

TRUST IN BUYER-SUPPLIER RELATIONSHIPS:
A SMALL AND MEDIUM SIZED
ENTERPRISES PERSPECTIVE

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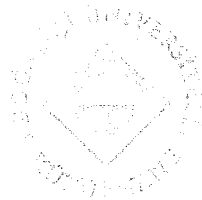
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To the loving memory of Dr. Şefik Tutkavul

BOĞAZİÇİ
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Abstract

Trust in Buyer-Supplier Relationships: A Small and Medium Sized Enterprises Perspective

by

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The investigation of salience of trust in economic life was the main issue that was dealt with in this study. For this research, the antecedents of trust in interorganizational business relationships in small-scale enterprises were taken under scrutiny. The choice of small-scale businesses as the subject matter of this study was derived from the perceived need to investigate the potentials of these enterprises. Trust being a multifaceted concept, which could be said to be a mixture of feelings, rational thinking and cultural factors, has implications for all relationships ranging from day-to-day interactions to continuation of a reasonable amount of social capital in a society. In this study, the enterprise owners' (n=412) perceptions about their key suppliers trustworthiness were assessed with the developed questionnaire in 10 sectors from both service and manufacturing, in addition to a number of predictor

variables. The purposes were two-fold: investigating the antecedents of trust production in dyadic buyer-supplier relationships, and the level of trust in characteristically different institutional contexts of "conventional" and "novel" sectors. The analyses showed that the owners' perceptions about the strength of their sectoral sanctions, the length of buyer-supplier relationship and buyer's propensity to trust were the main sources of trust production, but written contracts were not considered as a trust alternative. More importantly, the analyses showed that there were differences between the owners from the conventional and the novel sectors both in terms of the sources of their trustworthiness perceptions, and the institutionalized ways of making business and dealing with misconduct. In the light of these findings, an outline for a deliberate attempt to expand the radius of trust and effectiveness in business relationships through "networks of small enterprises" was prepared.

Kısa Özet

Küçük ve Orta Boy İşletmeler Çerçevesinde Alıcı ve Tedarikçi İlişkilerinde Güven

Kıvanç V. Ö. Inelmen

Güvenin ekonomik hayattaki öneminin sistematik olarak araştırılması bu çalışmanın asıl amacını oluşturmuştur. Bu amaçla, küçük işletmeler çerçevesinde alıcı ve satıcılar arasındaki güven ve itimadın kaynakları incelenmiştir. Araştırma alanının küçük işletmeler olarak seçilmesindeki temel sebep, giderek önemi artan bu tür işyerlerinin potansiyellerinin ortaya cıkartılmasına katkıda bulunmaktır. Çok katmanlı bir konsept olan ve gündelik ilişkilerden toplum düzeyindeki sosyal sermayenin oluşumuna kadar pek çok alanda etkisi görülebilen güvenin oluşumuna etki eden faktörler arasında duygular, rasyonel düşünme, yetiştirilme ve kültürel özellikler sayılabilir. Bu çalışma kapsamında geliştirilen anket yoluyla, servis ve üretim alanlarındaki 10 farklı sektörde faaliyet gösteren küçük işletme sahiplerinin (n=412) kendi ana tedarikçilerinin güvenilirliklerine dair algılarının yanı sıra çok sayıda bağımsız değişkende ölçülmüştür. Çalışmanın ana

