutions, which mediate relations within districts. These institutions may take different forms in different industrial districts. For example in craft-based industrial districts local banks, labor unions, cooperatives, private centres are main local institutions. In LDCs (Less Developed Countries), on the other hand, chambers of industry and trade, artisans associations and some local development agencies are main ones (Eraydin, 1997). These institutions help to increase the stock of social capital “which can where it is well developed, facilitate collaboration between firms and the science base or between finance and industry” (Morgan, 1997). These local institutions organize training, R&D, marketing type of activities, create mutual relations for economy and help to reach international market. These bottom-bottom local policies make these areas competitive and provides place for SMEs even among large enterprises.

After examining general characteristics of clusters, in next section retroerspective analysis will be reviewed in order to evaluate how heterarchies came into agenda.

### **2.3.1. Coming of Networks**

Postwar period up to 1970s was a prosperous period for large enterprise. However, due to problems involved, hierarchical structuring lost its significance. First of these problems was the decreases in profits of firms due to hierarchical structuring and its accompanier, mass production. In mass production, it was easy for labours to specialize in certain tasks, which provided them bargaining power against entrepreneurs. Together with trade unionism, wages of labours increased, which then resulted in decreasing profit rates of firms. This is actually what Marx claimed to be the reason for the inevitable end of the capitalist mode of production; decreasing profit rates. It was a turning point for firms to decide whether to increase wages or to look for other alternatives. Some firms preferred the latter and go less developed countries for cheap labour force. This decision, although seemed too radical, was the savior of many firms from the adverse effects of crisis at that time. Another alternative was the vertical disintegration of large

enterprises in order to avoid from unprofitable features of mass production and to gain flexibilities in manufacturing.

Another problem was related with the consumer side; the inability of large enterprises to adopt changes in demand. Consumers were bored of similiar, even sometimes identical, poor quality products available in the market during the preceding half century. This was partly due to mass production, and partly due to Keynesian policies implemented which emphasized similarities. However, what large enterprise could do for the problem of changing consumer demand pattern was limited. Since much of the necessary assets for manufacturing of a product were owned by a single firm in vertical integration, it was not easy neither to change nor to leave the assets idle for the firms. It was necessary to alter the organization completely or at least reorganize somehow in order to meet the diversified needs of the consumers.

Thirdly, mass production techniques, which were highly prevalent in vertically integrated firms, do not allow just in time production. Together with changes in demand patterns from durable, steady and precise to light, fast and cheap products, the popularity of large corporations decelerated. New forms of organizations were required in order to meet the needs of consumers' changing demands. These were clusters of small and medium sized firms where flexible production techniques could be employed.

As a result of such problems related with fordist mass production, another mode of production, which is more adaptable to changes in demand, and less rigid in working organizations gain impetus. It was flexible production, and its accompanier industrial clusters in which short term relations of mass production were replaced with long term reciprocal relations based on trust, developed within networks.



### **2.3.2. Different Types of Industrial Districts**

Although industrial districts greatly vary in their products, manufacturing techniques and labour characteristics, there are still common features that we can generalize for clusters of production units. Amin and Robins (1990) listed the common characteristics of industrial districts as follows:

- 1) production for the same market,
- 2) embeddedness in a cultural environment with a collective pool of knowledge and values,
- 3) informal links between and within firms; relations depending on trust and reciprocity,
- 4) provision of a broad product range for highly differentiated regional markets which can adopt changing demands of the consumers,
- 5) Newest highly productive technologies,
- 6) Support via regional authorities and institutions,
- 7) Extreme intra-regional and inter-company division of labor which guarantees flexibility; phase specialization of firms (as in the case of Benetton).

However, it is certain that these characteristics may not conform to all sorts of industrial districts. Clusters vary in their innovative capacity, dynamism, horizontal networks created; labour skills, products manufactured etc. The grouping, which will be used for the aims of this thesis, is such: craft based industrial districts, high-tech industrial districts and LDC industrial districts.

#### **2.3.2.1. Craft Based Industrial Districts**

In fact, it can be said that the industrial district phenomenon all began with clusters of craft based family firms in Northeast-Central Italy. These areas were the regions where past cultural heritage and traditional knowledge accumulation (from father to son) were existent. Third Italy, also known as Emilia Romana, was the first of successful craft based industrial districts in the world.

Craft based industrial districts are characterized with emphasis on quality, design and image creation. Rather than producing in large amounts of the same product, which was the usual case in mass production, in these clusters diversified products are produced in small scales. Target income group is usually high income groups, for whom the 'uniqueness' of the product is important. Although production capacity is lower, it is still profitable since the profit per product is higher compared to mass production. What constitutes the difference in values of profit per product is the 'design' of the product. In other words, such industrial districts sell their 'design'.

Emilia Romagna, the most famous example of craft based industrial districts, is characterized by family structure. Firms consist of extended family households. Entrepreneur-labour relationships, due to dominance of communitarian family in Emilia Romagna, are relatively informal and friendly compared to high-tech industrial districts. Knowledge is disseminated from father to son or to close relatives. Very high percentage of the labor force is composed of natives of that region who know each other and lived together for years since the migration rate is very low in this region. Economic reciprocity depends on this social closure. The disadvantages of being "small" (like low wages and low productivity) are erased by redistribution of income within family.

In Emilia Romagna, principal way for increasing income is by moving to better goods and by internationalization but NOT by increasing the production capacity and NOR by price reductions. There are five main groups in Emilia Romagna: Buyers-designers-innovators, middle class entrepreneurs, new entrepreneur-artisans, home-workers and skilled labors. Entrepreneurs are from different sources, too: Some were released from agriculture, some were the workers laid off from large plants, and some were people who attended technical schools in which they learned theoretical and practical training (Storper, 1996).

The success of Emilia Romagna partly depends on the local institutions' active participation in the process. Confederation of artisans (CNA) is a well known local

institution in Third Italy working as a social mediator. In NEC Italy, it can be said that entrepreneurial environment is highly supported by CNA. In addition to CNA, the role of the mayor as an institution is not deniable. With nursery schools, which were founded by the mayor, women gained their freedom in society. They were no more tied only to home, contrary; they had active roles in society. In addition, mayor opened technical schools in which children could be trained so that in future they could get active roles in their family entrepreneurships. These efforts, although they seem small, were significant in success of Third Italy (CP 450 lecture notes).

Ille de France, located in Paris, is another successful craft based industrial district, where both technology based and -to a small extend- design based activities take place. Both of these industries produce export specializations of France, yet the latter one will be discussed in this section. There is a steep hierarchy in organizational pattern, which creates a dynamic character. There are two main parts: haute couture and ready to wear market. One part of high fashion industries produce less than ten products, which are truly artisanal, and the other part produces for ready to wear market. The haute couture system takes its roots from royal system. In both of the royal and haute couture, designers play a key role and define the new critters of fashion. Subcontracting is used especially in sewing and cutting, yet generally not contracted outside Paris. The labors may have different ethnicities, which are really different from NEC Italy. There is “technological conservatism” and because of this, it is hard for new groups to enter. Traditional knowledge, which had been developed through years and gives them their competitive advantages is not easily shared with others. So the system remains royal.

To sum up, craft based industrial districts are clusters of small firms designing, creating images and producing in small scales. Due to the fear of losing competitive knowledge, entry conditions to these districts are harder than other types of districts.

### **2.3.2.2. High-tech Industrial Districts**

High-tech industrial districts, generally speaking, have emerged in places where previously military industries had been located. This type of industrial districts is located mainly in advanced countries and Southern Asia. Most famous of these industrial districts is the Silicon Valley in USA. These areas are characterized with the competitive environment, their innovative power, and research & development activities carried on. Innovativeness is the most important factor in high-tech industrial districts since it gives the competitive power. They try to be 'unique' in some fields since to know something 'special' provides them monopolistic power. This characteristic creates pressure on labor and thus increases the innovative capacity. In high-tech industrial districts, special labour market is existent. What is meant by special labour market is the fact that in high-tech clusters on the one hand, there exists highly- skilled, well educated group consisting mainly of engineers which creates the innovative character of these regions and on the other, there is the low skilled group which has even no industrial experience. This dualistic labour market characteristic is peculiar to high-tech industrial districts. Resulting from this specialty, relations between entrepreneur and high skilled labour group are formal but friendly and smooth, whereas, this is generally not the case for the unskilled labour group in these districts.

USA is characterized especially with its high-tech districts. This is mainly because of the fact that, main aim of the USA's industrial development has been to create new markets and to invent new basic technologies from the first years of 20<sup>th</sup> century. American experience of industrial districts is different from that of France and Italy in the sense that it tries to break the existing technological background. In the most famous of these high tech clusters, Californian districts, rather than consumer goods production like textile as in the case of Third Italy, or shoe industry as in the case of Sinos Valley, more technology-oriented products such as computer and its related activities etc. are involved. Hardware was the most popular sector involved at the beginning, yet nowadays, almost all works in Silicon Valley are related with software.

In Californian industrial districts the emergence of new firms, institutions around a parent development that is the notion of *spin-off*, is important. In other words, these new firms take place in these clusters because the first development has begun there. The firms are not necessarily related directly to other existent firms. There is not local elite (like in France) that organizes relations, however, new firm founders define the rules of the game and the small ones follow them in these districts. It is, here, important to remind that USA's industrial districts are successful especially in basic technological innovations, yet this is not true in following periods (maintaining market share) (Storper, 1996).

In high tech districts generally and in Californian districts particularly, the founding entrepreneurs are professionals or scientists who were in some way associated with university research programmes, and who had institutional experience. Some of the high technological specializations were supported from military procurement, too.

As mentioned before, Ile de France, apart from craft based clusters, has also high technology units, which are organized by elite. These are innovative industries working on nuclear reactors, digital processors, radar equipment, large aircraft etc. Labor market in these industries is constructed on cultural base. Although the guild like organizations of artisans had been destroyed after revolution, the spirit lives in their working habits. There is always vertical conflict in other words labor- capital always struggles. Yet the state tries to find solution to these conflicts between these groups; employers and workers. When the decisions of technocratic cadres are good, the royal system succeeds (Storper, 1996).

It can be concluded, generally, that the high tech industrial districts are clusters where technology related activities are carried on and where labour duality is existent. Due to the nature of technology, these clusters are and have to be more innovative than other types of districts.

### **2.3.2.3. LDC Industrial Districts**

These areas, compared to previous examples, are the regions of which their development was unexpected. However, they experienced a similar growth pattern with former industrial districts from developed countries. This is partly because they were at the right time, at the right structure. In addition to that, these clusters had some industrial basis and some familiarity for manufacturing activities. During fordism era, their capacity was not sufficient to compete with big firms, but after the demise of fordism, in the new era of innovations, they were able to use their pre-existing experiences in access of international market. Beginning with producing low cost products due to danger of losing competitive power, they became the new growth nodes. In later stages, they go product improvement and renovate their industry with more design and quality in order to compete with others. These areas are characterized with availability of cheap labor since these countries are not developed in economic terms. There are now many successful LDC districts including Denizli from Turkey, Sinos Valley from Brazil, Lima from Peru etc.

It can be stated as a result that new era enabled some LDC industrially intensive regions to find themselves a place in fierce competition if they have a particular degree of previous production experiences. In such cases, with the help of trustful relations many areas could benefit from export incomes and become locally developed regions independent of their country's development like Denizli.

### **2.3.3. Heterarchy in Different Sectors**

Like hierarchy's dominance in particular industries such as automotive industry, there are sectors which heterarchy is better. Fukuyama (1995) argues that small companies are better at organizing more labour intensive activities and in sectors demanding flexibility, innovativeness, and speed in decision making. According to him, in sectors like apparel, design, machine tools and furniture; small sized firms would be prevalent rather than big firms. This is parallel to what Aoki (1986) claims: network organizations are beneficiary if the industry is characterized by

changing demand conditions. The flexibility of such networks makes it possible to adapt to changing demand conditions by creating alternative networks. In addition, Powell (1991) denotes that networks are especially useful in transfer of particular commodities whose value can not be measured such as know-how, technological capability, a spirit of innovation, a style of production etc. In his view, these commodities can not be exchanged in markets or in hierarchies.

It can be concluded for the sectors favoring heterarchy that firms operating in sectors, which require innovativeness, flexibility and involve design do better in heterarchies in order not to lose the competitive power.

#### **2.4. A COMPARISON BETWEEN THREE MODELS: WHERE DOES YIMPAŞ STAND?**

As examined, there are three main forms of organizations for firms for organizing economic relations: market, hierarchy and heterarchy. It is certain that firms employ different types of organizations for different purposes in accordance with changing economic conditions. It is also clear further that, any firm can not fit solely to one type of organization. In other words, firms employ mixed characteristics from different organization types, so the degree or the intensity of the organization determines the main type. However, it is still useful to make a classification:

**Table 2.3.** Classification of models

	<b>Approach to relationship</b>		
<b>Unit</b>		<b>Competitive</b>	<b>Cooperative</b>
<b>organizational</b>	<b>Independent</b>	Classic market	Network structure
<b>Form</b>	<b>Hierarchical</b>	Bureaucracy	Clan
<b>Ref:</b> Thompson, 1991: 244			

According to Thompson (1991), market, among others, is the most convenient type for competitive relations where firms stand individually. Hierarchical organization may also yield good results with competitive environment, yet the difference is that it is by vertical integration. Networks and clan, which had not been described in this thesis, are good at cooperative type of relations, former being more independent.

If we go in detail for comparison of these models, we can generalize some features that characterize them. Powell (1991) denotes that markets are characterized with *contractual relationships*, whereas in hierarchy *employment relationships* form the basis. However, for networks, in his view, *complementary strengths* are the determinant. Thus, generally speaking, the normative basis of the firms' organization helps us determine the model type.

For Powell (1991), these models can be differentiated with their communication methods employed, too. According to him, in markets, *price* is the mean for communication, whereas in hierarchies, *routines* are used for communication. However, in networks, communication mean is *relational* compared to other models.

Thirdly, these models differ in their methods applied for resolving conflicts. In markets, in Powell's view, *courts* solve the disagreements, which occur as a result of the economic exchange, whereas, in hierarchies, *administrative fiat* has the responsibility to do this. In networks, conflicts are solved by *reciprocal norm*, which is already present in the network. Thus, again we see clear differences between them.

Powell believes that these models can also be characterized from the point of flexibility in terms of choosing the other party. There is little, almost zero, choice for hierarchies for exchange of goods since the other parties are always daughter firms of the company. Yet, in market type of relations, other party is selected among numbers of firms in accordance with preferences of the firm. Thus, he



denotes that markets are the most flexible one, hierarchies are the least and networks have medium flexibility.

The three models can be evaluated in terms of commitment amount. In markets, the amount of commitment is lower compared to other models since the contract only covers particular period of time. Other party is not expected to do more than what was declared in the contracts. However, in hierarchical organization, the amount of commitment may alter from medium to high but it is never low. Likewise, in networks, commitment amount lies between medium to high.

Powell (1991) also makes a comparison for the tone or the climate of these models. In market type of organizations, relationships are not so close, but precise and sometimes accompanied with suspicion. Yet, in hierarchies, formal and bureaucratic relations are dominant due to the hierarchical structuring. In networks, on the contrary, climate is open-ended and depended on mutual benefits.

In preference or choice of actors, Powell states that markets are independent, hierarchies are dependent, yet networks are interdependent (instead of 'independent' which Thompson uses in his above classification).

Before examining where Yimpaş stands among those models, it is here convenient to remind that the optimal form changes according to the needs and the conditions. According to Fukuyama (1995), in future, the optimal industrial organization would be neither large firms nor small ones but networks that share advantages of both. He also suggests that societies with a high degree social trust like Japan, Germany or US, will be in advantageous position.

In Yimpaş case, what is observed as organization type is hierarchical at first sight. It is organized as a holding company, and relations within the daughter firms of the company are in accordance with the predetermined rules. If we go out with Powell's comparison, the company is characterized with low degree of flexibility,

high amount of commitment, supervision of administrative fiat in case of conflicts and a formal climate all of which demonstrates its hierarchical organization.

Yet, the reason why Yimpaş is chosen as a case study for this thesis, that is what makes it interesting, is because it has a tremendous horizontal social network among its partners, which is hard to observe anywhere else. The fact that Yimpaş was founded as a LIP is partly responsible for Yimpaş' being a network. However, not all LIPs necessarily have horizontal relations as Yimpaş has. Being a LIP may create a network if the number of partners is enough to be dominant in the locale. A small LIP with a limited number of partners can not be considered to be a network although it helps utilization of the local capital. In other words, high participation rate is required for a LIP to form a network.

Yimpaş achieved a high number of participants and thus created a social network among Yimpaş partners, which is relational, open-ended, depending on mutual benefits, in which norm of reciprocity is determinant. These features, on the other hand, make Yimpaş a network structure apart from its hierarchic structure in administration. As a result of these characteristics, the organization type of Yimpaş should, perhaps, be considered as a different form of heterarchy, which does not totally fit to half-tone organization forms.

## CHAPTER 3

### 3. ECONOMIC DEVELOPMENT IN TURKEY

#### 3.1. DEVELOPMENT POLICIES OF GOVERNMENTS

In examining the economic development in Turkey, it is convenient to begin with reviewing the policies implemented and their results in order to evaluate the economic sphere of Turkey. In the first years of Turkish Republic, major economic policy had been to industrialize with private entrepreneurship (Karluk, 1994). State interfered in the process when the private sector could not realize particular investments due to its incapacity of realizing them or the low profitability of the activity. State investments generally had been in form of infrastructural larger investments but also the state tried to subsidize particular investments (which are bigger in terms of number of employees and its GDP) by its 'Teşvik-I Sanayii Law' (Keyder, 1993).

However, due to lack of sufficient capital accumulation in private sector, inadequacy of infrastructure, and technical knowledge, expected development could not been achieved with private sector investments (Han, 1999).

Thus from 1933 to 1946, state had implemented *Import Substitution* policies in which the target was manufacturing of goods which were previously imported and meeting firstly the domestic demand. In this period, entrepreneurships were highly protected against competition, which then led to formation of an uncompetitive and closed industrial pattern in Turkey (Karluk, 1994). The policies in this period

have been adversely affected from Second World War and thus, generally speaking, have been unsuccessful.

After the Second World War, from 1946 to 1963, these import substitution policies continued. In this period, a high number of investments had been realized when compared to previous periods (Han, 1999), although targeted gross domestic production still was not achieved. After 1960, with foundation of State Planning Organization (SPO), planned period began in Turkey. SPO by preparing long period targets in its five year development plans, aimed at rapid industrialization. Further, it is in this period that governments tried to decrease the regional differences by establishing the Department of Priority Regions in Development (PRD) in SPO. In this period, Zonguldak, East Marmara, Antalya and Çukurova regional development plans had been prepared yet, they were not implemented, further afterwards, all words of 'region' were omitted from the third five year development plan since it could possibly lead to divisiveness in Turkey (Tekeli, 1998). Thus, it can not be said that these efforts reached their aims.

It should also bear in mind that this period is the one in which problems related with rapid urbanization and migration came into existence. Migration was not only from smaller towns to first or second rank cities within Turkey but also to West Europe and especially to Germany for employment purposes. As a result of this external migration, Turkey has experienced the fact of LIPs, which will be examined later.

During 1960-1980 period, the political economy of Turkey was characterized with politicization of certain economic allocation mechanisms and the constitution of a domestic market (Keyder, 1987). 1980 is a turning point in economic development of Turkey. After the long period of import substitution policies, liberal policies, which aimed at increasing the export capacity, came into agenda. The role of the state in development decreased eventually and capital-labour markets are let operating in demand/supply conditions (Kepenek, 1983). Especially after 1990, and with implementation of the sixth five year development plan, private sector

gained impetus. It is afterwards that several towns have developed with their entrepreneurship skills and utilizing their local resources.

Thus, it can be stated that long lasting protective and import substitution policies of governments caused an uncompetitive industrial pattern in Turkey. The state was the organizer and determiner of almost all activities in this period. Yet, things began changing with liberal policies and there are newly flourishing individual efforts for the sake of local economic development.

## **3.2. LOCAL ECONOMIC DEVELOPMENT PROCESSES IN TURKEY**

### **3.2.1. State Led Development**

In the first years of the Republic, generally speaking, development had been initiated by state investments, which were intensified generally in the western parts of Turkey. Those investments were in form of larger establishments with higher employment capacities and value added characteristics, which thus increased regional differences between the western and the eastern parts of Turkey. The towns, which benefited from those investments were, generally speaking, towns adjacent to the first rank towns like Istanbul, Ankara and İzmir. Development of Kocaeli, Kırklareli and Adapazarı is primarily because of their proximity to Istanbul whereas; development of Manisa is due to its neighboring of Izmir. Istanbul case is interesting since development spread created almost an industrial corridor occupying more than one town and it still continues to move head. Since Istanbul is a great market for the exchange of almost all sorts of goods and since it is a transportation focus point of Turkey that connects ‘Europe’ with ‘Asia’ with its highway, maritime lines and air transport facilities available, it has attracted almost every type of investment. However, today, due to the spatial restraints, further development can not been located in Istanbul.