amaçlarını alıcı-tedarikçi ilişkilerindeki güven oluşumunun şartlarını ve karakteristik olarak birbirinden farklı kurumsal çevreler oluşturan "conventional" ve "novel" sektörlerde güven düzeylerini ve itimat oluşturmada kullanılan kaynakları ortaya çıkartmaktır. Analiz sonuçları, küçük işletme sahiplerinin sektör içi müeyyidelerin etkinliğine dair algıları ile alıcı-tedarikçi ilişkisinin uzunluğu ve alıcının toplumdaki bireylerin temel dürüstlüğüne ve iyiliğine güvenebilmesinin belirleyici faktörler olduğu yönündedir. Analizler bir adım ileriye götürülerek "conventional" ve "novel" olarak gruplanan sektörler arasındaki farklılıkların incelenmesi sonucunda, bu iki sektör grubu arasında hem tedarikçilerin güvenilirlikleri algısının kaynakları, hem de kurumsallaşmış iş yapma yöntemleri açılarından önemli farklılıklar olduğu ortaya konulmuştur. Bu bulgular ışığında, iş ilişkilerinde eksik olan güvenin tesis edilmesi ve üretkenliğin arttırılması amacıyla yönelik olarak küçük şirket ağlarının oluşturulması düşüncesi çerçevesinde bir taslak model üzerinde de çalışılmıştır.

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CHAPTER ONE

- *"I don't think that I can ever believe in humankind anymore..."*

- *"Don't say that! Without trust, life on earth is hell."*

Rashomon, A film by Akira Kurosawa, Japan (1950)

1. Introduction

To trust or not to trust; a vital decision that has implications for all relationships ranging from the routine, everyday interactions, to the maintenance of cooperation in society. However, the issue of production of trust as a factor influencing production of goods and services often goes unnoticed (Perrow, 1992). Trust between business partners could be viewed as a lubricant for interorganizational relationships to reach to ultimate joint gain for the involved parties. Nevertheless, deliberate attention to the investigation of business relationships operating on the basis of confidence was scarce, and thus "...the study of trust and its impact on cooperative relationships at all levels may

be particularly fruitful area of future research" (Smith, Carroll & Ashford, 1995, p. 15). Similarly, Clegg and Hardy (1996) suggested that more work on institutional aspects of trust could reveal different conceptions of trust and trustworthiness in diverse settings. The present study has focused on delineating the main antecedents of trust in business relationships. To this aim, an investigation of trust in buyer-supplier relationships in small-scale enterprises at individual level of analysis and in characteristically different institutional contexts was carried out. This approach allowed the effects of some socio-psychological features to be reflected in this investigation, in addition to the main phenomenon at hand: the salience of trust in economic life.

There appears to be a widespread agreement in the literature on the importance of trust in human conduct, although there is a notable lack of agreement on the definition of the construct (see Hosmer, 1995). Broadly categorizing, we could talk about three different forms of trust (Rousseau, Sitkin, Burt & Camerer, 1998): *relational* trust, which emerges from repeated interactions between trustor and trustee; *calculus based* trust, which derives from the perceptions of trustor that the trustee intends to perform an action that is

beneficial; and *institutional* trust could be created by societal controls, laws and reputational sanctions. As a highly complex phenomenon, trust calls for theory and research methodology that reflects its multidimensionality. Lewicki and Bunker (1995) contended that research on trust could be grouped into three primary categories, each associated with a particular disciplinary perspective: 1) psychologists and personality theorists view trust as an individual difference (e.g., Rotter, 1980), 2) sociologists' and economists' notion of trust is an institutional phenomenon (e.g., Williamson, 1979, 1996; Zucker, 1986), and 3) social psychologists tend to conceptualize trust as an expectation of another party in a transaction (e.g., Deutsch, 1973). The present investigation was primarily concerned with trust as confidence in buyer-supplier business relationships.

Small-scale business research was a neglected field of research in Organization Studies, as well. This was partly because a small-scale enterprise often refers to a relatively simple organizational structure, in which there are a few levels in the hierarchy, and a more or less homogeneous culture (Mintzberg, 1979). However, in the last two decades the success of regional industrial districts, which generally consist of multitude of small

and medium sized enterprises (SMEs) (Özcan, 1995; Piore & Sabel, 1984; Staber, 1998), and the related concern with the "flexible firm" and post-Fordism to supply the demanded variety of goods in the market, at lower costs (Piore & Sabel, 1984), "age of information" making new organization structures both possible and effective through development of computers and numerically controlled machines (Fukuyama, 1995; Lipnack & Stamps, 2000), and increased international competition (Erzan & Filiztekin, 1997) led researchers pay more attention to operations of these enterprises.

Recently some authors, (e.g., Perrow, 1992; Staber, 1996a) asserted that this increased interest might be due to the fact that during the last decade the distinctions between small and large businesses have been blurred. The combination of drastic downsizing, decentralization and the implementation of intra-company business arrangements in a way converted a number of large and even international organizations to collections of smaller businesses, and in some cases small-scale enterprises. Flexibility, product development, quality, speed and some degree of networking among autonomous firms are regarded as the attributes that matters most in the fiercely competitive environment to survive. Drawing on previous research, Perrow (1992) asserted that big

firms have to downsize to be able to benefit from the attributes that are associated with small size.

Organization Studies has predominantly been focused on investigating questions related to corporations, top management, uncertainty in business transactions and the like. This emphasis could be considered as an end result of initial development of the Organization Studies parallel to the rise and expansion of big corporations, especially in the Anglo-Saxon world (Boyacıgiller & Adler, 1991). Moreover, as the firms grew large, the "managerial revolution" led to separation of ownership and control in most large corporations where the control of the firm slipped from the hands of single entrepreneur. Professional managers replaced entrepreneurs, and ownership became "dispersed" at the hands of thousands of stockholders who are involved with return on investment figures (Davis & Thompson, 1994), but not with the day-to-day management.

Large-scale enterprises, which got significant attention, were beyond the scope of the present study. Instead, an investigation of buyer-supplier trust and potentials for collaboration in commercial relationships that has increased enormously in recent years (Clegg & Hardy, 1996; Ring & Van de Ven, 1994), in the context of small-

scale enterprises was carried out. The buyer-supplier relationships, which are very susceptible to the influences of the subjective and psychosocial history of the involved individuals, requires putting back the human element into this picture without neglecting the meso and macro levels of analyses. Being a multidimensional concept, which has descriptive power in explaining different levels of phenomena related to human society, trust provides such an opportunity.

The reason for choosing small-scale enterprises as the context to carry out this investigation was two-fold. To begin with, in countries where relatively high levels of unemployment exist, levels of unemployment was reduced by the job creation capacity of the SMEs, either in the form of self-employment or as being employed in small businesses (Özcan, 1995). Today, one of the most debated problems being the rescaling of the state's share in the Turkish economy through privatization, and it is highly likely that this would further increase the amount of unemployment. Therefore, we believe that the time is ripe to think in these terms. However, the current literature, which has a concentration on research related to large-scale corporations and their workers, does not readily furnish us with the necessary information.

Previous research (Özcan, 1995; Toptaş, 1998) indicated that in countries where there is still a large majority of people are employed as semi-skilled peasants, in providing value adding jobs to these people was realized mostly by SMEs. In Turkey, a little under 45% of the population is still working in the agricultural sector (National Program, 2001), while in Turkey's neighboring countries the rural population has fallen around 20% mark (Dağ, 2000). Similarly, in the National Program (2001) for the European Union (EU), it was stated that compared to the EU member countries population, Turkish rural population is too high, and the contribution of the agricultural sector to the GNP is only thirteen percent. It was stated that in the coming years an increase in urban population, parallel to a decrease in rural population is expected, and thus SMEs were regarded as the most likely candidate to provide new employment capacity in Turkey (National Program, 2001).

Though a vital sector, agricultural production in Turkey is still highly labor intensive, and peasants in this sector are not as efficient and effective, as they could be in terms of creating value added wealth. According to Dağ (2000), the structure of the population living in the rural areas and the population-resource relationship, which falls short in terms of physical, social and

technological infrastructure, and the underdeveloped nature of human resources and work culture were among the reasons of this inconsistency. Finally, the fact that only 3% of the agricultural producers¹ were eligible for income tax payment, we believe is an important indicator. While successful integration of these people into larger economy is still an important issue (Buğra, 1999), we suggest that the potential of SMEs should be utilized.