Yet, entrepreneurs have still preferred to be close to Istanbul. Thus, development, instead of big leaps, moved ahead eastward beginning from the adjacent towns. Kocaeli has been the first and the most benefited town from this spread. Beginning with state investments of petro-chemical and paper factories such as İpraş, Petkim, SEKA, İGSAŞ, private industries using inputs from those establishments invested also in Kocaeli (Enc. of Yurt). Today, Kocaeli, Adapazarı are like extensions of Istanbul and the area between these towns is like an industrial corridor covered with investments which are dominated by independent large firms each seeking its own profit maximization separately rather than networked SMEs. The development of those towns can be devoted firstly to their proximity to Istanbul and secondly to the state interventions made.

The role of state intervention is considerable in the development of Bursa, too. State establishments in the late 1930s created massive employment and led to transfer of machinery to small scale producers and then Bursa developed its textile production with inward orientation via Istanbul. Up to 1980, Bursa was characterized with power-based pyramidal cluster of firms, which altered, afterwards into different typologies such as vertically integrated firms and clusters of textiles and clothing (Pınarcıoğlu, 2000:146).

Another fold of economy of Bursa is about its being one of towns with huge agricultural capacity and production. Yet, its development accelerated with the implementation of the East Marmara Plan, which aimed at decentralizing the activities of Istanbul. Opening of the first Organized Industrial Zone (OIZ) of Turkey in Bursa is another important state intervention. The opening of two hierarchic automotive factories; Tofaş and Renault, automotive related small scale manufacturing developed in Bursa, too. Today, Bursa is characterized both horizontal and vertical relations and dominance of both agricultural and manufacturing activities.

### **3.2.2. Bottom-up Development**

#### **3.2.2.1.SMEs**

After the 1990s, with the individual efforts of towns and horizontal collaboration of SMEs, another development pattern was observed in Turkey. Beginning with success of Denizli, several regions could develop due to their entrepreneurships and horizontal relations created. Among those towns Gaziantep, Kayseri, Çorum, Kahramanmaraş etc can be mentioned.

Denizli's real development began in the 1970s with the implementation of III and IV Five Year Development plans of SPO. Denizli was appointed to be a Priority Regions in Development province in 1973, which meant many opportunities, subsidies to entrepreneurs choosing Denizli for investment. Together with foundation of many Labourer Investment Partnerships in Denizli, it became one of potential growth nodes of the era. Further, after 1985, government's efforts to increase export capacity led to foundation of many textile and ready-made products establishments in the region (Mutluer, 1995). Denizli's export capacity increased from \$ 2,574 in 1980 to \$ 262,284 in 1994, almost 100 times in 14 years. This export capacity is mainly dominated by textile and related products by 82 % in 1994.

The organization of firms in Denizli is not hierarchical; rather the development of Denizli has been based on its co-operative relationships. This is partly due to Denizli's not having "de facto cartel" controlling the supply of cotton yards and partly due to provincial homogeneity of the town. In addition, the development of exports and the increased demand in the 1980s led to high subcontracting relationships among firms and further in some cases, co-operation for foreign trade purposes (Pınarcıoğlu, 2000). These inter-firm relations in Denizli, although in different natures and degrees, are similar to what is experienced in many other industrial growth nodes. Due to Denizli's local features like being close to raw materials, having appointed as a PRD province, the trustworthy relations of

entrepreneurs in the region and horizontal network led to local economic development of Denizli independent from the development of the country as a whole.

Second example Gaziantep, which has developed with SMEs, has benefited from both state investments and local entrepreneurship. Its' appointment as a PRD province in 1968 and its' being one of towns where one of the first OIZs (1969) was founded reveals this. Gaziantep has a better developed small firms sector and economic activities than its neighbouring provinces (Özcan, 1996). However, despite that many small industrial units are existent, production networks are less developed than those of Denizli. Further, the largeness of the domestic market Gaziantep serves and the features of the production shaped in accordance makes it hard for Gaziantep to go in commercial relations with external markets (Eraydın, 1998). The economic success of Gaziantep is mainly stems from indigenous entrepreneurship, local solidarity and pride, and small and medium-sized businesses (Özcan, 1996). According to Özsağır (1999), there is an entrepreneurship culture and 'townsmanship consciousness' in the town. Entrepreneurs want and work for a development, which is achieved through local efforts and independent of the state's supports. In fact, as industrialization and economic development comes, such inclinations peculiar to closed societies would have been erased yet in the case of Gaziantep these are crucial in development of the town and thus they form a social motive instead of losing their importance. This is also true for Yimpaş case, as will be mentioned later. Thus, the development of Gaziantep can be explained by its local solidarity and horizontal network of SMEs.

### **3.2.2.2.LIPs**

Additionally, another development pattern has been development with LIPs, which occurred as a result of external migration in the 1960s. LIPs have been founded in order to utilize the savings of labourers abroad in production related activities in Turkey. Generally speaking, LIPs are bound to their places of origin and thus can



have considerable effects on development of towns different from other private companies. LIPs are neither solely hierarchic firms nor small businesses of local networks. They involve characteristics from both organization forms.

In Turkey, there are two successful examples that can be grouped under this heading: Kombassan in Konya and Yimpaş in Yozgat. These two cases are in fact very different from each other except the presence of LIPs. Konya, for instance, has already been one of developed towns with its high capacity cereals production before Kombassan was founded. In case of Yozgat, however, Yimpaş can be considered as the locomotive of the economy of the town.

When the economy of Konya is examined, it is no doubt that its agricultural capacity is dominant in economy of the town. Located in the centre of Anatolia on a large plateau, Konya is known with its huge capacity of cereals production. Of the all cereals produced in Turkey, 10.4 % of wheat, 20 of barley, and 24 % of beet production takes place in Konya. Thus, the manufacturing pattern of Konya has been dependent on agriculture till the 1970s, especially on flour (58 factories), grain (24 factories) and beet (3 factories) manufacturing (Konya, 1998). Yet from then on this pattern was diversified. The foundation of many LIPs and opening of Seydişehir Aluminum Establishment, the biggest establishment of its branch in the 1980s, were significant steps in this change. Unfortunately a few of LIPs succeeded and the rest have been only holdings of 'signboards'. Recently, another unsuccessful story has boomed in Konya: Endüstri Holding which has collected almost 300,000,000 DM from people both in abroad and in Turkey only in 1.5 years period (Star, 05.01.2003). However, it is now revealed that the capital collected was not utilized in production and the paybacks can not be paid. Partners of Endüstri Holding are in panic and the new government, which is known to be close to these groups, is expected to overcome this problem.

However, among unsuccessful LIPs, Kombassan is a good example, which positively influences the economy of the town. It was founded in 1989, seven years later than Yimpaş, and it became one of the significant holdings of the

country in a short period of time. It is one of successful example of 'profit-loss sharing's with thousands of shareholders with none of them holding a common stock of more than one percent. Kombassan Group today operates more than 30 industrial plants, runs almost 100 companies and employs 22,000 people throughout the world ([www.kombassan.com.tr](http://www.kombassan.com.tr)).

Second example is Yozgat where two successful LIPs had been founded: Yimpaş and Yibitaş. Since it is the case study of this thesis, it will be examined in more detail. Yozgat's manufacturing industry has not very developed from first years of the Republic. This was partly due to the locational disadvantages and partly due to the unproductive agriculture production capacity of Yozgat. During the 1920s, almost all industrial establishments were small enterprises with less than 10 workers. First state investment in Yozgat was Beer Factory of TEKEL General Directorate, which was opened in 1972. Until the 1970s, except Beer Factory, Yozgat's industry was mainly constituted by small enterprises. There were no public neither private enterprises shaping the industry of Yozgat in those years (Enc. of Yurt).

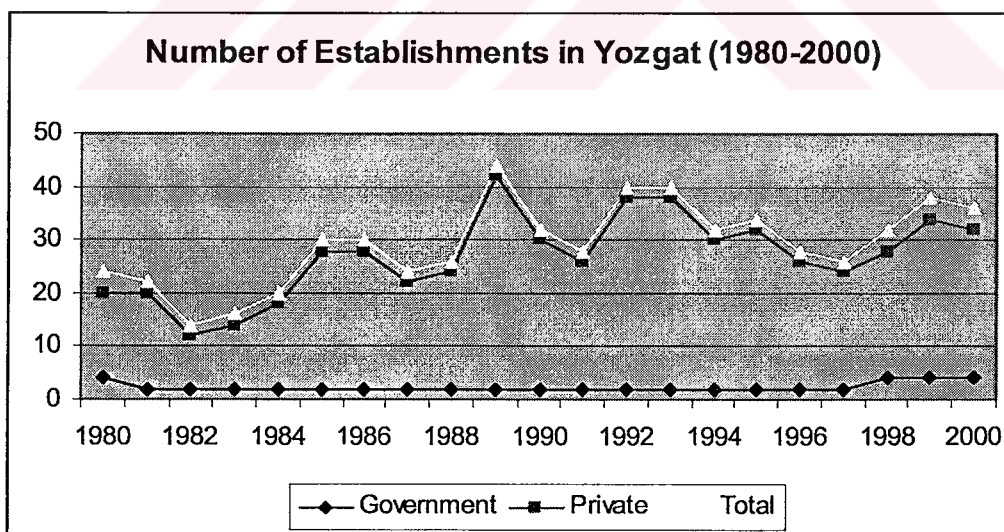
One of the biggest stimulators in Yozgat's industrial development pattern had been Yozgat's appointment to be a PRD province in 1972. After 1972, taking advantage of subsidies newly available, labourers living abroad founded many labourer firms and cooperatives. These partnerships and cooperatives were generally intensified in manufacture of non-metallic mineral products except products of petroleum and coal. The most important of these partnerships was YIBITAŞ (Yozgat Labourer Corporation Construction Materials Commerce and Industrial joint stock company), which was founded in 1973. Since 1958, apart from Beer Factory, there was no direct undertaking of government in Yozgat.

Yet, with Özal Government, due to twice 5-0 and 5-0 victories of ANAP in deputy elections in Yozgat, another state investment came into agenda. In the 1990s, government wanted to utilize 700,000 tones of beet sugar per year capacity of Yozgat. To make use of this potential, a sugar factory was planned to be

constructed in Sorgun, in area of uncompleted nitrogen industry factory. This factory has a production capacity of 51,000 tones of sugar/year, and employment capacity of 1250 person (Yozgat Provincial Yearbook, 1991). In the late 1990s, related with food sector, especially in Sorgun and Yerköy, private investments of chicken farms had been founded. There are 8 grain factories in Yozgat, for utilizing of these establishments (Yozgat Yearbook, 2001). In 1976, the idea of founding an OIZ in Yozgat came into existence. OIZ of Yozgat, which has a total area of 1,419,256 m<sup>2</sup>, is located close to Ankara-Kayseri railway (15 km) and on Ankara-Yozgat main road (Yozgat Yearbook, 2001). There are 23 firms operating in OIZ by 2000. 28 firms are in construction phase and 5 are in project phase.

In Yozgat, from the beginning years of the Republic, public investment had always been low compared to private ones (Figure 3.1). There had been a great increase in number of private establishments in 1992; yet, many of these newly founded establishments had to turn down within 3 years. In 1995, the situation was worse than 1992.

**Figure 3. 1.** Number of Establishments in Yozgat (1980-2000)



**Ref:** SIS

The industry of Yozgat has generally been shaped by private entrepreneurs many of which have been founded as LIPs.

In Yozgat, food industry has relatively been in a better position. The easiness in marketing of food sector made it the most attractive one among Yozgat industrialists from the beginning. It is still one of the most important sectors of Yozgat. Second important industrial branch has been manufacture of non-metallic mineral products -except products of petroleum and coal. Yozgat is rich in raw materials for this branch, so even in stable periods of construction; this sector did not draw back. With the implementation of urban plan, products of these factories were used.

In addition to Yibitaş Cement factory, there were several brick factories founded by different labourer partnerships or cooperatives. Yibitaş founded a Kraft Bag factory for its cement factory in 1978. Having 40,400,000 cement bag/year production capacities, its number of partners exceeded 1500. Akdağ Construction and construction materials joint stock company, Gentaş, Dibitaş and Tuğsan Brick Factories, Tektaş factory were other important establishments of manufacture of non-metallic mineral products -except products of petroleum and coal (Enc. of Yurt). This sector preserves its significance today, too. In 1991, there were 27 food related establishments and 17 factories of manufacture of non-metallic mineral products except products of petroleum and coal (Yozgat Yearbook, 1991). These figures reached to 49 and 24 respectively in 2001 (Table 3.1).

**Table 3. 1.** Number of establishments in Yozgat in 2001

Flour Factory	35
Sun flower Oil Factory	3
Salt	1
Sugar	1
Beer	1
Milk Products	6
Meat (White and Red)	1
Chocolate	1
Brick	18

Briquette	2
Parquet	1
Cement	1
Ceramics	1
Square cement floor tile	1
Total	73
<b>Ref:</b> Yozgat Yearbook, 2001	

As seen from the table, Yozgat industry is dominated by food and non-metallic mineral products except products of petroleum and coal industries, of which raw materials are available in Yozgat.

Although Yozgat has not experienced direct state investments much, it has been one of provinces in which government indirect efforts were intensified. Yozgat was stated as a PRD province first in 1972. After 1981, it was determined to have Second degree priority ([www.dpt.gov.tr](http://www.dpt.gov.tr)). Therefore, it has enjoyed all the opportunities of being PRD province since 1972 in first or second degree. Further, Yozgat had been declared to be one of cities under law of 4325, in 1998. This brought many subsidies to industrial enterprises that will choose Yozgat for their investments.

Whether Yozgat could utilize this opportunity well or not is doubtful. Being one of PRD provinces, unfortunately, did not help industrialization and development of Yozgat. Despite considerable promises of PRD, it has not been satisfactory for decreasing regional inequalities. Yet it is one of the most important efforts of government for under developed provinces including Yozgat.

Yozgat was one of the towns where the idea of LIPs was popular. Since 1970s, due to low job opportunities available, almost 19,750 people gone abroad for employment from Yozgat by help of İİBK. However, this number is estimated to be more than 55,000 in reality. This high figure was very attractive for entrepreneurs, showing the high potential of capital in foreign currency, which

would be used in activities carried for LIPs. In the absence of government intervention and lack of employment capacities, LIPs revealed to be one of the alternative ways for utilizing local resources for Yozgat people Secondly, LIPs are considered to be religiously lawful (*helal*) by Yozgat people who are known to be conservatists and religious fundamentalists. Hence, rather than depositing their capital to banks in return of interest, they preferred to utilize their savings with LIPs.

As Penninx and Renselaar (1985) argues LIPs would be successful if they are founded in towns where;

- local townsmanship sense is higher
- economic rivalry is lower or not existent.

Yozgat is one of towns where local competition is low and townsmanship sense is very developed. Thus, having two successful LIPs, YİBİTAŞ and YİMPAŞ, is not coincidence.

Yibitaş, although founded as a LIP, is now far away from being a labourer firm. After the partnership with LAFARGE and moving its centre from Yozgat, it lost the support from Yozgat people as well. It is still one of successful firms in Turkey; however, its relations with Yozgat and local people are not close since the feeling of townsmanship is lost. Therefore, Yibitaş can no more be considered as a medium for economic development of Yozgat since its relations with the place of origin was cut off.

The relations of Yimpaş with town of Yozgat are closer since Yimpaş preserves the townsmanship sense. It continues to invest in Yozgat, creates employment opportunities and pays its income and corporate tax in Yozgat. Yozgat experienced many unsuccessful LIP attempts, thus it was really hard for Yimpaş founders to persuade Yozgat people to join again in a LIP investment. So, not only the rapid

development but also foundation of Yimpaş is worth appreciation, which will be examined in chapter 5.

When the elements what made Kombassan and Yimpaş successful are examined, it is revealed that these two LIPs are characterized with 'Internal Trust', 'Preference for Hierarchic form of Organization' and 'Solidarity among partners'. Leaders of both of them, Dursun Uyar (Yimpaş) and Haşim Bayram (Kombassan) are teachers. Thus, as we will see in internal features of Yimpaş, the effects of this characteristic in raising trust among partners are crucial for the development of the company. Further, both of these LIPs have successfully gained the support of the local people, which then considerably accelerated their development.

The main difference, on the other hand, is the sectoral preferences of these companies. Kombassan has always been intensified more in manufacturing rather than retail sector. Since Haşim Bayram had been previously a chemistry teacher, he has been interested in producing heavy manufacturing products, which, generally speaking, LIPs do not prefer to involve in. Kombassan has been engaged in heavy manufacturing such as automotive, leather and textile products, engine, paper and packing, furniture, marble and mining industry, printing, construction and construction materials, petroleum and petroleum-chemistry products, movie and publication, tourism, and retail and food industry ([www.kombassan.com.tr](http://www.kombassan.com.tr)). Yimpaş, on the other hand, aimed at growing in retail sector different than Kombassan. Next, although we cannot say that Kombassan is the initiator of the development in Konya, still it has impacts on economic development of the town. In case of Yozgat, however, Yimpaş can be considered as the initiator of the development.

Before summing up, it is helpful to make a comparison among the towns mentioned. In the socio-economic enumeration of provinces study of SPO (1996), in 5 graded province groups, only Bursa is in the first rank towns with 1.56168 index value. Denizli (7th) is a second rank town whereas Konya (11th) and Gaziantep (13th) are in the third group with 0.22007, and 0.19995 index values

respectively. Yozgat (60th)'s index value is -0, 63939, the smallest one in Central Anatolian Region, similar to figures of East Anatolian Region (EAR) or South Eastern Anatolian Region (SEAR) towns.

**Table 3.2.** Comparison between Cases (GDP/TR, GDP/N, Population Increase Ratio and Urbanization Ratio)

<b>Province</b>	<b>GDP/TR</b>	<b>GDP/N</b>	<b>Population Increase Ratio</b>	<b>Urbanization Ratio</b>
<b>BURSA</b>	3,5300	520	28,78	75,81
<b>DENIZLI</b>	1,2789	452	11,74	46,78
<b>GAZIANTEP</b>	1,3557	347	15,45	76,84
<b>KONYA</b>	2,4149	360	13,69	59,01
<b>YOZGAT</b>	0,4047	195	4,90	44,36
<b>Ref: SIS, 2000</b>				

Table 3.2 reveals that these five towns have different degrees of development, which have been achieved through different paths. The role of SMEs in development is considerable when parameters of Bursa, Gaziantep and Denizli are examined. Yet, the impact of LIPs in development seems to be lower when we compare the parameters of Yozgat and Konya with others. Konya is in a better condition however, this must not mistake us: the development of Konya can not be solely devoted to existence of Kombassan.

It can be concluded that in Turkey, development processes has altered parallel to state policies implemented. Up to 1980s, interventions had been in form of direct undertakings of larger establishments with hierarchic relations, whereas this pattern changed with liberal policies afterwards and took the form of smaller private entrepreneurs connected with each other in networks. From then on, horizontal collaboration of SMEs opened up new development paths to many towns in Turkey. Another path has been with LIPs, which is very unique to Turkey. LIPs, generally speaking, took the form of hierarchic firms yet they also



have created social network by utilizing local capital. LIPs created considerable employment opportunities and established factories in their home-towns and thus have had significant impacts in development of several towns in Turkey.



## CHAPTER 4

### 4. MIGRATION TO EUROPE AND ORIGINATION OF LABOUR INVESTMENT PARTNERSHIPS (LIPs) IN TURKEY

Having stemmed from entrepreneur character of Turkish people, the idea of LIPs, has resulted in a distinct organization form for firms in Turkey. Although there were not properly legal supports in the beginning, LIPs; on the one hand have led to foundation of multi partner companies with savings of workers and on the other, have created a social network if the number of participants is satisfactory and bound to each other with townsmanship or common cultural background etc. Yimpaş was also founded as a LIP. Thus it is necessary to examine LIPs in order to understand the peculiarities of Yimpaş due to its being a LIP.

#### 4.1.1. Origination of LIPS and economic factors in participating LIPs

Turkish Migration to Europe for employment began in the first years of the 1960s with the agreement signed with Germany in 1961. This migration was accelerated by agreements signed with Austria, Belgium and Holland in 1964, with France in 1965 and with Switzerland in 1967 (Uslu and Cassina, 1999). However, SPO's report was printed in 1964, after number of migrants reached 27,000- 30,000. Ministry of Employment could also found big and comprehensive organizations, after the number of migrants exceeded 175,000 (Abadan-Unat and Ünsal, 1976:50). During First and Second Five Year Development Plans, 240,000 and 210,000 labours had migrated to Europe, respectively (Abadan-Unat and Ünsal 1976:50). In Europe, there are 3.3 million Turks living and 2.1 million of them are in Germany. Thus, Turkish migrants constitute one of the biggest foreigner groups

in Europe. From the point of Turkey, these figures also show that 5, 4 % of total labour force and 4, 8 % of total population of Turkey lives abroad. In addition, socio-economic influences of migration to Turkey are not deniable. For instance, the volume of foreign currency transfers is a bulk now, almost 4 billion \$ (Uslu and Cassina, 1999).