Secondly, we suggest that more people becoming actors of social and economic life in Turkey independent of the state will result in higher levels of "civil-ization" in the country. The fact that the foundation of Turkish Republic was made by the bureaucracy of 1920s, where both physical and human capital was scarce, combined with the lack of a strong bourgeois class (Keyder, 1989; Sunar & Sayarı, 1987), had an imprinting effect on the state that has lasted until today. Centralization of governmental power at the state apparatus and protectionist economic policies that dominated large part of the Republic's history (Buğra, 1999; İlyasoğlu & Duruiz, 1991) are approaches that have run their course.

¹ The agricultural producers who either work for themselves, or as employers were reported to be about 3 million; out of these only 100.800 producers were income tax payers (Toptaş, 1998).

Over and above, as argued by Perrow (1992), centralization of power and authority in modern societies was institutionalized partly on account of big organizations. Big organizations and integrated production have been permissible, because of the total amount of wealth they created, although they had down sides, such as high levels of formalization, standardization, steep hierarchies, as well as centralization of power in the organizational life. Powell and Smith-Doerr (1994) argued that industrial development need not involve vertical integration or standardized mass production, but may rely on horizontal networks of production. Networks of small firms increasingly replacing integrated production could have some profound effects on distribution of wealth. Perrow (1992) argues that production of trust, minimization of centralization of power and authority, reducing hierarchy, standardization and formalization, and distributing wealth and reducing uneven development, could be achieved at the same token by instituting small-firm networks. Other country experience shows that deliberate decentralization of governmental power had desirable economic results (Weiss, 1988). Moreover, Fukuyama (1995, p. 204) suggests that network model could replace the large, centralized, government structures

that "...have proven too inflexible and slow moving to accommodate the needs of complex, modern societies." We feel that more people becoming economically independent of the state will help the country become more directed towards democratic rights, free market and help the country to prosper. This could be achieved by decentralization of governmental power by giving more financial and initiative freedom to local government, and boosting up entrepreneurial activity, which would in turn require an atmosphere where people would feel confident of the social and economic environment.

Some authors (e.g., Özcan, 1995; Powell, 1990) agree on the assertion that current Organization Theory (OT) does not fully explain some of the most crucial aspects of small-scale enterprises that rely on entrepreneurial and/or social networks such as face-to-face contacts, the role of family and friends. Boyacıgiller and Adler (1991) have pointed to the possibility of the culture bounded nature of Organization Science, while stating that current OT had placed minimal emphasis on contextual factors such as history, social setting, culture and government, because of low-context orientation of the Anglo-American countries. They were concerned that socio-historical and cultural biases in the field have led to narrow-mindedness. The currently emphasized

issues in the field today, could be considered to be the result of the omission of culturally significant, socially valid and psychologically meaningful knowledge. A contextually sensitive and institutional framework is necessary to understand organizations flourished in high-context cultures, such as Turkey (Hall, 1976).

Small and medium size enterprises constitute a considerable, yet not enough valued side of the economic life in Turkey. These enterprises have always been the dominant form in number, both in production and service sectors. Yet, they are the invisible power behind economy, because not enough attention was paid to the qualities and needs of small-scale businesses until very recently (Buğra, 1999). Striking figures about SMEs in Turkey are that 99.2 percent of all the firms, 76.7 percent of all employment², and 55.9 percent of the employment in manufacturing sector is provided by SMEs (Eighth Five Year Development Plan, 2000). However, the value added wealth they create is a little less than 38 percent, and only 10 percent of the export is realized by SMEs (National Program, 2001); comparatively low figures compared to their volume in economy. Moreover, at the countrywide level, the percentage of credits that was

² Except the agricultural sector

used by the SMEs is only about 4-5 percent³. In the Eighth Five Year Development Plan's "Aims, Principles and Policies" section, it was stated that to increase the share SMEs are taking from the banking system, particular resources for the use of SMEs will be allocated⁴. It was also stated that in the coming years an increase in urban population SMEs are the most likely candidate to provide the expected need for new employment (National Program, 2001). In short, SMEs are planned to be an increasingly important slice of the business activity in Turkey.