In addition, there have been numerous arrangements for migration industry including travel and housing agents, translators, new arrangements in banks for foreign currency, new works for lawyers etc (Uslu and Cassina, 1999). Labour Investment Partnerships (LIPs), originated as a result of this out-migration, too. However, it is important to note that labour firms had not been experienced in other countries where external-migration was also prevalent (Gitmez, 1983). Thus, origination of LIPs shows the entrepreneur character of Turkish people. As Yüksel argues (1984), LIPs are the result of tendency and traditions of Anatolian people who consider acquiring property particularly important.

LIP is an alternative way of utilizing money in interest-free schemes, making the person a partner to the firm with a profit-loss share mechanism. In other words, workers give their foreign currency savings to LIPs in return to share from the profit of the company. Generally speaking, partnerships are in form of profit-loss partnership, which also comprises the property ownerships of the company. There were, generally, two types of shares. First one required the payment in foreign currency, and this gives priority for finding a job in return. Second group of shares, which were sold with Turkish liras, did not have such priority (Van Renselaar and Van Velzen, 1976:121).

The reasons lying behind the origination of LIPs are many in number. From the point of founders, founding a LIP has been an alternative way for capital accumulation in the lack of a capital monetary board in Turkey. Bearing in mind the huge numbers of workers abroad, entrepreneurs could, in fact did, take millions of DM from hundreds of workers for LIPs. Together with the government's attention to this issue and particular efforts made, LIP became a charming idea for

entrepreneurs. In addition to that, high inflation figures in Turkey and relative currency differences between DM and TL, made founding LIP one of the popular investment ways of 1970s.

LIP, in fact, resembles to 'Silent Partnership' (die stille gesellschaft) from German law in which people, instead of normal external partnership, prefer to and can stay behind in a firm without being involved in administration of the company. In silent partnership, solely the owner of the firm is responsible for expenses and debts. Silent partner stays as an investor only, takes his/her share from the firm's profit. It is important to note that by silent what is meant is not 'secret'; rather it is used to emphasize the passive role of the silent partner (Tokgöz, 1999).

In silent partnership, there is no need for neither announcement to public nor registration to trade register about the partners of a silent partnership. There is also, no requirement for a contract; arrangements can orally be done. Further, since it involves less bureaucracy, foundation costs are relatively lesser in this type of investments. It is, moreover, cheaper than alternative finance sources like bank credit, going public etc. In addition to those, from the point of enterprise, taxation responsibility is lesser (Tokgöz, 1999). Because of these advantages, silent partnership has been one of popular partnerships for entrepreneurs in Germany. Migrant Turkish workers seeing such alternative ways of investments in Germany wanted to initiate similar ones in Turkey in the lack of capital board. Yet, in Turkey, there is not a legal arrangement for investments like silent partnership, thus, in later periods; LIPs faced significant problems since capital accumulation did not conform to Turkish laws.

From the point of labours, first of all, becoming a partner to a LIP means that workers would be helping to development of their country in general and hometowns in particular (Yılmaz, 1992). Workers consider the development of home country, since they will return back and will benefit from this development somehow. This consideration is common for 74, 2 % of workers in study of Güven (1977).

Secondly, being a partner to a LIP, was a cheap way compared to other ways of popular investment types. In study of Penninx and Renselaar (1985), average partnership for a LIP was determined to be 12,500 TL smaller than opening a shop (45,000 TL), buying a tractor (115,000TL) or building a house (150,000TL).

Thirdly, due to the economic crisis of 1973, many workers were afraid of losing their jobs, thus, they gather in order to find solutions for creating employment opportunities in return to home country. LIPs offered not only good yields to their savings but also a job in return to home country in factories of the company. Founded firms/factories would give priority for partners in employment. Further, in some instances, close relatives could benefit from this priority, too (Penninx and Renselaar, 1985).

In addition to employment opportunities, many of LIPs emphasized the virtue of investing together with social benefits. These social benefits included, for instance, building cheap houses for partners or providing scholarships for children of partners etc. In study of Penninx and Renselaar (1985), a small proportion of workers bought these shares with profit expectations. Yüksel (1984), also, argues that the reason lying behind LIPs is not organizing solely profit based establishments rather; the aim is to found charitable institutions. The charitable activities of LIPs, also affected workers and made them volunteer to join.

Results of the field study carried out by Güven (1977) also confirm these views (Table 4.1.).

**Table 4.1.** Reasons for Labour Entrepreneurship

Reasons	Number of Entrepreneur Labours	%
To participate in industrialization of Turkey, to utilize benefits of development as labours	64	74.2

To be employed in return to Turkey	16	18.6
To guarantee future of children	4	4.6
In order to utilize savings	2	2.5
No answer	1	1.1
Total	86	100.0
<b>Ref:</b> Güven, 1977 :149		

In addition to these, there is another factor, which should be mentioned here; the laws and taxation system valid in Germany. Capital gains from interest are subject to taxation and further, when necessary, the source of the capital is questioned in Germany, hence workers do not want to utilize their savings in Germany (Törüner, 2000). Likewise, in order to get social aid from government, workers have not preferred banks. They searched for alternative forms of utilizing their money and offers of LIPs were among the best ones. Related with investment behaviour again, LIPs' being one of interest-free investment types resulted in participation of many conservative workers to LIPs.

As a result, from the point of workers, the reasons for joining a LIP can be listed as follows:

- desire to contribute to the development of home towns,
- utilizing their money in a cheaper way,
- having an employment opportunity (not only for themselves but also for their family members/relatives) in return to country
- The unknown environment after the economic crises of 1973, after which possible dismisses were expected.

Thus, it can be said that several internal and external reasons contributed to origination of LIPs in Turkey for the aim of utilizing savings of workers abroad.

#### 4.1.2. Social factors in participating LIPs

To answer the question of why labours participated in LIPs, it is necessary for us to understand the conditions of that period and the environment labours were living in. To begin with, it should be stated that the first group of labours that had gone to West Europe did not even know the languages of those countries. Hence, they preferred to live together with townsmen in those countries. They tried continuing their usual lives by being close to townsmen: they visited, re-visited each other, and conveyed messages/letters/things from home-towns. They were in close relationships with each other, even closer than those they experienced in Turkey (Penninx and Renselaar, 1985). LIPs, in addition to economic factors mentioned in previous section, originated due to the emotional result of being home sick.

Generally speaking, we can state that workers did not evaluate the offers rationally, but accepted with notion of sharing something with townsmen. For instance, making workers believe that: “Just buying two shares does not make them poor, yet it makes many others earn money”, even, works. In some other cases, workers purchased LIP shares, just because the founder knew a close relative very well. A question raised by the founder like “How is your uncle? I know him well”, could be a reason for workers to buy shares of a LIP. Further, the sociological conditions workers were living in were such that they could purchase shares merely with the desire not to reject their townsmen’s offer. By the same token, in a group of townsmen, it is hard for workers to say ‘NO’ to an offer related with Turkey and particularly home-town (Penninx and Renselaar, 1985). These examples verify the fact that buying shares of a LIP, generally, does not stem from long rational brain storming but merely sociological factors.

‘Trust’ was another factor in the decision to buy shares of LIPs. Many of labours admitted that ‘trustworthy founders’ were one of main reasons for purchasing shares. In interviews made with workers, “I trust to the president”, “I believe in the firm” or “We trust to founders” were the answers often encountered in explaining

the reasons for purchasing shares. Managers who keep close relations with partners were the most successful ones in raising trust (Penninx and Renselaar, 1985). Workers considered the president of the firm as the most important element in decision to buy shares. The trustworthier the president was, the more workers were willing to participate.

The promises of the president are an honour problem, in case of breaking the words or promises, not only the president himself, but also his family falls from esteem. Thus, it can be stated that trust to founders is like a two edged knife: it makes the president freer in decisions about firm (since he obtains vote of confidence), but it also makes the president more responsible to partners which means worse circumstances for the president in case of a failure (Penninx and Renselaar, 1985).

The relations between founders and workers were not solely dependent on economic self interests. An example that shows the importance of trust as a factor is a practice rarely seen in economic relations. There are some examples in which partners did not take the dividend, just because they have money at that time. They could leave it to firm until much later, which can not be experienced in other multi-partner firms.

In addition to these, 'class consciousnesses' of labours also had a role in buying shares of LIPs. Workers, thinking that they would not be valued in bigger companies, did not want to participate in such firms. Since LIPs were founded with small savings of labours themselves, and the number of partners involved was higher compared to other big companies, workers do not classify LIPs as 'capitalist'. Hence, involvement in LIPs was viewed as an indicator of power of workers and favored by many.

It is here convenient to remind that this type of investment is believed to be *helâl* for conservative people since it does not involve interest.



“The bottom line is this: The Anatolia conservative masses do not trust the Istanbul elite and thus do not invest their money in their enterprises or banks. Some clever Anatolian businessmen with religious sensitiveness have realized that the Anatolia masses do not want to invest their money in a banking system which they feel does not comply with Islamic norms and thus they have devised a system of collecting the savings of tens of thousands of Turks and promising them high yields...Many leading and serious holding companies like Kombassan in Konya and Yimpaş of Yozgat have been set up on this system of trust and resource sharing. People who did not trust the banking system and kept their savings under pillow invested in these holding companies ‘for the sake of Allah’.” (Çevik, 1999)

The ongoing debates on whether ‘interest’ is forbidden by religion is a hot topic in Turkey and there are some private financial institutions (Al-Baraka Türk, Faisal Finans-now Family Finance-etc) dependent on loss-profit partnership offering similar profits with other financial institutions. Yimpaş is not exactly a financial institution like Al-Baraka Türk or Faisal Finans, yet their start point is same; all claim that they are different from others since ‘interest’ is not involved. What they do is in fact same as banks under different names (Akyüz, 1994). The approval of government is not as important as the approval of religion for the partners, so drawbacks of such system are ignored easily. This feature of LIPs and related problems will be examined in 4.1.8. in detail.

#### **4.1.3. The process of finding partners**

Founders followed different ways to find new partners. Knowing the importance of face-to-face conversations in increasing the trust between workers and founders, many founders went to houses one by one, talked to each worker in order to persuade them to invest in LIPs. Generally speaking, persons who are responsible for finding new partners were chosen from well-known trustworthy families of home towns. These persons were sometimes a local politician or sometimes a religious person who is known not to cheat.

Some people who had migrated abroad in earlier periods, helped new comers in solving their housing, employment or communication problems. These persons were like ‘unofficial leaders’ of those communities. Hence, in some instances, founders of LIPs cooperated with those leaders in order to increase the number of partners. Alternatively, Turks who had been working in travel agencies, information offices and thus who knew many workers living abroad, were chosen for finding new partner, too. These people, worked as intermediaries between firms operating in Turkey and workers living abroad.

In order to make LIPs attractive, founders also made use of rosettes, plans and posters of projects etc. for finding and keeping partner willing alive. Such materials had considerable effects on workers desire, since they give the feeling of being involved in projects of LIPs. Further, being proud, labours used them to show off to others.

Founders, in some instances, even lent money to workers if workers had no money at the time of offer, in order not to miss the positive intention of the worker. The promise of the worker that he will pay for it later could be sufficient for founders with the hope that in future more will be gained. It is no matter that the effort for finding alternative capital source turned a ‘lending’ process, because having one more partner means more important to founders.

In the process of finding partners, one facility for founders in reaching new groups of workers, was the workers’ close relations with each other. Since migrant workers from same town have lived together in close relationship; once they found 2-3 people from a particular town, finding others (the rest) was the easier part. In short, it can be concluded that founders worked hard and made use of different things in order to find new partners including trustworthy intermediaries both from abroad and Turkey and symbolic objects etc.

#### **4.1.4. Classifications of LIPs**

LIPs followed different paths of foundation, and they had different number of partners. Thus, many institutions classified LIPs in different ways. According to classification of DESIYAB (Government Industrial Labour Investment Bank), three main procedures have been observed with reference to the way of capital accumulation. When the companies founded with capital of labours only from abroad, these companies are called as 'Labour Company (İşçi Şirketi)', yet if the capital is accumulated from both Turkey as well as abroad, in this case companies are called as 'Public Company (Halk Şirketi)'. However, if one entrepreneur from private sector in Turkey founds the company and accumulate the capital in return of share certificates from labours in abroad, these companies were named as 'Publicly held company (Halka Açık Şirket)' (Yılmaz, 1992).

ISOPLAN, (Development, Research and Social Planning) an institution founded by German Government, defines LIPs with reference to the origin of the capital accumulated rather than number of partner criterion. If more than 50 % of the capital is accumulated from workers abroad, these firms are LIP according to ISOPLAN (Gitmez, 1983).

#### **4.1.5. Governments' Interventions**

First LIP, Türksan, was founded in 1967, and the number of LIPs exceeded 200 in 1979 (DESIYAB, 1980). Even LIPs had not been projected yet; many workers bought the shares of these firms. The rapid increase of LIPs in number, high participation rates of workers and their deep interest attracted attention of governments. Generally speaking, Turkish government was interested in LIPs basically for utilizing foreign currency savings of workers, whereas, German government's attention was aimed at sending the workers to their home countries without encountering problems (Abadan-Unat and Ünsal, 1976).

Both of the governments assumed that, workers abroad will help ‘development’ by their savings in foreign currency, rather than their increased capabilities as workers. So, many public undertakings took the form of utilization of these savings (Van Renselaar and Van Velzen, 1976). The two main undertakings of government were:

- Village Development Cooperatives
- Labour Firms.

The former is about finding ways and creating opportunities for workers living abroad for employment reasons and not the topic of this thesis. The latter, like Yimpaş case is about utilizing the savings to guarantee a financially and psychologically comfortable future.

In addition, Turkey and Germany governments signed two agreements in 1972. First one was related with professional training of workers in return to home country, and second one favored Labour Partnerships and Village Development Cooperatives (Abadan-Unat and Ünsal, 1976). Both governments also founded several institutions in order to favor LIPs in both countries. In 1972, General Directorate of The Problems of Workers in Abroad was founded. German government founded Turkish Labour Firms Union (VTA). The centre of VTA was located in Germany, yet another institution called HALK-İŞ (Halk ve İşçi İşverenleri Sendikası) was founded in Turkey as a representative of VTA (Gitmez, 1983). Another institution founded by Germany was ISOPLAN, which aimed at carrying research activities about LIPs and responsible for providing financial aids. In 1975, DESIYAB (Government Industry and Labour Investment Bank) was founded by Turkish government. DESIYAB organized several seminars in which problems and proposals were discussed.

Another effort of government was enactment of law 499 in 1964. This law aimed at encouraging Turkish workers abroad to utilize their savings in Turkey. Some special credit opportunities were created in return. However, workers did not

appropriate this idea and many accounts had been closed in short time (Van Renselaar and Van Velzen, 1976). In addition, it was planned to make agreements with Germany for utilizing the savings of workers in a better way.

Although both government sides worked, still it can not be said that a well functioning legal basis had been formed which was supported with state incentives and subsidies. Rather, the number of institutions created was many in number which made collaboration almost impossible, thus, some of the founded institutions had to close down in later stages. As a result, it can be stated that governments' efforts did not lead to successful outcomes.

#### **4.1.6. Spatial and Sectoral Distribution of LIPs**

What is expected about spatial distribution of LIPs is their preference to locate in home-towns. This was also what was experienced in reality; preference for location decisions of investments was home regions-provinces-districts or villages by 82, 4% (Güven, 1977). In other words, LIPs kept the promise of investing in home-towns.

In addition to that, spatial distribution of LIPs is expected to be intensified in under developed regions since the idea of LIPs is a way of creating local development with savings of workers, where government and private investments are not adequate. The result of Güven's study (1977) confirms this view; LIPs are founded in PRD region by 60 %, where employment opportunities are insufficient. This result also demonstrates that people living in under developed regions are more willing for local entrepreneurship, since government investments had always been low. Moreover, it is easy to persuade people in PRD provinces for partnership compared to people in developed regions.

**Table 4.2. Spatial Distribution of LIPs**

<b>Regions</b>	<b>Number of LIPs</b>	<b>%</b>
Priority Regions in Development (PRD)	34	60.0
Developed Regions	20	35.0
No Answer or Unknown	3	5.0
<b>Total</b>	<b>57</b>	<b>100.0</b>
<b>Ref: Güven, 1977: 175</b>		

Another study about spatial distribution of LIPs was carried by Çöloğlu. According to the study of him, (1984:36 cited from Yılmaz: 1992), 30, 2 % of the LIPs were founded in Central Anatolian Region where Yozgat is also located. Central Anatolian Region has the highest figure among other regions. DESIYAB also investigated spatial distribution of LIPs. In this study, Konya, Balıkesir, Kayseri, Denizli, Samsun and Trabzon were the leading cities in number of LIPs founded (DESIYAB, 1983). It is interesting to note that these cities would be the industrially developed cities of next decade. So, it can be said that LIPs, at least, prepared the necessary background for further development even though they could not completely make it.

LIPs intensified their activities in different fields. In Güven's study, agricultural industry is the leading one by 50, 8% (Güven, 1977).

**Table 4.3. Distribution of LIPs with reference to Industrial Branch**

	<b>Branch of Industry</b>	<b>Number of LIPs</b>	<b>%</b>
<b>Consumer Good Production</b>	Food Industry	10	
	Textile Industry	5	
	Leather and leather apparel products	6	
	Grain Industry	5	

	Total	26	40,0
<b>Intermediate goods</b>	Forest Products	3	
	Chemicals	2	
	Fertilizer	2	
	Cement	2	
	Construction materials production	12	
	Automotive spare parts	4	
		3	
	Ceramics glass industry	1	
	Total	29	44,6
<b>Investment goods</b>	Agricultural Machinery and appliances industry	5	
	Machinery manufacturing	1	
	Electric-Electrical Industry	3	
	Metallic Goods	1	
	Total	10	15,4
	Total	65	100,0
<b>Ref:</b> Güven, 1977: 180.			

The study of Penninx and Van Renselaar (1978) confirms that most of the LIPs invest in consumer goods in general and in food sector in particular. Further, the inventory study of DESIYAB (1983) shows that LIPs are intensified in consumer goods and intermediate goods manufacturing. So, it can be stated that LIPs were usually intensified in consumer goods and intermediate goods production in which less risk is involved and which have a ready market. However, although consumer goods in general and agricultural industries in particular, are among easiest

industry branches of which products can easily be sold, they depend on meteorological conditions and are subject to fluctuations in production capacities. Moreover, these industries work inherently in small technologies in which efficiency increase is not sufficient (Güven, 1977: 179). However, it is necessary to organize effectively and be prepared to make required changes, like altering the products manufactured, adopting technical equipment or passing to investment goods manufacturing-which is in fact highly dependent on the ability of the entrepreneurs and country's development as well-, in development process. In short, even engagement in easier sectors like consumer goods, does not help LIPs develop, with amateur entrepreneurs, it was still hard for them to initiate local economic development.

#### **4.1.7. Performance of LIPs**

Although LIPs were attractive in many respects, overall LIP performance has been poor if evaluated from the following points:

Whether

- Sufficient financial resources could have been accumulated?
- Created employment capacity is enough?
- LIPs are means for decreasing regional differences?

It is appropriate to begin with capital resources accumulated. In study of Penninx and Renselaar (1985), it is estimated that a total of 1, 900,000,000 DM had been collected from partners for investment in LIPs. This figure is very small compared to accounts of workers in abroad (6-8 billion DM). The 3-4 times difference between two investment ways (bank and LIP) is an indicator that workers have not favor LIPs that much. Hence, it can not be stated the origination of LIPs could attract capital from that reserve of funds.



For the created employment capacities, it can be stated that LIPs did not yield expected results. According to Güven, the employment capacity created by LIPs is not sufficient (1983). In study of Penninx and Renselaar (1985), also, the employment capacity created had been found to be 2,300, smaller than expected. Further, they argue that for one person's employment, investment of 400,000 TL is required, where, 12,500 TL is taken for partnership. Thus, it is not realistic to hope that with utilizing 12,500 TL, an investment of 400,000 TL can be done.

In a study of İİBK, 160 LIPs created a total of 5,296 job opportunities, whereas, expected employment capacity was 39,425 in 1977 (cited from Gitmez: 266). In these LIPs, only 349 labours were labours returned from abroad, so main aim of LIPs, creating job opportunities in return to home country, seems to be unachieved. However, this may be due to the fact that many of the workers wanted to work in simple works or even not work in return to country. The desire for employment right in compensation of a share, in fact, was for family members/relatives. This was emphasized by Penninx and Renselaar (1985), too.