A review of literature revealed that the most fruitful approaches for studying small-scale businesses and various forms of intra-company arrangements of organizations were New Institutionalism (e.g., DiMaggio & Powell, 1983; Williamson, 1989, 1991; Zucker, 1991) and Network Perspective (e.g., Nohria & Eccles, 1992; Powell, 1990). It was also suggested that a synthesis of both theories could improve our understanding of network governance (Jones, Hesterly & Borgatti, 1997). Some students of organizational analysis denote networking as a defining characteristic of postmodern organization (e.g., Staber, 1996a), whereas others consider the increasing concern with "flexible firms" and post-Fordism

³ Item 1173

⁴ Item 1177

as one of the primary influences why postmodernism come under scrutiny in Organization Theory (Clegg, 1990; Parker, 1992). However, as noted by Clegg (1990) although the post-Fordism perspective might be an integral part of postmodern organization forms, it represents only half of the picture by focusing on manufacturing, almost exclusively. In the coming section of this study, the reasons of this negligence of small-scale business (and especially those in service sectors), and highlights of the relevant perspectives for this investigation were discussed.

CHAPTER TWO

2.1 An Overview of Theoretical Perspectives

Until 1970s, the Structural Contingency Theory that could be considered as a pro-management paradigm (Donaldson, 1995) dominated the field of Organization Theory (OT). The theory held that organizations adapted their structures in order to stay fit or competitive to attain high performance without being adversely effected by the changing contingency factors such as size, technology, diversification and other factors. A change in the contingency factor is considered to move an organization from fit to misfit, and thus the equilibrium must be restored with managerial expertise. There were a number of major structural contingency theories, each of which differing in their conceptions of the nature of contingency factor (see Donaldson, 1995). Starting with 1970s, this paradigm came under increasing attack, which was followed by arising of a number of newer organization theories. One of the major rejection points about the Structural Contingency Theory was the premise that organization is a rational instrument for goal attainment, which reflects the modernist conception of OT (Clegg, 1990).

One of the newer theories is the Resource Dependency, which could be exemplified by the influential formulation of Pfeffer and Salancik (1978) in *The External Control of Organizations*. The theory holds that organizations consist of coalitions of groups with their own interests. More importantly however, organizations are considered to be dependent on external resources, which they seek to manage through a variety of means. The emphasis of Resource Dependency was on the environmental constraints generated by organizational interdependence as organizations attempt to secure resources necessary for survival. It further states that in addition to external constraints, intra-organizational power arrangements, condition the behavior of organizations (Donaldson, 1995). The Resource Dependency Theory's focus on alternatives of active choice behaviors that organizations can exercise to manipulate external dependencies, or influence over allocation or source of critical resources, refers to utility of managerial action.

Another influential formulation was the Population Ecology Theory, which can be represented by Michael Hannan, John Freeman, and Howard Aldrich among others, who propose a Darwinian process of selective birth and death of organizations, and being replaced by better

"fit" young organizations. The theory holds that the primary mechanism of organizational change is not the purposeful adaptation by individual organization as suggested by the Structural Contingency Theory (e.g., Thompson, 1967), but the change that occurs at the population level. Population ecologists argue that population of organizations needs to be the unit of analysis, and examine population growth dynamics that incorporate the births and deaths in the population. For that purpose the Population Ecology perspective deals mostly with competitive forces shaping the institutional environment, emphasizing market competition, niche change, and fitness measures (Hannan & Freeman, 1977).