For determining the performance of LIPs in decreasing regional differences, sectors involved and spatial distribution can be used as indicators. As mentioned before, LIPs are generally engaged in consumer and intermediate goods and did not reach the level of investment goods production. Involvement basically in these sectors, is not adequate for creating local development and decreasing regional differences. So, LIPs' performance about decreasing regional differences disappointed many.

In spatial distribution, on the other hand, it is true that LIPs' performance is relatively good; 60% of the LIPs were founded in towns of PRD. This is, however, due to the fact that migrant workers were already been from less developed regions of Turkey since the employment opportunities had been low in these regions. In other words, there is a strong correlation between number of LIPs opened and number of migrant workers from a particular town (Penninx and Renselaar, 1985).

Yet, according to Güven (1977), LIPs can still play a role in eliminating regional development differences since they put local resources to good use. Further, it can not be denied that, by creating industrial focus points in rural areas, LIPs can cause a transformation (Güven, 1977:181).

#### **4.1.8. Problems about LIPs**

The general poor performance of LIPs indicates that there were problems involved in LIPs, since otherwise, such attempts which had begun with great motives and desires of all actors (workers, entrepreneurs and governments) would certainly not disappoint many in the end.

##### **4.1.8.1. Process related problems**

Despite the fact that LIPs helped collection and utilizing foreign currency capital, there were several problems involved. These problems were listed as the lack of professional managers, lack of financial, commercial arrangements and tax laws for LIPs and problems related with the currency difference of Deutche Mark and Turkish lira especially in pay backs of credits, by chairman of DESIYAB (1980). The problems defined by representatives of LIPs were similar to those mentioned by the chairman of DESIYAB.

In addition, presence of different LIP definitions made by SPO, DESIYAB, Ministry of Industry etc, made partners distrust to LIPs, according to general director of YIBITAŞ. He also believes that the lack of government guarantee on share certificates is another significant problem according to him (ibid.).

These process related problems, then, resulted in closure of many attempts even in first steps. Yet, the surviving ones faced with more serious problems in later stages.

#### 4.1.8.2. Lack of a legal framework

Many LIPs were founded before there were no laws/rules controlling them and Capital Markets Board (CMB) was even not existed. In 1970s, the governments did not punish such activities with the belief that in the lack of a capital market, LIPs could attract capital flow. Yet, today there is a board, namely the Capital Market Board, founded in 1981 for controlling and monitoring capital markets in Turkey.

As mentioned before, in Turkey there is not an arrangement for investments like 'silent partnership'. This is because 'Silent partnership' is believed to be preventive for development of the capital markets in Turkey. This type of arrangements, also, argued to lead to '*sham fight*' due to the facilities in register and contract (such as no necessity for registration to trade register or no requirement for announcement to public about partners) which can easily be abused by entrepreneurs. Further, it would be a legalizing path for illegal firms of today and their activities in Turkey. Thus, CMB still does not believe that this type of arrangements is convenient for Turkey (Tokgöz, 1999).

What is allowed and obligatory for multi-partner companies in Turkey is determined by CMB law (2499), which was enacted in 1981. CMB law aims at preserving the rights of the investors by creating a well functioning, 'transparent' capital market. Any other type of public offering, partnership, other than determined by CMB law is considered as illegal.

Companies with more than 250 partners are under control of CMB and any multi partner company can go public offering solely with the consent of the CMB. For public offering, all the share certificates (*kıymetli evrak*), which is planned to be sold, must be registered to CMB. Then, public offer must be announced to public by ads in newspapers. In these written announcements, registration date, registration number and the bank in which the money will be deposited must be declared clearly ([www.spk.gov.tr](http://www.spk.gov.tr)). These precautions are necessary to prevent the

unfair results of public offers. After these steps, only, the firm can go public offering. CMB law forbids any other way.

Yimpaş, together with other LIPs, is not completely legal because public offering (capital collection) was not realized with permission of CMB. Public offering without permission is a crime, if proved; the responsible persons will be punished by 2-5 years of imprisonment and 10-25 billion TL penalty. If a firm goes to public without permission of the CMB, it means that the sold share certificates are not under control of CMB and there is not a reserve fund for meeting the loss. In addition, in public offerings without permission, what the investor gets is only a receipt in return of the capital he/she deposited. This receipt is not a legally acceptable document for evidence of the partnership of the investors. Thus, investors can not make use of their partnership rights and in loss conditions can not demand anything. In such cases, there is not a legal force for firms to fulfill what they previously claimed to do ([www.spk.gov.tr](http://www.spk.gov.tr)).

Additionally, Yimpaş and other LIPs guarantee the ratio of the shares that will be distributed from the profit, which is also not legal. Any company can not guarantee what will be given as a share from the profit in the beginning of the year. Further, LIPs state that there is guarantee of giving back the main capital of the partners when they ask for it. This is also illegal according to Law of Trade (item 329) (Küçükgüngör, 2003).

The president of CMB, Prof. Dr. Mengütürk, stated about LIPs and public offering without permission that;

“Legal process is started about Kombassan holding AŞ, İtifak Holding AŞ, Sayha Holding AŞ, KEDAŞ Konya Karaman Enerji Dağıtım Sanayi ve Ticaret AŞ, Yimpaş Yozgatspor AŞ ve Endüstri Holding, which were confirmed to go public without permission of our board and without fulfilling obligatory registration. The inspection on Jet-Pa and 21. Yüzyıl Büyük Holding continues”. (02. 02. 1999, Akşam)

In short, any public offer must be carried in accordance with CMB rules. It is true that governments condoned LIPs' collecting capital from public without registration before CMB was opened. However, today all LIPs, –no matter founded before enactment of CMB law or not- must obey the rules of the CMB law and come to legal platform. This is valid for Yimpaş, too.

Despite these drawbacks, however, some *late comer* LIPs like Yimpaş and Kombassan managed to become industrialist giants of today in which thousands of people work. Both were founded when the idea of LIPs was almost out of date and both have achieved more than expected. It is of course not fair to consider these two LIPs with other unsuccessful ones in same manner since in most cases money was collected in return to imaginary industrial plants (28.02.2000, TDN).

#### **4.1.8.3. Other problems**

Although several institutions have tried to warn people about the risks, many still joined and then faced with tricky fold of LIPs. Jet-pa holding is the most famous example of 1990s. What Jet-pa did in fact consists of solely creating fantastic ideals such as constructing houses on surface of Moon and trying to persuade people with booming in almost all news programs of national TVs. Akgunduz, the general directorate of Jet-pa, was able to make people believe, in fact deceive, in that Jet-pa would manufacture cars in a small province, Siirt, which was located in Southeastern Region of Turkey and which lacked required infrastructure. He was, thus, able to collect huge amounts of money only with a prototype car, which he claimed to manufacture in a nonexistent factory in Siirt. This shows us how numbers of people could be deceived easily with speech skills and dreamy promises of some entrepreneurs. Fortunately, with the help of government interventions, Jet-pa turned out to be a good experience for many people who had entrusted their savings to LIPs (28.02.2000, TDN).

Recently Endüstri Holding in Konya, too, revealed the fact that people abroad still can be easily persuaded with words of Allah, Islam etc. Having offered 30-40 %

yearly income for DM, many labours living abroad even get credit from banks with lower interest rates such as 5-6 % and gave it to Endüstri Holding for its profit-loss partnership. However, it was announced that the company has been bankrupted. Now, with the new board of directors, Endüstri Holding aims at yearly 25, 000,000 \$ endorsement and 4,000,000\$ net income in order to afford the pay backs without new partner acceptance (Arena, 2003).

LIPs were able to give high shares from profits of between 26-30% to their partners for their DM investments, which is incredible and improbable for any company around the world. However, the reason was not because they distributed shares from their supposed profits but it was because they used the incoming money through newly joining partners for this purpose. So it is certain that this 'chain of wealth' will break down soon (05.02.1999 Akşam). LIPs are very risky in this sense; however, they are also attractive since they persuade people on their trustworthiness about these high percentages.

LIPs, in some cases, try to involve in politics for strengthening their position, too. Although not directly valid for Yimpaş, the desire of LIPs in investing in politics means utilizing this capital for election expenses without consent of partners. For instance, it is claimed that, Kombassan, financed the expenses of election tour of Happiness Party (Saadet Partisi) covering Anatolia (Sevinç, 06.10.2002). This topic gets hotter and the relations between political parties and capital owners are on the agenda again. Generally speaking, 'Green Capital' firms support right wing parties such as AKP and Happiness Party. Yimpaş, among these companies, is argued to support AKP, yet there is not a clear consensus among Yimpaş founders and its partners who have views of fanatical movement (Sevinç, 06.10.2002).

As a result, LIPs and their ability to attract capital from abroad is an important fact, which should not be ignored. However, there are many blanks, which must be filled in order for LIPs to be evaluated as successful models.

## CHAPTER 5

### 5. YİMPAŞ

#### 5.1. FOUNDATION AND DEVELOPMENT OF YIMPAS

Yimpaş, in Turkish, stands for Yozgat Necessity Goods Marketing Incorporated Company. Its history begins with opening of a retailing store in Yozgat called Hicret (*the Hegira*) in beginning of 1980s. Founders of this store were 6 teachers, who had previously attended Atatürk University in Erzurum. All were people originally from Yozgat and further all attended social or educational science courses there. These common features and knowing each other for years made it easy to go in commercial partnership when they returned to Yozgat for work, later. In beginning of 1980s, when working in different schools as teachers, they decided to found a store, Hicret, with their savings. Yozgat was a small city with a centre district population of 86,932 in 1980 (SIS, 1980), therefore, it did not take a long time for Hicret to be known by all local people. Store Hicret was already founded as a consumption cooperative, thus in later steps, founders could engage in other activities such as constructing houses for themselves and new partners. It is in this phase that founders had to give their jobs up due to growing responsibilities about operations of Hicret Consumption Cooperative.

The attention that this cooperative attracted among local people opened up new ideas in minds of founders. They wanted to turn this underinvested town into a booming place with an already out of date of idea of LIP. The founders carried survey studies both in Turkey and Germany, to learn whether a LIP in Yozgat, can

efficiently be founded or not. Contracts of partnerships from adjacent cities, like Sivas and Kayseri, also, had been examined. Studies had been carried to determine what type of production or commercial activities can be done, whether sufficient number of partners can be provided, as well. Rules and regulations of different labour investment partnerships from different cities had been taken into consideration in preparing the new contract. Hicret thus expanded into a LIP called Yimpaş. Yimpaş was founded in August 1982. First members were the founders of the Hicret Consumption Cooperative (there were 6) and their acquaintances. The capital of the company was declared to be 6,000,000 TL.

The development of Yimpaş can best be evaluated by significant turning points. First of these turning points is opening of the first factory in 1987. It is true that commercial activities have been the first aim of this firm. Yet, as apparently stated in main contract in 1982, Yimpaş would begin to engage in production when it was large enough. In 1987, the first factory, which was a sun flower oil factory, was opened in Yozgat when there were 6 Yimpaş stores already opened in Turkey. In order to create the necessary financial sources for the production activities, Yimpaş, considering the main concern of the labours about finding work in return to Turkey, declared that any partner who has a share of 20,000 DM would have the right of employment for one person in factories of Yimpaş. So, many of the immigrant labours living abroad, wanted to participate in this action. Therefore, this declaration resulted in collection of double amount of capital compared to the amount required for opening of the factory (Uyar, 1996). The amount required for the employment right then was increased eventually and it reached 100,000 DM in 2000.

It was in 1990 that Yimpaş became a  *Holding Company*. There were 5 firms (Yimpaş Yozgat Necessity Goods Trade Incorporated Firm, Yimpaş Construction Contract Industry and Trade Incorporated Firm, Yimpaş Health Education Tourism Industry and Trade Incorporated Firm, Surtaş Construction Materials Industry and Trade Incorporated Firm and Ensar Plastics Industry and Trade Incorporated Firm) and 37 founder members in founding the holding. The holding



was founded for an indefinite period of time. The capital of the company was declared to be 1,000,000,000 TL, which were divided into 1,000 shares of 1,000,000 TL value. Yimpaş Yozgat Necessity Goods Trade Incorporated Firm with 550,000,000 TL contracted a large proportion of this capital. The other firms within the holding contracted 100,000,000 TL. On the other hand, founder members had shares of at most 2,000,000 TL and at least 1,000,000 TL.

Up to 1995 Yimpaş was a small but growing company investing both in commercial and manufacturing activities and creating employment opportunities in Yozgat, and several neighbour towns such as Sivas, Kayseri, and Çorum etc. In this period, the policy followed was especially focused on 'partnership' theme. Almost all stores and factories opened were in towns where Yimpaş partners were many in number. This was of course a deliberate decision of the firm aimed at showing Yimpaş partners how their savings had been utilized. This policy worked like an 'advertisement' (*whisper newspaper* in exact words of Yimpaş employers) and with each successful investment not only the popularity of Yimpaş as a LIP but also the number of new partners increased.

Again up to 1995, almost 80 % of employees were originally from Yozgat in every investment. Even in stores and factories opened in different towns people originally from Yozgat were employed. However, this policy lost its attraction after Yimpaş faced criticisms from local people of other towns. Today, initial composition has changed yet; Yozgat people have the largest shares among employees by not less than almost 50 %.

As a result of increasing number of partners and thus capital entering (almost 1,000,000 DM/day), Yimpaş decided to enlarge its hinterland. The first step was taken by opening of a store in the capital city of Turkey; Ankara, and another in the biggest city; Istanbul in 1995. This is the second turning point in history of Yimpaş showing its' investing in towns without concerning partnership theme. Apart from these steps in retail sector, Yimpaş undertook the biggest manufacturing investments after 1995; purchased Aytaç 60,000,000 DM and

founded Nora (20,000,000 DM). This is the third turning point in history of Yimpaş revealing that its involvement in manufacture is not temporary. Thus, the period after 1995 can be seen as its golden age in which it enlarged its hinterland by 27 new stores and made its biggest manufacturing investments.

After 2000, due to economic crisis in Turkey, a new page has been opened in history of Yimpaş. Yimpaş stopped its investments continuing in different towns of Turkey. It is now planning to follow a 'growing by becoming smaller' policy. The crisis seems to be a lesson for Yimpaş; it acts more consciously taking unexpected events into account. The present situation of Yimpaş is examined in 5.6 together with the criticisms it faced and its future plans.

## **5.2. THE YIMPAŞ MODEL AND PARTNERSHIP**

Yimpaş is a multi-partner publicly held company with almost 150,000 partners. The model of Yimpaş is a non-privileged model in which there are no differences between the last and the first partner concerning loss, ownership and the distribution of the profit (Yimpaş, 2000). In other words; the shares are not classified into sub-groups such as A, B, C types. Thus, Holding Executive Board Chairman, Dursun Uyar, stated that Yimpaş is a 'boss-less company' (TDN, 22.11.1997). According to him, Yimpaş displays an alternative development model (ADM) in which people become investors, and a new terminology including face-to-face partnership and active stockholders etc comes into agenda (ibid.).

Since Yimpaş is a multi partner firm, as mentioned in 4.1.8.2, it must conform to all the requirements and rules of the CMB, which controls multi-partner firms in Turkey and makes regulations about capital markets (inspector institution). In CMB rules, it is clearly stated that (item 4), public offering of a company is possible only with consent of the board. Yet, Yimpaş, went to public (that is, collected capital from people for increasing its capital) without having consent of CMB. Further, according to CMB rules again, all the capital supplied via partners

should be gathered and registered in a bank account opened for this purpose. However, Yimpaş has collected capital directly from people without clear registration.

Yimpaş partnership, like partnership of firms in stock exchange, does not provide partners to join general councils, and decide for future activities or new investment opportunities. However, stockholders can vote in accordance to their share and choose the board of directors, which is responsible for decision making. Yimpaş resembles to firms operating in Istanbul Stock Exchange (ISE) in this view. Yet, there is a striking difference between Yimpaş and firms operating in ISE; value of Yimpaş shares do not increase or decrease in accordance to the demand for them, which is the usual case for other multi partner firms operating in ISE. The value of Yimpaş partnership is directly related with the profit of the company, which is determined at the end of the year. Another difference with ISE firms is that the shares of Yimpaş are registered to name whereas in ISE, the shares are not necessarily so.

In Yimpaş, general councils meet at least once a year within the three months period after the assessment of the profit-loss of the holding. After this accounting, in order to calculate the profit to be distributed to partners, firstly, the necessary amounts that the firm has to pay such as general expenses or amortisement prices are deduced from the end year revenue. The remaining value is net revenue. From net revenue, 5% legal reserve fund is deduced. Without this legal reserve fund deduction, profit cannot be distributed in any circumstances. General council determines distribution date of the profit shares and the way it is distributed.

Before going in details of partnership, it is convenient here to remind that in this thesis Yimpaş partner and Yimpaş share-holder are used for same meaning; in other words, for people who had given their saving to Yimpaş for investment purposes. What the partner gets in return is a receipt showing what he or she will take in return at the end of date of maturity. In Yimpaş, to be a partner, capital must be in foreign currency of DM according to the body of law. Any other

currency except DM had not been acceptable. Yet, after European Union began to use Euro as standard currency, Euro is used in Yimpaş, too. Partnership cannot be transferred without consent of board of directors and recording of the transfer in the partners share register. Partnership is declared on a piece of paper and there is not a government guarantee. If pre-determined profit rate is not provided at the end of the year (maturity time is one year), there is not any legal basis that partners can insist on their rights of pay backs. It is risky in this sense. This risky characteristic is about the paybacks, and not comprises the partnership.

Yimpaş declares in the beginning of the partnership about the amount that will be provided at the end of the year. If profit exceeds more than declared amount, partners can only get what is written on paper. In case of a loss, nothing can be got back. An important point here is that since profits of a company cannot be predetermined, what Yimpaş declares in the beginning is estimation, which is not different from predetermined interest rates of financial institutions such as banks. Thus, whether profit-loss partnerships are different from interest-based investments that are believed not to be *helal*, as Yimpaş and other profit-loss partnerships claim is a question mark. Both distribute the income of the capital in similar ways, yet under different names; share from profit in case of Yimpaş and income from interest in case of banks.

### **5.3. SECTORS INVOLVED AND COMPANIES OF YIMPAŞ**

In examining sectors involved, it is important bearing in mind that there is not continuity in sectors involved and daughter firms of the holding company. In other words, although Yimpaş engaged in a variety of sectors previously, today some of them had been given up after economic crisis of 2001. Yimpaş now follows a policy of getting smaller. Thus, in some instances, some of firms had to close down, or in some other cases, firms merged. As a result, for the aims of this thesis, all the sectors involved will be mentioned and the operating ones will be stated.

### 5.3.1.Retail Sector (Chain Stores)

Yimpaş is firstly a chain stores holding. This is declared clearly by the Holding General Secretary, Mehmet Kaplan;

“Risks are low in our area of investment. We first assess the market and later invest. We conduct studies at Yimpaş markets and build factories for products that sell more than their competitors (09.18.1999, Turkish Daily News).”

Retail has always been the most important one among others from the very beginning. Involvement in other sectors is considered as subsidiary for the development of the company and ultimate aim of becoming leader in retail. The significance of retail activities is declared clearly by the company; “Yimpaş aims to be leader of retail sector” ([www.yimpas.com.tr](http://www.yimpas.com.tr)). The factories and involvement in other sectors are in fact ‘means’ for this aim.

This sector, namely retail, is relatively easier to operate than other sectors like manufacturing or tourism and can easily be carried on by amateur people. Furthermore risk involved is relatively lower, for the market is ready about these types of goods. Even in a crisis or bankruptcy situation, the idle products can easily be sold at a discount. This would not be possible if the products were something else such as machines or houses etc.

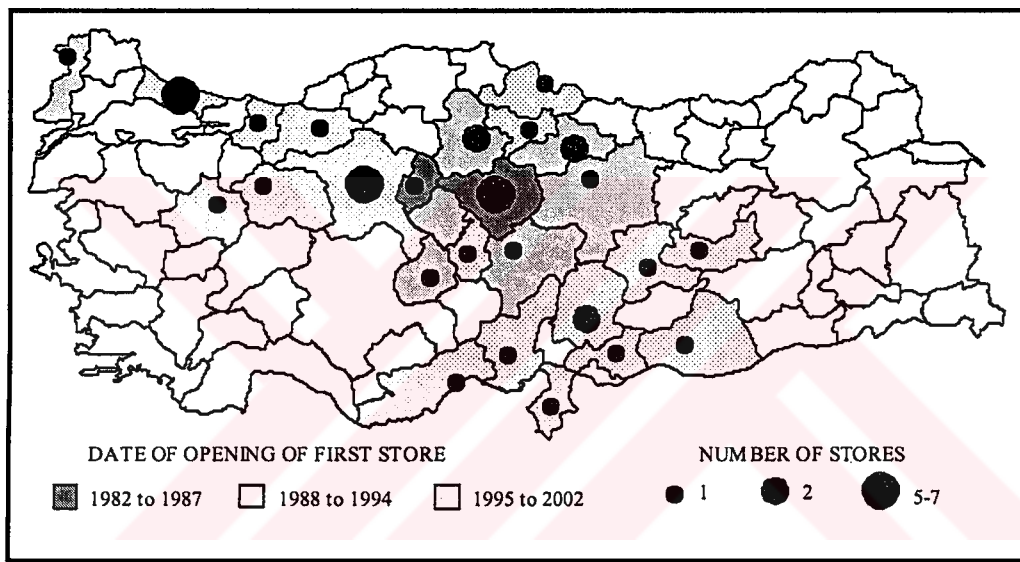
There are 44 Yimpaş stores in Turkey employing 3,200 persons. 6 of these stores are located in the capital city Ankara, 5 of them are in the biggest city of Turkey; Istanbul. There is a project of another store in Eyüp neighborhood of Istanbul, yet it is delayed due to crisis. In Yozgat there are 6 stores including districts. The other 22 stores are located in different places of Turkey.

**Table 5.1.** Distribution of Yimpaş Stores in Turkey

PLACE	FOOD (m <sup>2</sup> )	TOTAL(m <sup>2</sup> )	OPENING DATE
ADANA	2.400	6.500	1997
AKSARAY	650	3.800	1993
AMASYA	450	1.700	1999
ANKARA (ÇANKAYA)	1.750	2.450	1995
ANKARA(ULUS)	2.000	7.000	1997
ANKARA(SÖĞÜTÖZÜ)	2.000	8.300	1999
ANKARA(ERGAZİ)	1.300	2.200	2000
ANKARA(PURSAKLAR)	2.000	3.100	2000
ANKARA(SİNCAN)	1.150	2.500	2000
ÇORUM	1.500	3.000	1988
ÇORUM(ALACA)	500	2.500	1996
DÜZCE	1.750	5.300	2001
EDİRNE	500	1.400	1990
ELAZIĞ	900	1.100	2000
ESKİŞEHİR	1.500	3.300	1998
GAZİANTEP	2.400	10.100	1999
HATAY (İSKENDERUN)	1.500	4.500	1998
İSTANBUL(MALTEPE)	700	1.600	1995
İSTANBUL(ÜSKÜDAR)	600	1.400	1996
İSTANBUL(ÜMRANİYE)	2.400	5.250	1997
İSTANBUL(ŞİRİNEVLER)	1.350	3.100	1999
İSTANBUL(GÜNGÖREN)	900	900	2001
KAHRAMANMARAŞ	3.500	12.250	1999
KAHRAMANMARAŞ (ELBİSTAN)	1.250	1.250	2001
KAYSERİ	300	1.660	1993
KIRIKKALE	1.300	2.900	1986
KIRŞEHİR	400	1.800	1990
KÜTAHYA	3.000	10.350	1999
MALATYA	3.500	8.900	2000
MERSİN	1.050	1.050	2001
NEVŞEHİR	800	3.100	1997
SAKARYA	2.250	2.500	2001
SAMSUN	600	2.600	1995
SİVAS	1.500	5.100	1991
ŞANLIURFA	2.100	9.000	2000
TOKAT	850	2.700	1991
TOKAT (TURHAL)	600	2.800	1991
YOZGAT (YERKÖY)	250	1.000	1981
YOZGAT (AKDAĞMADENİ)	600	1.200	1985
YOZGAT (SORGUN)	700	3.250	1985
YOZGAT (ÇEKEREK)	500	2.000	1985
YOZGAT (YOZGAT ÇARŞI)	800	800	1986
YOZGAT /FABRİKALAR SAHASI	300	300	1998
YOZGAT AVM	2.500	10.000	2000
<b>Ref:</b> Yimpaş Activate Directorate			

Yimpaş, in beginning years, preferred to open stores in cities where number of partners was higher. This policy was deliberately followed in order partners can actually see what had been done with their capital. Yimpaş opened a store in Edirne in 1990, since many of the workers living abroad were coming to Turkey via Edirne. It was welcomed by the partners to see a Yimpaş store in the first steps to Turkey in their long journeys. Yet the company has opened and plans to open new ones in eastern cities in later stages.

**Figure 5.1.** Geographical Spread of Yimpaş Stores in Turkey



\*The store in Çorum was renovated in 2002. It has now 7,500/14,000m<sup>2</sup>.

As can be seen from the figure, up to 1987, of the six stores five were located in Yozgat and one in Kırıkkale. From 1987 to 1994, Yimpaş opened eighth more stores in adjacent and nearer towns generally in Central Anatolian Region. After 1995, Yimpaş changed its policy concerning partnership theme, and opened 27 new stores whole over Turkey. In near future, this policy seems to continue by opening stores in Aydın, Afyon and two in İzmir.

Older stores are smaller in terms of area. Average total surface area of the six stores opened in 1982-1987 period is 1858.3m<sup>2</sup>, whereas this figure increases to 2782.5m<sup>2</sup> in 1988-1994 period and reaches to 4470m<sup>2</sup> for 1995-2002 period.

**Table 5.2.** Food and Total Surface Areas of Yimpaş Stores

	<b>1982-1987</b>	<b>1988-1994</b>	<b>1995-2002</b>
<b>FOOD-AVE (m<sup>2</sup>)</b>	691.6	787.5	1555
<b>TOTAL-AVE (m<sup>2</sup>)</b>	1858.3	2782.5	4470
<b>Ref: Yimpaş, Activities Directorate</b>			

As mentioned before, after 1995 Yimpaş grew rapidly and preferred to build larger stores like a complex including a Yimpaş Hotel, a restaurant-cafe and a Health Polyclinic. However, after 2000, Yimpaş is more self-possessed. In completing its unfinished stores and in opening up new ones, Yimpaş now prefers not doing this.

In Yimpaş stores, almost 40,000 types of goods are sold; food (white-red meat, water, milk and related products, fruit juice, oil, biscuits etc.), furniture (sitting room-dining room-bed room sets, canapés, carpets etc.), textile (men-women textile, home textile, men-women shoes), electronic devices (cassette-player, TV, iron, refrigerator, oven, washing machine, dishwasher etc.). In addition, Yimpaş stores include barber, photographer, restaurant, pharmacy, gold-money changer which other retail stores like Real and Carrefour do not have. In this sense Yimpaş believes that it has brought many innovations to retail sector.

Because Yimpaş is founded with the capital of mostly labours living abroad, Yimpaş opened stores in varying countries abroad, too. They are generally located in countries where labours work, yet there are some other countries like Uzbekistan. In future, Yimpaş plans to open a store in Mecca for Muslims who had gone there for pilgrimage as well.

There are 14 stores abroad. Their names are no more 'Yimpaş' but still under the possessing.



**Table 5.3. Yimpaş Stores in Abroad**

Place	Year	Total area
Frankfurt (Offenbach)	1995	4,500m <sup>2</sup>
Köln	1998	2,000m <sup>2</sup>
Sindelfingen	1999	12,000m <sup>2</sup>
Duisburg	1999	37,002
Bregenz	1999	6,400m <sup>2</sup>
Bregenz	1999	1,800m <sup>2</sup>
Hamm	2000	20,000m <sup>2</sup>
Lörrach	2000	2,000m <sup>2</sup>
Ludwigshafen	2000	13,000m <sup>2</sup>
Hannover	2000	10,000m <sup>2</sup>
Ashgabad	2000	20,000m <sup>2</sup>
Tashkent	2000	5,500m <sup>2</sup>
Tashkent2	2000	4,800m <sup>2</sup>
Düren	2001	1,500 m <sup>2</sup>
<b>Ref: Yimpaş, Education Department</b>		

### 5.3.2.Manufacture

The factories of Yimpaş produce food, textile, and furniture for its stores. A particular type of good is produced if 30-40 % of it can be sold in Yimpaş stores; if not, Yimpaş does not involve in producing that good and this need is met via other firms. Goods, which cannot be marketed in Yimpaş stores, are not produced. Yimpaş is engaged in packaging of goods, architecture, printing, construction, marketing, automotive marketing, and have fuel oil stations in various towns of Turkey.

### 5.3.2.1. Food Sector

Food sector is one of the most important manufacturing branches for Yimpaş. Until 1995, there was only an oil factory related with food sector. Yet Yimpaş purchased company of 'Kevser' and company of 'Aytaç' in 1995, well known companies, which already have been involved in food sector. Food sector comprise also the stockbreeding establishments, prepared animal food factories etc. Integrated meat and white meat Factory in Çerkeş/Çankırı, is the third biggest establishment of Europe and the biggest of Turkey in terms of floor area. Its chemical and biological purification establishment was rewarded with Environment Reward of Ministry of Environment, Environment Technologies Applicants in 1994. International ISO 9001 Quality System Certificate also approved the production and working system of Aytaç. The products are sold in three marks; *Aytaç*, *Seç* and *Büfe*. The products are exported to Middle Eastern countries and Turkish Republics. Furthermore, integrated meat establishments of Aytaç began production in Avustria, Belgium, UK and France.

In addition to that, Yimpaş has milk, water, fruit juice, biscuit factories, and olive undertaking in various towns of Turkey and Uzbekistan. In food related factories a total of 1390 people are employed excluding Uzbekistan.

**Table 5.4.** Food Sector Factories of Yimpaş

Factory	Place	Opening date	Floor area	Employment Capacity
<b>Aytaç Meat Integrated Establishment</b>	Çerkeş/ Çankırı	1995	812,000m <sup>2</sup>	650
<b>Aytaç stockbreeding</b>	Çankırı, Yozgat Factories area	1993	150,000m <sup>2</sup> (Total)	70
<b>White Meat Establishment (3 units)</b>	Yozgat	1993	35,000m <sup>2</sup>	50
<b>White Meat breeding</b>	Kırıkkale	2000	75,000m <sup>2</sup> / 850,000m <sup>2</sup>	150

<b>Establishment</b>				
<b>Grain Factory</b>	Sorgun/ Yozgat	1998	1,500m <sup>2</sup> / 23,000m <sup>2</sup>	20
<b>Grain Factory</b>	Çerkeş/ Çankırı	1994	10,000m <sup>2</sup> / 45,000m <sup>2</sup>	30
<b>Milk Factory</b>	Çankırı	1996	3,000m <sup>2</sup>	50
<b>Milk Factory</b>	Turhal/Tokat	1994	4,500m <sup>2</sup>	60
<b>Milk Factory</b>	Tashkent/ Uzbekistan	In construction phase	30,000m <sup>2</sup> closed space	In construction phase
<b>Oil Factory</b>	Yozgat	1991	5000m <sup>2</sup>	50
<b>Water-Milk- Fruit Juice Integrated Establishment</b>	Hendek/ Sakarya	1997	5500m <sup>2</sup>	130
<b>Olive Undertaking</b>	Gemlik/Bursa	1999	3000m <sup>2</sup>	30
<b>Biscuit Factory</b>	Kayseri	1998	10,000m <sup>2</sup>	100
<b>Ref: Yimpaş Education Department</b>				

#### 5.3.2.2. Textile Sector

*Yimteks* is the daughter firm of Yimpaş engaged in production of textile products of Yimpaş stores. There is a computer automated textile factory located in Yozgat OIZ with a floor area of 30,000 m<sup>2</sup>. In this factory, men-women exterior clothing, men-women-children sport clothing, and children interior clothing are produced. The production capacity is 250,000 pants, 300,000 shirts, 150,000 jackets, 650,000 interior clothing pieces, and 100,000 skirts per year.

In addition, Yimpaş has two shoe factories in Malatya and Istanbul. The production capacities are 300,000 pair of men shoes/year, 500,000 pair sole/year 65,000pair/year respectively. In textile sector, 455 people are employed.

**Table 5.5.** Textile Factories of Yimpaş

<b>Factory</b>	<b>Place</b>	<b>Opening date</b>	<b>Floor area</b>	<b>Employment Capacity</b>
<b>Yimteks Ready-made Factory</b>	Yozgat OIZ	2000	30,000 m <sup>2</sup>	350
<b>Yimteks Shoe Factory</b>	Malatya	1994	1800 m <sup>2</sup>	45
<b>Yimteks Shoe Factory</b>	Bayrampaşa Istanbul	1998	2420 m <sup>2</sup>	60
<b>Ref: Yimpaş Education Department</b>				

### 5.3.2.3.Furniture Sector

There are two companies involved in furniture; *Nora* and *Yimpaş Furniture*. *Nora* has a furniture factory in Yozgat founded in 1999. In this factory, sitting room, bed room, dining room, children and young's bed room sets, demounted furniture, desks, bookcases, canapés, cloakrooms, spring beds and accessories are produced.

Founded on 24,000 m<sup>2</sup> closed space, *Nora Furniture* factory produces 2,400 demounted sets /year, 600 polished sets/year, 4,500 sitting room sets/year, 12,000 canapé/year, 9,000 beds /year are produces. Furthermore, 33,000m<sup>2</sup> projected works are done. The projected works comprise the decoration of stores, inner decoration of hotels, villas, houses, offices and social establishments. It has an employment capacity of 250.

*Nora* has seven furniture stores, which are located in Ankara (2), Bursa, Çorum, Kırıkkale, Tokat and Yozgat (2). The stores in Ankara, Karacakaya and Karpuzlu, are located in Siteler neighbourhood where furniture producer and sellers are agglomerated.

*Nora* also has 24 vendors in 11 cities of Turkey and in some European countries. It has after sale repair and spare part service as well. *Nora* products are sold in 30 stores of Yimpaş. *Yimpaş Furniture* on the other hand, had furniture factory in

Kayaş/ Ankara. Yet, today, only Nora Furniture Factory, which was opened in Yozgat factories area, is alive.

### 5.3.3.Tourism

In addition to retail and manufacturing sectors, after 1988, with changes in main contract, Yimpaş began to engage in tourism, too. Yet tourism involved is not coastal tourism. As General Secretary of the Holding declared, Yimpaş is not very interested in coastal tourism market, holding plans to build hotels in same towns in which Yimpaş markets already exists (TDN, 18.09.1999). This is in accordance with firstly with holding's general tendency to invest in towns where there are Yimpaş stores and secondly with partners' and founders' conservative beliefs.

There are 4 hotels in Turkey, which are located in Eskişehir, Kahramanmaraş, Yozgat Çamlık and Yozgat city centre. There is another hotel in Şanlıurfa, which is in construction phase. In 26 storeys, Yimpaş Şanlıurfa Hotel will have 208 rooms. There will be sports saloon, sauna, Turkish Hamam, swimming pools separate for men and women in this hotel. The hotel in Çamlık is a partnership of which the ownership does not wholly belong to Yimpaş. Located in the Çamlık National Park, it has a 68-room capacity. The other hotel in Yozgat is located on E23 road, and has 39 rooms. In this hotel, there is an East (*Şark*) coffeehouse, sauna, billiards saloon, and café-restaurant. It is located in a complex together with a mosque, fuel oil station, park and sports fields. Yimpaş also has a restaurant in Çamlık National Park.

Yimpaş also has two hotels in abroad. One of them is in Bişkek/ Kırgızistan, and the other in Offenbach/Germany. There is another planned one in Ashgabad/ Turkmenistan. In tourism sector Yimpaş employs 140 people.

Yimpaş has hotels in abroad one of which is located in Offenbach in Germany. It has 51 rooms and 115-bed capacity. Yimpaş plans to open two more hotels abroad. One of them will be in Bişkek/Kırgızistan with 180 rooms in 15 storeys founded

on 30,000-m<sup>2</sup> usage space. A sports saloon, sauna, Turkish Hamm, swimming pools separately for men and women, meeting and briefing rooms will be included. The other hotel will be in Ashgabad/Turkmenistan with a bed capacity of 205 and will be a part of a great complex consisting of a hotel, store ping centre and a business centre.

Tourism sector has a strategic importance for Yimpaş; due to the religious beliefs, the partners have requests such as separate swimming pools for men and women, which cannot easily be met, in other alternative hotels already operating. Moreover, in Yimpaş hotels, the conventions and business assemblies can be organized in peace and quiet. Thus, Yimpaş designs hotels in accordance to the needs of the partners and purposes of the company.

**Table 5.6. Yimpaş Hotels**

Place	Opening date	Employment Capacity
Eskişehir	1998	35
Kahramanmaraş	2000	35
Yozgat (Çamlık Otel)	1998	40
Offenbach/ Germany	2000	
Yozgat (Factories area)	1999	30
Ref: Yimpaş Education Department		

#### 5.3.4. Health

Another sector Yimpaş involved is health. In 1988, Yimpaş declared that it would engage in health with the changes in main contract. There is a hospital in Nevşehir named Yimpaş Çağrı Hospital with 50-bed capacity and two surgery rooms. Yimpaş Çağrı Hospital has all polyclinics, ambulance services, 24-hours/day emergency service with an employment capacity of 50.

In addition to this hospital, Yimpaş has two Health centres; located in Sivas and Yozgat which employs 25 and 35 people respectively. There is another health

Centre planned in Asghabad, too. It will be founded on 15,500 m<sup>2</sup> closed space and have 72 bed capacity. In health sector totally 110 people are employed.

### **5.3.5. Marketing**

The need for goods other than food, furniture and textile produced by Yimpaş which will be sold in stores had been met via marketing firms; *Ufuk Marketing, Babatürk, and Birpa Birlik* of Yimpaş Holding. Today not all of these firms are under possessing of Yimpaş group.

Of these firms *Birpa* is the largest supplier of Yimpaş (with a capital of 10,000,000,000,000 TL), which is still alive. Founded in 1995, *Birpa* is engaged in producing, marketing, importing and exporting of all types of wholesale food products other than fresh vegetables and fruits. It also supplies cleaning materials, paper and cosmetics products. It has an employment capacity of 130. *Birpa* not only markets these products but also is engaged in production. These products comprise Baldo type rice, haricot bean, chickpea, red lentil, green lentil, Kevser marked tea types, Kevser marked jam-halva, honey, and olive. *Birpa* also exports to Yimpaş stores abroad. In 2000, it is planned to found a department in Adana and engaged in import-export affairs. The centre of *Birpa Birlik* is located in Ankara, yet there is a wholesale food-marketing unit in Istanbul as well.

Located in Ergazi, Ankara, *Ufuk Marketing* buys electronic devices, glassware, and durable goods for Yimpaş stores. It is also distributor of 'Proma' clima, 'Haier' refrigerators, and 'Valera' small house devices. *Babatürk* is responsible for providing goods to stores in Azerbaijan.

### **5.3.6. Construction and non- metallic products**

Another sector Yimpaş has involved is non-metallic mineral products of which raw materials are plenty in Yozgat. *Yimpaş Mining and Non-metallic mineral products -except products of petroleum and coal Company* was founded in 1996

and is engaged searching for any type of minerals, and processing them. There are two brick factories and a marble-granite establishment belonging to this company.

Related with this sector, Yimpaş has another daughter firm; *Setaş*, which is involved in metals casting. Setaş worked with construction firms, municipalities, agricultural firms, winch firms, coal undertakings, heavy metal industries and Turkish Republic General Directorate of Highways. It is founded in Sivas OIZ on 2000m<sup>2</sup> closed space and has a production capacity of 3000 tones /year. This firm has construction firms which constructs villa and houses in different places of Turkey, as well. In construction sector, Yimpaş has another firm; *Ümran Construction*, working for construction of stores, factories or other buildings of Yimpaş, together with another daughter firm *ASG Architecture*. ASG prepares projects of Yimpaş group's hotels, stores, hospitals, and business centres, work as controller, and realize construction activities.

In addition to construction sector, Yimpaş has also been interested in production of construction materials. *Surtaş* is a construction materials manufacture and marketing firm of Yimpaş. Founded in 1986, *Surtaş* has stores in Kırıkkale, Yozgat and Sorgun in which any type of construction materials is sold. Also, there are iron, cement and coal selling stores. Another *Surtaş* store is planned to open in Sivas but not completed yet.

**Table 5.7.** Construction related Establishments of Yimpaş

Factory	Place	Opening date	Floor area	Employment Capacity
Umran Construction	Yozgat	1989	-----	25
Yimpaş Block Brick Factory	Yozgat Factories Area	1989	2 factories 20,000 m <sup>2</sup> / 87,000m <sub>2</sub> open	10
Setaş Casting Factory	Sivas OIZ	1997	2000m <sup>2</sup>	10
ASG Architecture	Istanbul	2000	-----	5
Surtaş	Yozgat, Sorgun, Kırıkkale	1986	-----	Totally 20
Ref: Yimpaş Education Department				



Although there are a number of construction firms in Yimpaş Group, these firms do not work for outside demands. In other words, these firms do not construct houses, offices etc for selling them. These firms work only for needs of Yimpaş.