Change in the populations of organizations over time is among the main concerns, in this perspective. As populations of organizations age, they become more stable and thus the organizations that comprise them have a greater probability of survival, yet they are less likely to change and adapt. Older and larger organizations are considered to be more likely to survive, since they do not suffer "liability of newness" and the spare resources they command (Hannan & Freeman, 1988). According to the theory, there is not much room for manager to be influential on choosing successful structure, but by luck the structure among the established structures fitting to

the environment ends up being successful (see Donaldson, 1995). Technical environments, instead, shape organizations through *competitive isomorphism*, i.e. competition over scarce resources. This type of isomorphism was considered most relevant in which free and open competition prevails. Population Ecology perspective deals mostly with *competitive isomorphism*, emphasizing market competition, niche change, and fitness measures (Hannan & Freeman, 1977, 1988; Orru, Biggart & Hamilton, 1991).

Despite their differences in approach, such as different views about the appropriate unit of analysis, and efficacy of human agency (utility versus futility of strategic action), the Resource Dependence and Population Ecology Theories both share a common concern for *technical* environments, which includes production and control technologies, regulatory processes, etc. Instead of a technically oriented approach, the New Institutionalism in Organizational Analysis attends to *institutional* environments. It was argued (Meyer & Rowan, 1977; DiMaggio & Powell, 1983) that to receive support, to ensure their legitimacy and, their chances of survival, organizations are inclined to adapt their structure and behavior to be consistent with the institutional environment. Furthermore, considerations

about the New Institutionalism in Organizational Analysis being a chief alternative to both Resource Dependency and Population Ecology approaches (e.g., Orru, Biggart & Hamilton, 1991) were not absent.

2.2 The Old and The New Institutionalism

Being in constant interaction with members of its environment to achieve the goals that it was designed to accomplish, is a commonly fostered view of organizations. There are a number of actors in this environment including suppliers, customers, competitors, regulatory agencies, all of which form the buyer-supplier surroundings of the organization. Interactions may range from acquiring raw materials to hire employees, or from obtaining knowledge, flow of information, securing necessary capital for dealings with its customers. Besides supplying with the necessary resources, environments can also put demands on organizations (DiMaggio & Powell, 1983). These demands can be economic, in which case organizations forced for effectively and efficiently producing and exchanging their goods or services in the market, or environment. Alternatively, the environments that are dominated by social and cultural demands, reward organizations for conforming the values, norms, rules, and beliefs and for

playing certain roles in society (Zucker, 1987).

Organizations that function in institutional environments must acquire types of personnel that are at least not substandard, develop structural arrangements and production processes that conform to the specifications of that sector (Scott & Meyer, 1991). Moreover, institutional environments limit the direction and content of change, causing "an inexorable push toward homogenization" (DiMaggio & Powell, 1983, p. 148) that stems from state and/or interorganizational ties.

New Institutionalism holds that institutional environments could be described as socially constructed normative (rule and governance systems) and cognitive systems (systems of symbols and beliefs) in which organizations exist (Orri, Biggart & Hamilton, 1991; Scott & Christensen, 1995). Institutional Theory is also capable of explaining nonchoice behavior in the context of taken-for-granted norms and beliefs (Oliver, 1991), which is an important issue to deal with for the present investigation. In this perspective, organizations, and thus the actors within, are predicted to conform to institutionalized beliefs or practices that have become the only conceivable way of organizational behavior (DiMaggio & Powell, 1983; Zucker, 1987, 1991).

Institutionalism Theory has a relatively long history. Talcott Parsons, Philip Selznick and Max Weber made some of the influential contributions in the Old Institutionalism. In the Old Institutionalism particular emphasis was placed on the taken-for-granted character of institutional rules, beliefs as shared social reality, and the processes by which organizations infused by value and social meaning (Oliver, 1991; Zucker, 1987). The early Institutionalism puts forward that organizational change could be explained under rational-actor or functionalist frameworks. In regard to organizations, Old Institutionalism would argue that for an organization to become an institution, it is necessary to have developed norms and values, i.e. it should have gained the status of more than a tool having developed a group integrity and a motivation for maintenance among its members (Ring & Van de Ven, 1994). Critics of the early institutional models argued that the early Institutionalism could be categorized as largely descriptive, historically specific and abstract (DiMaggio & Powell, 1991).