### 5.3.7. Automotive and liquid fuel

In 1998, Yimpaş took the first step in automotive and liquid fuel sector together with a leader establishment in this sector, *Karden*. Karden has fuel oil stations, and sells automobiles and heavy commercial vehicles. It is further involved in marketing of Nissan, Renault, Isuzu, Chryseller automotives. In Karden almost 750 persons are employed. However, today, Karden-Yimpaş relationship is over.

There are two fuel oil stations in Yozgat under possessing of Yimpaş Holding. One of them is located in industrial complex of Yimpaş on Sivas-Yozgat road. Related with automotive sector, there is a tyre vendor of Bridgestone in Yozgat, too. However, due to the economic crises, Yimpaş is no more involved in automotive marketing sector. Another company in Yimpaş Holding is *Mertaş*. This company was founded for transport facilities of the holding and repair and maintenance of vehicles. There is a repair store and a transport unit located on Yozgat-Sivas road.

**Table 5.8.** Automotive Related Firms of Yimpaş

Factory	Place	Opening date	Employment Capacity
Mertaş	Yozgat	1998	30
Ufuk	Ankara/Ergazi	1995	50
Ref: Yimpaş Education Department			

### 5.3.8. Education

Yimpaş has been interested in education as well. *Bil-San* is the responsible firm of Yimpaş who is engaged in science and art affairs. The aim is to open and manage primary, secondary, and high schools, private schools offering specialized private

courses for university exams (ÖSS, ÖYS), and dormitories. Yet, this private course establishment has been closed, now. There is a primary school in Keçiören district of Ankara and a private school for preparation to ÖSS/ÖYS in Sakarya neighborhood of Ankara.

Related with education, Yimpaş attempted working in computer sciences. *Emre*, is responsible for computer affairs. This firm prepares network products for computers like modem, hub, router etc., barcode applications and automation systems (MIS-Management Information Systems) for stores. It is also general distributor of Galaxy made computers in Turkey.

In 'Vizyon Printing' any necessary documents, brochures are printed. There are two branches; one is located in Yozgat and the other in adjacent city, Sivas. In branch of Yozgat, every type of paper, cardboard is printed. It is an integrated system with computer, film system, printing and bookbinder sections. Branch of Sivas was responsible for printing periodic forms, formal documents. These branches do not only work for Yimpaş, any external work of people is met either. Today, branch of Sivas has been closed, only branch in Yozgat works.

### **5.3.9.International**

Yimpaş founded a separate company for abroad affairs. This company, namely *Yimpaş GmbH*, is engaged in opening Yimpaş stores in abroad (see Silent Partnership in 4.1.1). There are 14 Yimpaş stores in different countries. In order to meet the meat demand for these stores, Yimpaş Etsan founded *Aytaç GmbH*. Together with *Yimpaş Etsan Handels GmbH* (now *Aytaç Handels*), *Aytaç GmbH* is responsible for providing meat to these stores in abroad. There are 4 integrated meat establishments in UK, France, Austria and Belgium opened by either *Aytaç GmbH* or *Yimpaş Etsan Handels GmbH*. *Yimpaş Etsan GmbH* is founded in Austria, and with 9 branches it exports to Australia, New Zealand, India, Far Eastern countries and many Islamic countries. Moreover, another GmbH company, *Furkan*, is located in Germany and involved in marketing of the meat products of

these establishments. However, due to heavy laws in Germany, Yimpaş ceased its stores in Germany.

Yimpaş *KST* is responsible for investments in Turkmenistan. The aim of this company is to strengthen economic and social relations between two countries, and increase the commercial activities. *KST Ltd* will found an establishment of three parts; an apart hotel of 205 beds, a store ping centre and a business centre in capital city of Turkmenistan, Ashgabad, on 18,000m<sup>2</sup> closed space. This project has not been completed yet.

Yimpaş make investments in Uzbekistan together with *Demir Companies Group*. *Demir companies Group* has an employment capacity of 1,500 and constructed important buildings in Uzbekistan such as the buildings of Stock Exchange, Banks Association of Turkey, and Central Bank. Yimpaş *Demir Companies Group* has a 40,000 acres farm, a store of construction materials, a supermarket and a fast food restaurant in Uzbekistan.

#### **5.4. INTERNAL FEATURES OF YIMPAŞ IN DEVELOPMENT**

##### **5.4.1. Limited Economic Relations with other Parties (the preference for Vertical Integration)**

The decision of a firm on executing its transactions is an important topic which may change in accordance with legal regulations of the governments, desires/targets of the firms, local characteristics, type of activities engaged and the like. Yimpaş, too, decided on the organization type of the company concerning these issues. Its first concern was related with the local characteristics of Yozgat.

The city of Yozgat has always been characterized with its limited horizontal relations within firms from the beginning years of the Republic as mentioned in 3.2.2.2. As the governor of Yozgat, Hüseyin Önal, states:

“Local capital accumulations of Yozgat cannot be utilized in productive purposes. Capital cannot be accumulated in investment campaigns; it is true that capital is not much when compared to other cities, yet there are high amounts of money in banks, which are left idle. In two districts of Yozgat, Yerköy and Sorgun, we tried to gather small industrialists and get loan for new manufacturing purposes. But we could not achieve since the industrialists believe that “We had better have a useless ‘goat’ instead of a share in a partnership” (Zaman, 03.01.2001).

It can be inferred that being a partner of a partnership is considered to be useless in Yozgat. The local people of Yozgat do not trust to partnerships with fear of being cheated. In such an environment, the development of Yimpaş has become more important which should be studied on.

For Yimpaş founders, forming a holding company was believed to be the most convenient type of organization. Favoring hierarchical organization rather than having transactions via market is a deliberate decision to remain closed and to avoid relations with any other parties who are assumed to behave opportunistically, in low trust environment of city of Yozgat. As Cooke and Morgan (1998:30) suggests;

“Low trust relationships are close to opportunistic behaviour which is assumed to be prevalent in transaction cost economics theory”.

In case of Yimpaş, the determinant of this decision, whether to execute transactions across markets or within firm is the desire to be secluded from others since the level of trust to other parties is low. So, any firm is to be established within the holding when necessary. For example, there is a brick factory of which products are used for construction activities of Yimpaş. For needs like architecture, construction, communication, and printing there are daughter firms (AtlasNehir Communication, Vizyon Printing, ASG Architecture, Yimpaşnet, Emre Computer, Setaş Metal works etc.) operating under the umbrella of holding. Activities related

with these sectors are not out-contracted to other firms. The low-trust environment of Yozgat and the desire of Yimpaş to be secluded from other parties resulted in vertical integration decision of the company.

#### 5.4.2.Social Network in Yimpaş

Apart from vertically integrated business relations resulting from low trust to other firms, Yimpaş defines a social network depending on internal trust within partners and founders. This internal trust plays a crucial role in development of Yimpaş. The relations defined by Yimpaş mainly depend on social contracts arising out of interpersonal trusts among partners. This is declared clearly by the Holding Executive Board Chairperson, Dursun Uyar;

“We don’t have a ‘boss’ understanding in economic terms. However, we have of course a boss in administrative terms. And this concept of management is based on the *trust* that associates feel for us. Today, as they *trust* us, we are managing.” (TDN, 22.11.1997) (Italics mine).

It is important to determine the nature of the trust present in Yimpaş. The trust that Yimpaş partners, employees and founders have not occurred as a result of continuous relations like the usual case experienced in clusters of SMEs, yet it aroused out of the similar background they had. Being on the same ideological platform has removed the problem of lack of trust among them. Secondly, the trust mentioned for Yimpaş partners is *particularized trust* which is open to a particular group of people, but not *generalized trust* which is open to all, in Uslaner’s (1999) terms. Particularized trusters have faith in their own kind, they often develop secret rituals that only members know and in which only members may partake. Yimpaş partners meet, visit, each other periodically which ‘others’ are not allowed. Further, particularized trusters worry that exposure to people unlike themselves might corrupt their own sense of values. This provides an answer why Yimpaş partners are closed to others; it is the fear of corruption of values.

In order not to be corrupted by outside effects, there are trust-inviting visual and acoustic signals developed by groups. The former may be in form of wearing licensed uniforms (military, religious or professional), haircut, style of dressing etc, whereas, the latter involves signs related with language; using similar words, accents etc (Offe, 1999). In Yimpaş case, there is not any visual or acoustic signal directly determined, yet it is known that Yimpaş partners have a similar appearance, which 'them' and 'others' can be distinguished.

Offe, argues (1999) that under normal conditions, the truster is aware of the risks involved. However he/she behaves with the belief 'I know it can happen, yet I believe it won't' in mind. According to Giddens (1990), too, individuals may negotiate ambiguities if he/she trusts to other parties. In Yimpaş, partners have easily ignored ambiguities of this new company since they believed in what the company stated would certainly become fact. In the 1980s, for instance, Yimpaş offered 20% income for Deutsche Mark in one year when the usual interest rate for DM was about %5 in financial institutions like banks. This was a high figure, which could be considered to be incredible by many of 'other' people, but partners believed in that the founders of Yimpaş who believe in God would be trustable and certainly not cheat partners. It is interesting to note that when asked to partners whether they would have given their savings to their family members (or close relatives) for the same purpose, the answer was NO. Partners trust to founders of Yimpaş just because they have common beliefs more than their own relatives that they know for years.

In Yimpaş, as a result of this high trust, relations within the community created solidarity among themselves. Kurtoğlu (1998) denotes that solidarity structures are usually created when the economic niche is small scale entrepreneurship of co-ethnics, aiming at protecting the entrepreneurship from vulnerabilities of the market in competitive environment. These solidarity structures (both vertical and/or horizontal) reinforce intra communal organizations in same economic niche, new common communal norms and values in negotiations in how to arrange informal exchanges or transactions. In addition, these solidarity structures

determine who can or cannot be trusted and further raises consciousness or communal identity organized on the same basis. The attitude of Yimpaş is reminiscent of 'ethnic entrepreneurship' in which solidarity structures have a vital role, rather than a professionally organized firm. Yimpaş partners look out for each other; they prefer being in relation with partners again. For instance, they'd rather buy goods from stores belonging to other Yimpaş partners. Contrary to that, there are also counter arguments about solidarity ascertaining that it can be forged even when people disagree (Solomos, 2001). Yet the solidarity of Yimpaş partners and founders completely results from the fact that they think alike.

These relations developed within Yimpaş partners, founders and employees resemble to *gemeinschaft*. As Turner (2001: 29) describes;

“The traditional (thick) *gemeinschaft* was an organic community based on hot communication in which members were bound together by propinquity, common cultural inheritance and shared memories”

The *Gemeinschaft* is characterized with common will, partners with asocial personality, interest of *gemeinschaft* having priority, strong structure of belief, religion, customs, solidarity depended on statute and collective ownership rather than individual will, consciousness of being individual, interest of individual, solidarity depended on contracts and individual ownership (Kösemihal, 1989).

In *Gemeinschaft*, social relations are not rational (Demirbağ, 1997). The irrational choices of partners to join Yimpaş verify this fact and explain how numbers of people could ignore the imperceptible issues related with paybacks of such high offers, which reached, to 26% for DM in one year.

Apart from high internal trust, in *gemeinschaft* distrust and anxiety to outsiders are the simplest images (Demirbağ; 1997), which is highly prevalent in Yimpaş. It was very hard to arrange the interviews for the aims of this thesis, with any of the founders or to get the records of employment capacity etc. that could easily be

arranged if the company were other company. This high distrust to others, in fact suspicion, is a result of *gemeinschaft* which Yimpaş and its partners live in.

In such a community, the determinant thing is the sense of 'us' rather than 'me'. Thus, as Öncü (1991) argues, the existence of *gemeinschaft* depends on preservation of the differentiation between 'us' and the 'others'. In other words, in *gemeinschaft* there is unity, which gives opportunity to members to distinguish what belongs to their community and what not. In Yimpaş community, too, the importance of 'unity' can clearly be seen. What is stated in its advertisements reveals this fact: 'Yimpaş; Power stemmed from Unity'.

The Holding Executive Board Chairman of the company, Mr. Uyar, declares frankly that Yimpaş is founded with people having conservative beliefs (Uyar, 1996). Following partners of Yimpaş, too, have been chosen from people having similar beliefs via suggestions of previous partners. It is closed to the 'others' to protect this unity. The unity is not only in partners-founder side, Yimpaş tried to continue it via employees as well. Since some of the employees have been hired among acquaintances of partners or partners themselves (semi-partner employees), this unity has also been preserved in employee's side. Especially in the beginning years, 70-80% of employees were argued to be people from Yozgat or Yimpaş partners.

In order to strengthen this unity, Yimpaş has tried to create an 'Institutional Identity' among its employees. A particular amount of incomes of Yimpaş personnel have been converted into Yimpaş partnership in order to make the personnel also partner to the company. By this, not only the capital of the company has been increased but also workers gained a 'Yimpaş soul', which in return believed to lead hard work/high performance of workers.

As a result of these efforts, Yimpaş really created a 'Yimpaş Identity' which also demonstrates that Yimpaş has something very special, which many other holdings do not even imagine to have: idealism (Dogan, 2002). They have not only common



beliefs but also non-commercial common wishes and ideals for future. This makes Yimpaş more than just a commercial holding, it also defines a social network connected to each other with internal trust and solidarity.

To conclude, Yimpaş exhibits all these features of 'gemeinschaft'; distrust to 'others', solidarity, emphasis of 'us' rather than 'me', and the like, which verifies the fact that the relations within partners and founders are not solely on economic terms and there is a social network among them. Further, the social network and the trust existent are strongly limited to Yimpaş partners and founders. Yimpaş does not even *study trust* within other firms, in other words it does not concentrate on having transactions through other firms on economic terms. Yet, the social network within partners is characterized by *blind trust* (terminology by Cooke and Morgan, 1998), which is described to be one of deficient cases of trust based on ex ante guesses of the trustees (Offe, 1999). These types of relations define a social network of which the entry conditions are hard.

However, there is one more thing here, which should be mentioned. It is true that the essence and importance of networks in local economic development is not deniable. Yet, the community network makes sense if it is across religious/racial/beliefs boundaries (Giloth and Mier, 1989). Otherwise, the network tends to be like a mafia organization, which is highly undesirable. The network of Yimpaş, although not a mafia, is also far away from the former.

#### **5.4.3. Townsmanship**

Townsmanship is an important factor in creating a trust environment, thus, is another determinant in social network of Yimpaş. In previous researches carried out for Turkey (Kurdoğlu: 1998, Tekşen: 2000, etc), it was shown that townsmanship is crucial in finding a job. Especially when people migrate to bigger cities for employment reasons townsmen help new comers both in finding a job and meeting the housing need. Being a townsman ensures the trust of the entrepreneur, so strategic positions, which require trustworthiness, are offered to

townsmen even though they are not qualified and not professionals of that charge. In study of Tekşen carried for city of Malatya (2000), it was shown that entrepreneurs who were born in Malatya prefer workers born in Malatya since they believe that townsmen do not cheat each other. The trust mentioned here stems only from being townsmen. It is of course not possible that all the people from a particular town are trustworthy, but having a similar common background makes it easy to raise confidence among parties. Townsmen are also preferred with the belief that they can understand each other well and possible arguments in work place are avoided (Suzuki, 1966).

In case of Yozgat and Yimpaş, what is observed is similiar. Yimpaş finds jobs for partners or their relatives/children etc in any possible circumstance in cost of amateur work carried by them. As Demirbağ suggests, finding a job is a strong and concrete link strengthening the relations between townsmen and further, making townsmen believe that without that community it is not possible to live. Thus, being a member of such a community makes people more dependent to that community and makes it hard to exit. As Uslaner (1999) argues, the more dependent we on our closest associates or kin, the more we think of the world in terms of 'we' and 'they'. In Yimpaş, too, due to employment creation, it was easier to pass over particular boundaries and make people bound to Yimpaş.

It should, however, bear in mind that townsmanship generally loses its importance in later stages of business (Tekşen, 2000). In other words, as the company gets bigger, the cost of amateur work is not bearable for entrepreneurs, so the preference for townsmen in employment loses its significance. Unusually, in Yimpaş, in every stage of development partnership has been the key determinant and is still preferred to qualification and professionalism, which in turn will be one of causes of decline in later stages.

#### 5.4.4.Characteristics of Founders

The characteristics of founders are also another important factor in development of Yimpaş. Since founders had been graduated from religious schools, Yozgat people believe that profit-loss sharing type of investment is *helâl*, because otherwise founders would certainly not involve in this kind of investment. Holding Executive Board Chairman Mr.Uyar is important in this sense; he was known to be fair and just in any condition, which was experienced previously in store Hicret. Knowing the sensitiveness of people from Yozgat in investment with interest, he declared that the religious obligatory alms (*zekât*) of profit are paid, so partners were relieved from their religious disturbance. In addition to the confidence created about religious issues, his leader character and speech skills persuaded many people in contributing to Yimpaş partnership.

Related with persuasion, there is a famous ‘put the last endeavor’ story told to every partner and worker in Yimpaş, which shows the determination. It is about a child and his parent. When traveling together in their private car, the child suddenly gets sick. It is an emergent situation that the parent needs to find a doctor immediately. The parent knows that there is a doctor living in the city centre behind the hill, which they are coming close. However, when they come close to the top of the hill, the gasoline in the car finishes. There is no time to lose but the car does not work any more. The parent takes off the car and begins to push the car. He pushes with all his power; more than any other time. Yimpaş founders say that they have that power and determination in going beyond obstacles. Thus they believe that success and growth become inevitable with such determination (Ceylan, 2002).

Another significant feature is that Mr. Uyar, Holding Executive Board Chairman of Yimpaş, had been staying in the home of one of founder’s of Yibitaş, another LIP in Yozgat, which was founded in 1973. He had a chance to observe the developments about labour investment partnerships. Moreover, after Yimpaş was founded, he continued to work as a member in council of managers of Yibitaş

between 1987 and 1990. Thus he became well experienced in management of LIPs and knew ways to attract people from Yozgat towards LIPs.

It should also be noted that, if the founders were entrepreneurs or tradesmen, probably this confidence would not be won and then that amount of capital could not be raised. The fact that all founders are teachers and believers, caused people believe them easily.

#### **5.4.5.Support of Yozgat People**

What Yimpaş stands for Yozgat people represents a unique case, which is hardly obtainable elsewhere. Yimpaş is believed to bring, what they call, ‘civilization’ to Yozgat. Yozgat people believe that Yimpaş is the most important element in their town and want its success even this affects their business adversely. This is firstly because of the fact that Yozgat had been characterized with its low GDP/GNP figures from the beginning of the Republic. Having felt themselves as ‘forgotten’ by governments, any entrepreneurship in Yozgat has been welcomed with hope to develop. Yet, among many attempts in Yozgat, only two of them succeeded; Yibitaş and Yimpaş. Although Yibitaş lost its significance partly because it is not a LIP further, and partly it does not pay its income and corporate tax in Yozgat, Yimpaş preserves its powerful position.

Secondly, the ‘City Nationalism’ (Vural, 2002) created by Yimpaş has played a role in gaining the support of the local people. The Holding Executive Board Chairman of the company always emphasizes that the place of origin of Yimpaş is Yozgat. Yozgat is evidently favored to other cities. In employment and investment decisions of the company, Yozgat and people from there always have a priority. This differentiation makes local people pleased. Yimpaş did more than expected and more than any other entrepreneurship achieved in Yozgat. Many people living outside of Yozgat learnt and heard about Yozgat due to success of Yimpaş. Likewise, since Yimpaş pays its income and corporate tax in Yozgat different from Yibitaş, local people appreciate it positively. They are proud of Yimpaş and they

OWN it such that sometimes the differentiation between Yimpaş and Yozgat becomes less clear.

Founders knowing the importance of support of local people, found ways to arouse it. One way was constructing showy buildings, which would impress Yozgat people easily. Any factory or modern- look building opened in the town could easily attract attention due to low level of development of Yozgat.

For example, Yimpaş store and Yimpaş Headquarter Building in Yozgat city centre are high rise mirrored buildings. Former is surrounded by 1-2 storey slum like houses (Figure 5.2) contrasting with the surrounding and doubling the effect on people's minds. This is a small detail for many people; however it is very important for Yozgat Yozgat people, showing the 'civilization' that Yimpaş brought to Yozgat according to them.

**Figure 5.2.** Yimpas Store in Yozgat

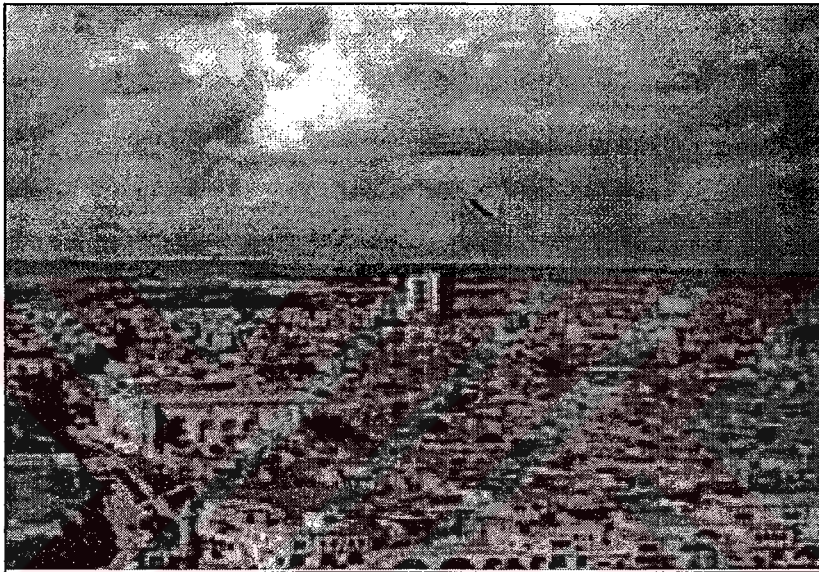


Source: Sarıoğlu

Yimpaş store buildings in other cities are similar, too. Many of them are 5-6 storeys, large buildings with mirror on its sides and the most modern buildings of their environment. For instance, the shop in Sivas was an ordinary building at the

beginning, yet the sides of it were renewed in 1997, which now is a more modern building. Likewise, the shop in Urfa is a 26-storey building including a hotel and it is one of the tallest buildings in the city, which can be clearly differentiated in city silhouette. These are deliberate decisions of the company and part of the plan for attracting support of local people in different cities.

**Figure 5.3.** Yimpaş Store and Hotel in Town of Urfa



Source: Sarioğlu

Another way of raising support of local people, was to purchase the name right of the football team of Yozgat. In Turkey, football is one of the most important things in social life of almost every class, age group and sex. So, this right meant that all people will speak of and know about Yimpaş and indirectly Yozgat. It is a wonderful opportunity not only for advertisement to whole Turkey with a low cost but also for increasing this support. Today everybody knows about Yimpaş Yozgatspor and it is spoken every weekend in all sport programmes in national TVs. This decision also created the chance for Yozgat people to welcome biggest teams of the country, which they would probably not even see without Yimpaş Yozgatspor. The price of this advertisement could not be afforded in real terms. Moreover, it has a psychological value, which even cannot be evaluated.

For support of local people, general trend of big holdings has been to have power in control of media. Yimpaş followed a similar policy as well. All local TV channels (There are two) broadcasting in Yozgat were purchased. Further, it is one of the biggest partners of a national TV channel, *Kanal 7*. Yimpaş also had been the owner of a local newspaper called *Yenigün*, but sold it recently. By the help of these attempts, Yimpaş not only has promoted its activities but also increased the support of the local people.

All explained above, reveal how Yimpaş tried to gain the support of Yozgat people. Having forgotten by almost all governments Yozgat people are easily attracted by even small efforts of Yimpaş and become more bound to Yimpaş. Yimpaş enjoyed tremendous support from Yozgat people. Support of local people is not easily gained, yet when it is aroused once, it helps development very much as we saw in the case of Yimpaş.

#### **5.4.6. Investment attitude**

In order to examine investment attitude of the company, firstly sectoral preferences should be remembered (see 5.3). Sectoral preferences mean that there are sectors, which Yimpaş prefers to involve, and which not. In other words, activities of the company are intensified in some particular sectors. Although there are many sectors engaged now, Yimpaş is firstly a chain stores holding. Thus, commercial investments have always been the most important one among others from the beginning. Involvement in other sectors is considered as subsidiary for the development of the company and ultimate aim of becoming leader in retail commerce. Yimpaş engages in manufacturing of products in order to sell them in Yimpaş stores. A particular type of product is produced if 30-40 % of it can be sold in Yimpaş stores; if not Yimpaş does not involve in producing that product and this need is met via other firms. Products, which cannot be marketed in Yimpaş stores or which can not be used for other purposes of the company are not produced. The significance of retail activities is declared clearly by the company:

“Yimpaş aims to be the leader of retail sector” ([www.yimpas.com.tr](http://www.yimpas.com.tr)) rather than purely involved in production. The factories are in fact ‘means’ for this aim.

The second aspect of investment attitude is company’s attitude to ownership. Almost all properties of factories, hotels, stores belong to Yimpaş Holding (Uyar, 1996). Many of the hotels and stores are located in high rent areas, for purpose of investment. It should be noted that purchasing properties gives opportunity to firms to deduct from total tax amount since they are fixed investments. Yet, the emphasis of Yimpaş on ownership does not stem from only this tax subvention, but also from the fact that partnership comprises ownership of properties. This is another determinant in property ownership emphasis of the company. It is appropriate here to mention two related features of the company, too; the closure of the holding to other parties (any outside contract even for rent purpose is avoided) and the efforts of Yimpaş to make careful use of any money entered in meticulously selected investment areas.

However, the efforts of Yimpaş for increasing the profits do not necessarily lead to high returns since the investment opportunities accepted by the company are limited. As mentioned various times previously, investments must be appropriate to religious bases and must not involve interest. Another reason for inefficient investments is the lack of sufficient research of alternatives and feasibilities etc. This is partly due to lack of professionals in Yimpaş.

It should also be noted here that contentment and approval of partners in investments are utmost importance for Yimpaş. Yimpaş would get in investments without really measuring costs if the investment is believed to be strategic for Yimpaş. The desire of the company to open a Yimpaş store in Mecca/Medina is a good example for this. Opening a store in Mecca has spiritual effects on both founders and partners. Having a store in Mecca is also a mean for advertisement and helps showing the power of Yimpaş to other Muslims according to Yimpaş partners. The costs involved and the fact that that store may have marketing problems are ignored. Such investments are considered to be strategic, and have



priority for Yimpaş. For such important investments, which must be completed immediately, it is claimed that Yimpaş is ready to pay even as much as 3 times real cost. Yimpaş bares this extravagancy, assuming that the strategic importance of those investments would *bring more* in later stages of development.

Yimpaş partners also, inclined to see ‘concrete things’. A factory, for instance, makes partners believe that Yimpaş works hard and their capital is utilized well. Other forms of money utilizations are not appreciated much since they cannot be seen all the time. By this way, doubts of partners on their capital’s utilization are eliminated. These features point out that investment policy of Yimpaş considers the religious beliefs and concerns of founders and partners.

Next, it should be remembered that Yimpaş generally invests in under developed regions. For instance, the firm plans to realize an investment of worth 100,000,000 Dollar in an ‘investment deprived’ country; Kirgizistan (Akşam, 25.10.2000). Other firms probably would not have realized this investment since profit promise is low. Yet, Yimpaş invests partly because Yimpaş partners appreciate investments in Muslim communities positively and partly because these regions are places where support of local people can easily be gained due to low level of development. As mentioned before, support of local people is important for Yimpaş and Yimpaş knows how to gain it very well.

All internal features stem from unique characteristics of Yimpaş and locale, which cannot be gathered somewhere else. Further, it can be said that importance of religious features, conservatism, and strong preference for fellow local people underlie almost all Yimpaş activities from decision making to partnership. In next section, the role of external elements in development will be explained.

## 5.5. EXTERNAL ELEMENTS IN DEVELOPMENT OF YIMPAŞ

By external elements, interferences of government in which Yozgat people and/or Yimpaş partners had no role are meant. These elements are 'given' and cannot be changed with will of individuals.

First of them is Yozgat's being a PRD province. Although direct investment of government in Yozgat has always been low, it is true that Yozgat is one of leading cities in which government's efforts to attract private entrepreneurs had been intensified. Yozgat is one of PRD provinces since 1972, so all establishments including establishments of Yimpaş, had utilized subsidy and credit facilities. However, it can be said that PRD policy of the governments could not yield expected results and was not able to decrease regional differences.

Second interference of the government was declaration of Yozgat as one of cities under law of 4325, in 1998, which comprises transfer of lands of Turkish Treasury to entrepreneurs in 22 provinces without any price. For this transfer, employment capacity should be at least 10. For requests to same properties, the priority will be in following enumeration:

1. The most employment capacity
2. The largest investment sum
3. Cooperatives
4. Multi partner companies in CMK in accordance to their public offering ratio.
5. Others.

([www.yargitay.gov.tr](http://www.yargitay.gov.tr) /law 4325).

For instance, entrepreneurs investing in Yozgat will benefit from total tax exemption for 5 years. Further, after this period, income tax is paid in reduced amounts varying according to number of workers.

- For 10 workers, 40 % reduction
- For 11-50 workers, the reduction ratio will be calculated by adding 0,5 to 40 % for each more worker
- For 50< workers, 60 % reduction

will be applied to income taxes. The tax reduction will be valid until the end of 2007 (Akyol and Başer, 1999).

The enactment of this law has been actually welcomed with hope in Yozgat, and many entrepreneurs began investing in Yozgat. Unfortunately, many of these efforts ended with the economic crisis in Turkey in 2001. Today there are idle, not completed constructions in OIZ of Yozgat. Therefore, we can not state that law 4325 yielded expected results in development of Yozgat. Further, its role in progress of Yimpaş is also not much, since the date of enactment is in late phases of its development. In other words, this law was enacted after Yimpaş made the biggest and the hardest leap; that is the *take off*.

It should also bear in mind that there are problems in acquiring the records of these subsidies. Turkish Treasury who is responsible for the financial records of these subsidies, do not classify the records with reference to firms; rather they are in accordance with provinces. So unfortunately, what Yimpaş gained from Yozgat's being a PRD province and its being under law of 4325 cannot be separated from what Yozgat gained. Further the records are not very detailed, only sectoral distribution etc. is known.

Due to these restraints, it is difficult to assess the effects of these government policies exactly. Nonetheless, it is known that one of reasons why Yimpaş intensified its investments in Yozgat has been to utilize these subsidies. Investment in other cities, even there is high partnership figures (e.g. 40 % in Sivas), is avoided since law 4325 subsidies are not available. Although Sivas is a PRD province too, it was declared by the Holding Executive Board Chairman of the company that what Yimpaş can do at most for Sivas is to be a partner of already

founded firms, but not found any by its own for Sivas is not under law of 4325. This example points out that Yimpaş tries to make use of the subsidies available in Yozgat.

To sum up, the efforts of governments are important attempts, which had usually been on financial issues. Yet they had not been successful because of unforeseen events like crisis in case of law 4325 and because of problems that occurred in application of these efforts in case of PRD. Hence, it can be concluded that the effects of these policies are limited to development of Yimpaş.



## **CHAPTER 6**

### **6. EVALUATION OF YIMPAŞ MODEL**

#### **6.1. PRESENT SITUATION OF YIMPAŞ AND CRITICISMS ON ITS DEVELOPMENT**

Today Yimpaş is one of the well-known and biggest holdings in Turkey. It expanded rapidly, now have 58 stores and tens of factories and businesses in several countries. Beginning with 6 people's efforts, the number of partners exceeded 45,000 in 1998 and reached 150,000 in 2000. Further, this company created many job opportunities primarily in Yozgat and in other cities, which governments could not manage to realize for years. The total employment capacity was 10,000 in 1998 and reached its highest in 2000 by 20,000 (Yimpaş, 1998, 2000).

However, it should bear in mind that rapid development of Yimpaş, then, proved to have been premature. Yimpaş is in a decline process now. In fact the company is not bankrupted and what I mean by the term decline is its being far away from initial rapid growing path. Some of the factors once had helped development in initial years, afterwards led to recession of the firm. First of these internal reasons is the semi-partner employees and their amateur work. These employees, as mentioned before, had been chosen from acquaintances of partners as a result of employment promises given by Yimpaş. They were, generally speaking, not well qualified, amateur people who therefore had been unemployed until Yimpaş hired them. In factories/firms of Yimpaş, extra job opportunities have been created for

these people, which were in fact unnecessary. These extra employees have not only resulted in amateur works and services but also have made costs rise. In exact words of a furniture producer in Yozgat;

“In furniture factory of Yimpaş, three workers work, three other watch without doing anything. This makes costs rise up. Yimpaş products are on average 300,000,000 TL more expensive depending on the type of the furniture set due to these extra workers.”

Thus, it can be stated that employment promises of Yimpaş worked like two folded knife. On the one hand, these promises helped capital increase, but they led to amateur work and higher costs on the other.

Second reason for the decline of the company is its investment attitude. Its general trend to possess all the fixed investments of the company prepared its stagnation. Yimpaş converted the cash money in DM into fixed capital in forms of shops, hotels, establishments and the like. In fact, these buildings worth trillions of Turkish liras since they are located in high rent areas of cities, however they are investments of low liquidities in other words can not be easily sold and converted to cash again. This causes problems especially in paybacks when the company is in need of a large amount of cash.

In addition to these internal features, there are some outside factors, which influenced the decline of the company. First of them is the economic crisis of year 2001 in which almost 60,000 business closures, 700,000-1,000,000 dismisses were estimated to occur in Turkey. Crisis led to decreases in savings of individuals and thus capital flow to Yimpaş for new partnerships almost came to an end. Further, Yimpaş could not pay its pay backs since the crisis. Thus, many partners requested to withdraw their capital, but were refused due to lack of cash money in the company. Besides, it is claimed that instead of cash, other forms of return of capital, such as land, housing which are available in holding's properties have been offered. In other words, some partners had to get back their capital in forms

of housing, land etc. Partners with the fear of a total loss, have accepted these offers in some instances.

The decrease in capital amount entering also resulted in obligatory changes in previously planned projects. New shopping centres, hotels, hospitals and factories would have been opened in Turkey and in some other countries (Germany, Austria, France, Netherlands, Belgium, Switzerland, UK, Sweden, Romania, Ukraine, Russia, Azerbaijan, Turkmenistan, Uzbekistan, Saudi Arabia, Dubai, Singapore, Malezia, Australia and US), yet these plans could not be completed and in some instances even could not be started. This crisis forced Yimpaş think of new investment areas, which will be profitable and short term. Extravagancy in purchasing property and vehicle is stopped. Yimpaş now tries to stand on its feet with limited capital flow and its new 'growing by getting smaller' policy.

In addition to these factors, the media has adversely affected Yimpaş. Criticisms especially by left wing writers have led creation of an adverse public opinion against Yimpaş. In 21.10.1996, the newspaper of Radikal, following was stated:

“A company: Yimpaş... The owner says ‘We support the Welfare Party’...And the company purchases any place they see as non-Islamic in order to make them Islamic. Yozgat slowly identifies with the *Welfare Party (Refah Partisi)*. Yimpaş buys, Yozgat only watches...In local newspapers, there is news about the disturbance rising from Yimpaş’ purchasing everything which can be purchased, its’ causing unfair competition, its’ oppressing small tradesmen, but all these are without effect. Yimpaş continues to buy, because it seems that both the buyer and the seller are willing and ready. The reason for some of these purchases is the aim of managing them according to Islamic conditions. For instance, some restaurants or establishments in which alcoholic drinks are sold, become ones in which alcohol is prohibited after Yimpaş purchases them. The two local TVs became conservative after Yimpaş purchased them” (italics mine)

Moreover,

“Yimpaş, who had chosen Yozgat for the aim of creating Islamic cities, plans to buy Beer Factory which is in privatization phase, and produce fruit juice instead. It is just about to buy the last restaurant with alcohol service. The Mayor from National Movement Party, Mehmet Erdemir states that ‘I had previously warned tradesmen to gather in small groups, yet nobody could understand the seriousness of the issue.’ ”

What Yimpaş claims against that kind of criticisms is that due to these groups with ‘ideological hang-ups’, company is prevented from investing in Turkey. Holding General Secretary, Mehmet Kaplan, suggested in weekly meeting of Independent Businessmen’s Association (MÜSİAD), that his company had shifted its investments to Europe and Asia because of bureaucratic hurdles in Turkey (TDN, 18.09.1999). Moreover he stated that;

“While other groups gain money from interest and repurchasing agreements instead of production, they obstruct us with bureaucratic hurdles. Consequently we had to move outside Turkey. Europe understands the importance of employment; we never experienced in a European country the same problems we have faced in Turkey. Still, despite everything, we have chosen Anatolia as our headquarters and will continue our work undeterred.” (TDN, 18.09.1999).

It is true that conservative people founded Yimpaş. In employment and new partnerships, religious beliefs and conservatism have been main concern of the company. However, although it is characterized with features of gemeinschaft, there are considerable achievements. Thus, it is hard to claim that Yimpaş organization is totally exploitation of religious beliefs of people. Thus, these two folds should be considered separately and assessed accordingly.



## **6.2. YIMPAS AS AN ALTERNATIVE DEVELOPMENT MODEL**

Yimpaş is a multi partner publicly held company founded with the savings of workers living abroad. This type of organization is not only a model for firms to obtain capital from the public; but it may also serve for the development of towns if it is bound to a particular town in terms of high number of participants. In case of Yimpaş, there are significant influences of Yimpaş on the town of Yozgat, which are not deniable.

However, in order to call it as an alternative development model, several questions must be answered, such as what has the presence of Yimpaş changed in Yozgat or whether Yimpaş caused a transformation etc. In order to find answers to these questions, several parameters such as GDP figures, job creation and improvements in quality of life which development associates with should be examined. The former two parameters are based on numerical data thus, were easier to obtain compared to the improvements in quality of life. Opening of cinemas, theatres for social life or opening of libraries, schools for increasing educational skills of local people, are used as determinants for indicators of improvements in quality of life.

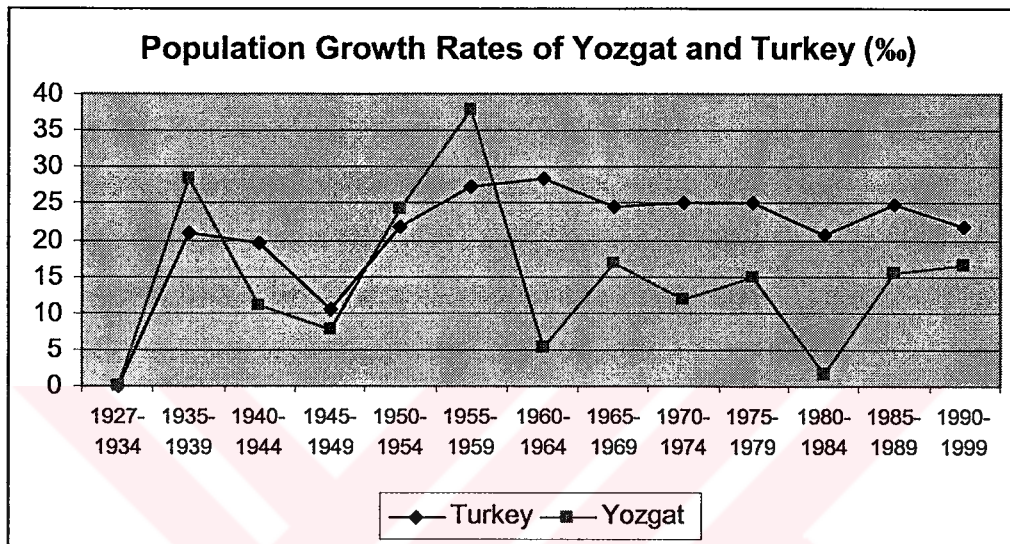
### **6.2.1. Economic Impacts**

First of all, we can state that by 1980s, a change in Yozgat's population statistics occurred after Yimpaş was founded. Although population growth rates of Yozgat and Turkey had been closer from the early years of the Republic until the 1960s, this trend changed due to domestic migration after the 1950s and external migration after 1963. From then on until 1985, Yozgat had been a town of emigration. This was primarily due to the lack of employment opportunities in the town.

When we examine Figure 6.1 with Yimpaş in mind, we see that after the foundation of Yimpaş in 1982, the population growth rates of Turkey and Yozgat have become closer. What can be inferred is that; after the lowest population

growth figure of Yozgat (1, 62) in 1980-1984 period, the statistics tell us a better story. The better period begins with the foundation of Yimpaş. In year 2000, at least there is not such a big difference; the growth rates are closer.

**Figure 6.1.** Population Growth Rates of Yozgat and Turkey (%)



**Ref:** SIS

It is, of course, not solely because of Yimpaş, yet the effects of Yimpaş's creating almost 3000 employment capacities in the town cannot be ignored. Thus, it can be stated that the opening of Yimpaş has positively affected population increase of Yozgat, which also shows that there are improvements in the economy of the town.

Secondly, employment capacity created by Yimpaş can be used for determining its effects on development of the town. Although in its development years, up to 20,000 persons were employed by Yimpaş, now this number has halved as a result of the economic crisis. Some of the immigrants who moved from near villages or small towns for working in Yimpaş, had to go back to their hometowns because of worsening economic conditions. Today, in total 10,000 people are employed at Yimpaş in various towns and sectors. Of this figure almost 3,000 people are employed in Yozgat. When the average household size of Yozgat (6.13) (SIS,

1997) is taken into consideration, we can say that Yimpaş has straightened the economic situation of 18,390 people living in Yozgat. This is an important parameter in a town with a central district population of 95,000 (SIS, 1997).

Although the impacts of Yimpaş in employment are significant, these impacts have not been reflected in GDP figures of Yozgat. The share of Yozgat in total GDP of Turkey has generally been very low, and this has not changed significantly up to now; it remained always between 0.5 % and 0.4 % (SIS, 1980-2000). Likewise, the GDP per capita of Yozgat, slightly increased from \$745 in 1987 to \$1250 in 2000, yet still there are sharp differences between average of Yozgat and those of CAR and Turkey figures. In 1997, for instance, GDP per capita for some provinces in CAR like Kırklareli, Kayseri and Konya, were 2,859,332 TL, 1,295,248 TL and 1,242,049 TL respectively in 1987 prices. Yet, in Yozgat, GDP per capita was only 694,441 TL for the same year. This figure is very close to the average of East Anatolian Region (EAR- the least developed region of Turkey); 660,216 TL (SIS, 1997). (\*Yasar, S. 2000-2001 METU RP Planning Studio).

In 1987, Yozgat was in the 55<sup>th</sup> place in GDP per capita descending order list, in 1994, Yozgat was in the 59<sup>th</sup> place (SIS) and in 2000 Yozgat is in the 61<sup>st</sup> place\*. This means that share of Yozgat in Turkey value added is decreasing. In other words, its development is smaller than that of Turkey. This is a significant indicator showing that the economic situation of Yozgat is worsening although Yimpaş opened 6 stores, several establishments in the town, and further has paid income and corporate tax of all its stores and establishments in Yozgat since the beginning.

As a result of these impacts, one can think that either Yimpaş wasted the local capital (that is, it tried but failed) or it is the 'locomotive' of the economy in the town (that is, if it were not present, everything would have been worse). The answer is not easy, firstly because it is hard to differentiate the effects of Yimpaş on population and GDP figures of Yozgat from other possible effects. Secondly, even if the changes in GDP and population statistics are devoted to Yimpaş (that is

even these changes are solely due to the presence of Yimpaş), still, it can not be evaluated as successful since the changes in those parameters are limited except for the employment capacity it created. Hence, it can be said that except for the employment capacity of Yimpaş, its effects on the economic development of the town can not be evaluated to be significant.

### **6.2.2. Socio-cultural Impacts**

Apart from effects on the economy of Yozgat, Yimpaş has influenced social and cultural life in its place of origin. Yimpaş has always participated in cultural and social activities in Yozgat. Further, it has generally been the organizer or one of the biggest sponsors of such activities.

Firstly, it can be stated that Yimpaş introduced a 'shopping culture' to Yozgat to many other Central Anatolian Region provinces. Before Yimpaş stores existed, there were no shopping malls in Yozgat, not even in many other Central Anatolian towns. Thus, people were shopping in traditional ways buying goods from groceries, butchers etc., yet afterwards people began shopping at Yimpaş stores. This was an opportunity for Yimpaş since it was the only company serving to those towns. Yet, it was also risky in the sense that the demand for such services had not become mature. What has been experienced was the first alternative; Yimpaş met the demand on retailing sector and changed people's shopping habits not only in Yozgat but also in many other towns.

Secondly, Yimpaş has worked in the field of education and cultural affairs by establishing a foundation (YEKDAV), which aimed at helping poor students and needy people of the town. Next to YEKDAV, Yimpaş also set up 'Yimpaş Foundation' in 1985, which has a library including many manuscript works apart from thousands of books. This foundation at first worked for the company members and workers; however, later many scholarships were provided to students of every age. It has also provided food, clothing, coal and cash for poor people of

the town. Today YEKDAV is not operating, only Yimpaş Foundation continues to exist.

Yimpaş has also engaged in sports activities. It is the owner of the football club of the town; Yozgatspor since 1997. Under the possession of Yimpaş, Yozgatspor began to play in the first league of football within two years. In addition, Yimpaş opened ‘Yimpaş Wrestling Training and Specialization Club’ in the beginning of 1990s in which many regional and Turkish champions were trained.

Since Yozgat has been a small town, it lacked cultural activities for years. Yimpaş helped filling this gap. For instance, Yozgat people obtained a good cinema with the opening of Yimpaş AVM store in the town in 2000. Before that, there weren't any cinemas, which served families and children. Further, Yimpaş is one of the biggest the sponsors of Yozgat Sürmeli Festival. In addition to this regularly organized activity, Yimpaş organized several ‘Yimpaş Book Days’, ‘Yimpaş Karakucak Wrestling Tournaments’ in the town. Yimpaş also has a ‘Botanic Park’ in the industrial complex of the company in Yozgat, which includes hundreds of plant flora. It is one of the leading botanic parks in Central Anatolian Region.

In addition to those mentioned above, Yimpaş has managed a very important thing for Yozgat people which could not been achieved otherwise; Yozgat people have become more confident in themselves. They now believe in success and development. This is crucial for the development of a town since if citizens do not believe in what they are doing, nothing works. Further, economic development is valuable if it is locally achieved. Because if it is locally achieved citizens have the determination and power to resist difficulties. Yet, if economic development had been achieved mostly through state interventions, in this case, the town can not create alternative modes and stuck in obstacles when confronted with problems. Yozgat's situation is different from two, but it can be said that the self-confidence they gained mean and promise a lot for development of the town in the future.

In conclusion, it is possible to state that having been founded with 6,000,000 TL, Yimpaş has achieved an unpredictable progress in 20 years. Thus, it is not fair to consider Yimpaş among unsuccessful examples of LIPs such as Jet-Pa and Endüstri Holding. It has at least engaged in real production activities rather than involving in imaginary ideals by exploiting beliefs of people. Further, there are considerable improvements in the socio-cultural life of Yozgat together with thousands of employment opportunities created in the town. Yozgat is now a livelier and socially active town compared to the previous periods. At least for this impact, Yimpaş deserves appreciation. Yet, this appreciation does and should not necessitate us to consider Yimpaş as a successful model, which is applicable elsewhere. In other words, it requires improvements in order to be suggested as an alternative development model.

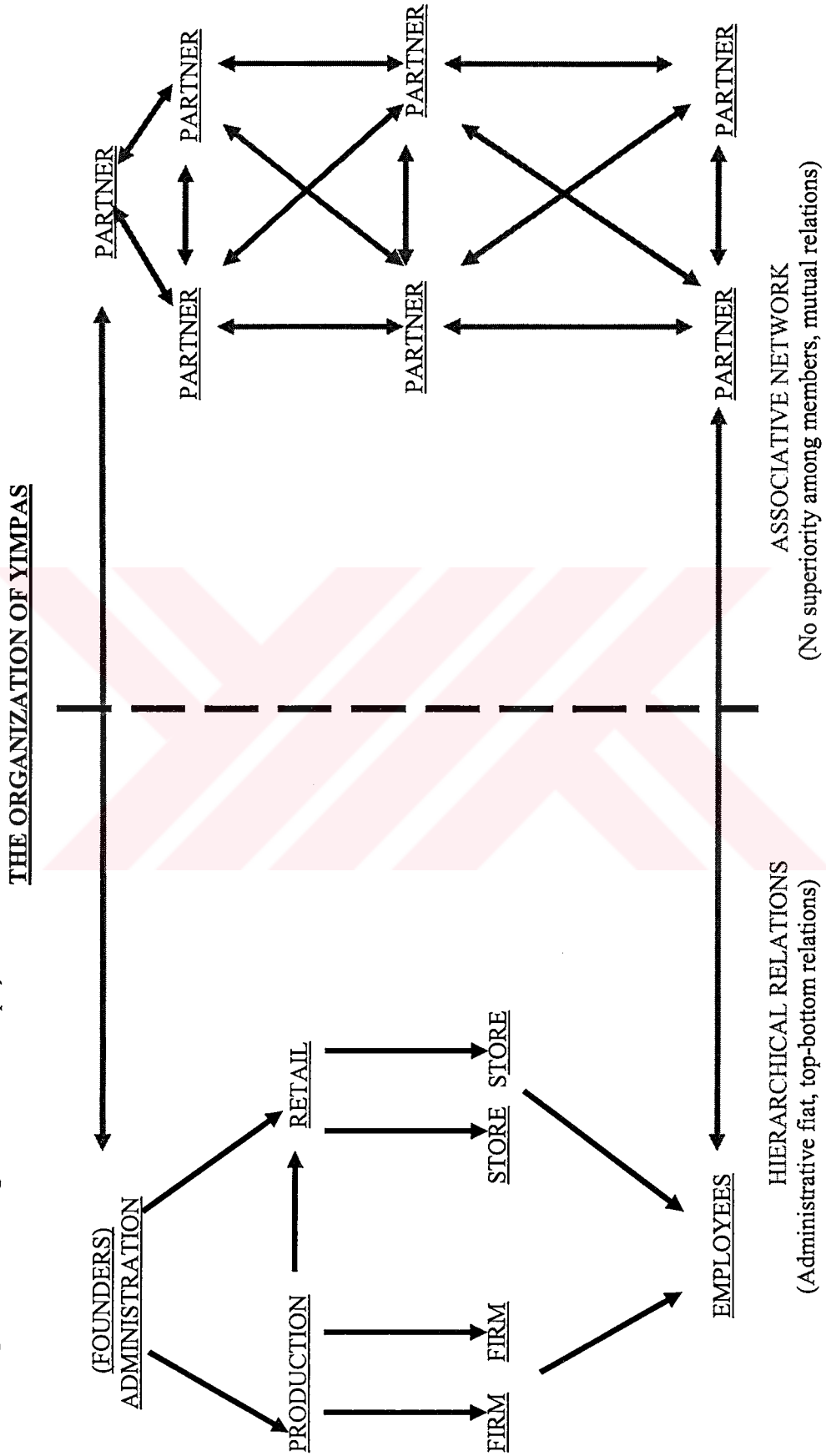


## 7. CONCLUSION

The organization forms of firms may take different forms like the market, the hierarchy, and the heterarchy. These forms are the three main ones, yet there are many mixed forms used by firms. Generally speaking, the investments of the state are in the form of hierarchical structures, whereas local entrepreneurships take the form of a heterarchy of SMEs. In Turkey, since its development had been initiated by state investments during the first years of the Republic, the organization forms have generally been in hierarchic, but during the later periods several towns have developed with SMEs and heterarchic relations. In addition to these two, another path of development has been LIPs model having characteristics of both hierarchy and network, which is unique to Turkey (for example, the organization of Yimpaş see Figure 7.1.).

LIPs, which gained popularity during the governments of Özal in 1980s and Refahyol in 1996 (Pınarcıoğlu, 2002), are in fact a way of increasing capital for private firms, thus not all of them can serve for local economic development. However, when the number of partners of an LIP is significantly high, then investments are naturally intensified in that locale and thus help economic development of the town. Yimpaş and Kombassan are good examples of LIPs with high number of partners. Due to this high participation of share holders from Yozgat, the impacts of Yimpaş in Yozgat are significant, yet it is still necessary to evaluate LIPs as a development model.

Figure 7.1. The Organization of Yimpas





## 7.1. THE APPLICABILITY OF YIMPAS MODEL

First of all, we should know that this type of a model can initiate local economic development under particular circumstances. These circumstances primarily stem from the internal elements of Yimpaş and other successful LIPs, which already made them come to the fore from other LIPs. It was possible for Yimpaş to collect that amount of capital because of its emphasis on religious beliefs, sense of townsmanship, investment attitude etc. If those were not existent, Yimpaş would possibly not succeed. Therefore, without providing these circumstances this model does not necessarily work.

However, while on the one hand these features make Yimpaş surpass others, on the other hand they make Yimpaş a primitive organization with features of a *gemeinschaft*, which can not be suggested to be applied in a modern individual based world of precise, clear relations. Further, as mentioned previously, there are significant ambiguities on its transparency and legitimacy, which should be divulged to public precisely. Yet, in this case, it is certain that it will lose some of its key characteristics, which previously helped its development such as internal trust, closeness to others, townsmanship sense. This, especially the loss of townsmanship sense, in return, means that it will probably become a firm independent of its place of origin only seeking for profit maximization. In such a situation, that is when the connection between the space (place of origin) and the company breaks off, this model becomes only an alternative capital collection way for private firms rather than a medium for local economic development.

Next, in order for this model to succeed, the degree of development of the locale is important. If the locale is an already a developed town, it gets harder to make local people to believe in and place the support in them. There should be a consensus among local people about the success of an LIP, which will make them OWN (appropriate) it. Jet-pa was able to persuade thousands of people in Siirt since Siirt has been one of least developed towns in Turkey of which the local people welcomed any entrepreneurship since it meant hope for development. Yimpaş, too,

could gain the support of local people because Yozgat was in very beginning of its industrialization. It will not be easy as it was for Yimpaş to maintain this support in further stages. Yimpaş has to do more than it did before to the city of Yozgat besides just being a growing holding. Yet, it should bear in mind that there is an example of Kombassan, which has succeeded in doing this in an already developed town; Konya. This means that, although it is harder for a LIP to gain the support of the local people, it may also be possible to do it in a developed town. Yet, still, less developed regions are more attractive and more convenient for LIPs in order to initiate economic development.

Further, apart from employment opportunities created and investments made, growth of such companies has been accompanied with fundamentalist and pro-Islamist tendencies, which led to strong criticisms on their development. They are criticized firstly because they exploit religious beliefs of many people both from Turkey and abroad. Secondly, funds raised by such companies reached such figures that (estimated to be 4-5 billion DM); fears both in Turkey and Germany were raised because of possible sudden collapse of such a huge collection (TDN, 28.02.2000). Hence, government attention was oriented to LIPs. National Security Council (MGK) meeting on 28.02.1997 is one of the most famous attempts of the government in which several important decisions about Islamist capital were taken. Further, TŪSİAD (Union of Turkish Industrialists and Businessmen) issued warnings to prevent people's being cheated.

LIPs have also been criticized by Independent Businessmen's Association (MŪSİAD), which stated its disturbance from increasing number of such holdings, which collected capital from labourers living in Europe. Although MŪSİAD is an organization of businessmen with ties to Islamic sector, it still declared that holdings making use of Islamic concepts and collecting money in semi-legal ways should be inspected. Among such holdings, which MŪSİAD suggests to be investigated, comes Yimpaş, Kombassan, İttifak, Endüstri and Slim Holdings (Akşam, 23.02.2000). MŪSİAD's campaign against these holdings has been said to lead to great panic among stockholders living in Europe (TDN, 28.02.2000).

However, it should bear in mind that most prominent members of MÜSİAD are already from these holdings. Despite the fact that, the chairman, Ali Bayramoğlu, stated that any member acted inappropriately will be driven out of the association (ibid.).

CMB, which is responsible for inspection of those multi partner companies in Turkey, is also worried about this issue. Erdal Batmaz, a member of the board of directors of CMB, stated that:

“There is danger of economic *cihad*. In 2000 year version of *cihad*, instead of firearms, foreign currency; mark-dollar etc is used” (Akşam, 05.02.1999).

Many government institutions are aware of the facts about LIPs, and they try to create public opinion on this issue. Ironically, people who gave their savings to such institutions with orientation of some religious orders called *tarikât* (islamic cult), will probably consult government bodies in order to get their money back in almost certain ‘lost condition’ (Akşam, 05.02.1999). That is, it is the government who will be responsible to protect the people at the end, so it is more convenient to warn citizens in the beginning in order not to get involved in such partnerships.

While government bodies and several institutions work on this subject, on the other side, LIPs such as Yimpaş and Kombassan believe that they are adversely affected by unsuccessful cases and the public opinion created against them. They argue that governments must no more ignore the fact of LIPs and prepare new arrangements for them. They also argue that the attempts of governments and precautions taken must differentiate the capital and the political sides of *religious fanaticism (irtica)* problem.

These debates seem to take a new shape with new government of AKP, which is known to be close to those groups. AKP is interested in the topic of LIPs like the Özal and Refahyol governments, and tries to attract savings of workers abroad, which come almost to a cut off especially in the last two years. It is planned to get

5 billion \$ by shares of Turkish Airlines (THY), Tüpraş and Turkish Telecom (Tercüman, 19.01.2003). Further, AKP plans to open up legalizing paths for LIPs as stated in its 'Emergency Action Plan'. However, the interesting thing is that the arrangements expected with great desire and longing by LIPs may not strengthen the positions of them because this process may result in the loss of key features for LIPs. After these arrangements, exploiting religious concepts and offering such high profit margins will be taken under control, which means that those amounts of capital will possibly not be accumulated. For instance, it will not be possible to offer 20-30 % yearly income for Euro because under full government control, LIPs will have to create reserve funds for loss conditions, which is hard to do for such high offers. This means that LIPs will not be as attractive as they were for people seeking high profits. On the other hand, the capital flow to LIPs may increase since the number of partnerships of 'other' people who do not in fact consider religiously lawful (*helâl*) investments may increase due to new regulations and government guarantee in LIPs.

The model of LIPs in general and Yimpaş in particular is an alternative way of utilizing the savings of people in production activities, which also shows the entrepreneur character of Turkish people. Although not supported with proper legal arrangements, lacking a well functioning capital market and administrated with unprofessional founders, LIPs helped some regions' development where the government intervention was limited. It should also be noted that locally developed regions of the 1990s are the ones, which had primarily experienced successful LIPs (Denizli, Kayseri, Konya etc).

However, this model requires improvements such as elimination of religious concepts and preparing arrangements in legal issues, to be applicable in a modern world. The striking thing is that improvements in the model make Yimpaş and LIPs lose the key characteristics and thus weaken their relations with locale and their role in local economic development. In other words, even if the model is improved, it may not necessarily lead to economic development, which had been the case in many small LIPs. However, the capital to be attracted from abroad is a

huge number. Kombassan's raising 2 billion DM and potentially raiseable 32-40 billion DM (TDN, 28.02.2000) can not be denied easily. Thus, to sum up, the decision whether to finish them off or to take them into the system should be considered attentively because they may serve economic development (at least by utilization of local capital and resources) if the deficiencies associated with them are eliminated.



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## **APPENDIX A**

### **LIST of INTERVIEWEES**

#### **A. General Directorate of Yimpaş, Ankara**

Activate Manager, Mevlüt Erdoğan

Advertisement and Public Affairs Manager, Kaya Doğan

Administrative Affairs Manager, Halil Ceylan

Specialist, Advertisement and Public Affairs, Emre Salman

Sales Development Specialist, İlhan Özdemir

Education Specialist, Zakir Odabaş

#### **B. General Centre of Yimpaş Holding, Yozgat**

Education Specialist, Murat Yıldız

#### **C. Yimpaş Store Director**

Store Director, Muhammed Aydoğan (ULUS)

#### **D. Yozgat Municipality**

Mayor, Mehmet Erdemir



## **E. Capital Money Boards Of Turkey (CMB)**

Corporate Finance Department (Ortaklıklar Finansmanı Dairesi), Gürkan Küçükgüngör

## **F. Development Bank of Turkey**

Research Directorate

## **Chambers of Trade and Industry**

### **G. Yozgat**

Chairman, Naci Şahin

General Secretary, Seyit Karataş

Secretary of YSO, Z, A.

### **H. Sivas**

Previous Chairman, Emin Doğan

General Secretary, Sebahattin Vural

Previous General Secretary, Vahap Alpayar

## **Tradesmen**

### **I. Yozgat**

Mr. B, A. Furniture Store Owner

Mr. O, E. Foot wear store owner,

Mr. F, Ö. Market Owner

**J. Sivas**

Mr. A. I. S, automotive-motor store owner

Mr. I. E, member of ANAP Province Management Council, contractor-civil engineer.



## **APPENDIX B**

### **QUESTIONS FOR INTERVIEWEES**

#### **First Group (Interviewees Directly Related With Yimpas, A, B, C in Appendix A)**

1. How was Yimpas founded?
2. How did it develop such?
3. What is the situation of Yimpaş today?
4. What are its future plans?
5. What are its characteristics which made it come to the fore to the other LIPs?
6. Can it be an alternative development model?

#### **Second Group (Interviewees Not Directly Related With Yimpas, D-G-H-I-J in Appendix A)**

1. What is their opinion about the development of Yimpaş?
2. What are positive and negative aspects associated with its development?
3. Can it be an alternative development model?

#### **Third Group (Interviewees from Yozgat, D-G-I in Appendix A)**

1. What are the socio-economic impacts of Yimpas in Yozgat?

## **CMB**

1. What is the legal position of Yimpaş together with other LIPs? Are they illegal or legal?
2. What is the legally approved way for public offering of multi partner public held companies?
3. What are the deficiencies of LIPs?
4. Can it be an alternative development model?

## **Development Bank of Turkey**

1. How did the idea of LIPs come into existence?
2. How have the governments behaved towards LIPs?
3. What was the attitude of workers towards LIPs?
4. What are the deficiencies of LIPs?
5. Can it be an alternative development model?