The need for bureaucratization and rationalization has changed since Weber's original formulation, because the bureaucratization of state and corporations have been largely completed; today "structural change" is less

driven by competition and need for efficiency, but by "... processes that make the organizations more similar without making them more efficient" (DiMaggio & Powell, 1983, p. 147). Even though the rationalized organization perform less than optimum (Zucker, 1986), they do persist because at some time in the past of these organization it came to be "infused" with value in specific institutional environments. Institutional frameworks constrain organizations by directing their actions toward acceptable and supportable ones within the framework. Nevertheless, the institutional frameworks interact with both individuals and organizations (DiMaggio & Powell, 1991). They influence the individual's decision-making by signaling, which choice is acceptable and determining which norms and behaviors are socialized into individuals in a given society.

The year 1977 was the birth date of the New Institutionalism in OT, according to DiMaggio and Powell (1991), and the article of John Meyer and Brian Rowan was the hallmark of this arrival. Meyer and Rowan (1977), developing the macro side of the argument (Scott, 1995), stated that organizations were not just the product of increasing technical sophistication, but also the result of the increasing rationalization of cultural rules through actions of nation-states, professions, and mass

media. Thus, they emphasized the impact of institutional environment on organizational forms. According to Meyer and Rowan's understanding, the management of an organization creates a set of rituals and myths about the "good" organization and conformity to institutional norms, allowing the operating core partial isolation from institutional environment through loose-coupling, i.e., two parts of the organization being only loosely linked to each other. It was evident that, the development of Institutionalism was partly initiated by postmodern line of attack. For example, the influence of the notions of post-industrial society was given clear consideration in Meyer and Rowan's (1977) formulation.

The New Institutionalism was considered to be a part of the "cognitive revolution" that took place around 1960s in social sciences⁵. It was inspired by Berger and Luckmans's "sociology of knowledge", which argues that the social structure is continuously generated through continual process of interpretation, and Garfinkel's "ethnomethodology", a phenomenological approach (DiMaggio & Powell, 1991; Holm, 1995; Scott, 1995). Three aspects related with the ethnomethodological approach were said

⁵ The New Institutionalism movement also made inlays to the discipline of economics. The Transactions Costs Economics, which has developed as a consequence of this movement, was dealt in the coming sections.

to have effect on institutionalization: *transmission*, or communicating shared understanding to successors; *maintenance* of highly institutionalized acts; and *resistance to change for cultural persistence*, because highly institutionalized acts are perceived as being external (Zucker, 1991). Although the New Institutionalists tend to acknowledge their inspiration from phenomenology, the lack of interest in it in practical analyses of institutional process was criticized (e.g., Holm, 1995). The general tendency in the Institutional framework seems to be investigating institutional phenomena such as the role of managerial cognitions in the development of institutionalized beliefs (Lant & Baum, 1995), and on causes of diversification of large firms (Fligstein, 1991) with quantitative techniques.

In contemporary psychology, cognition was defined as the process of knowing; the collectivity of thinking, judging, reasoning and planning activities of human mind, and behavior is often explained as depending on the course of these processes (Davison & Neal, 1986). Cognitive theorists emphasize the extent to which information processing and decision-making are controlled by the ways in which knowledge is constructed by actors,

both at individual and/or collective levels (Scott, 1995). The Parsonian Action Theory, which has affinity with Freudian Ego Psychology, and Selznick's emphasis on internalization, commitment and the infusion of objects with value that constituted the basis for Old Institutionalism, were replaced by theory of practical action based on Ethnomethodology and Cognitive Psychology, which stress reasoning and preconscious grounds of reason such as classifications, representations, scripts, and schemas (highly simplified cognitive maps) which individuals use to select and process information (DiMaggio & Powell, 1991; Scott, 1995). Therefore, it can be concluded that the primary difference between the Old and the New Institutionalisms is their different conception of institutions. Despite the emphasis placed on influence, coalitions, values, norms, attitudes along with power and informal structures by the Old Institutionalism, in the New Institutionalism the central issues are legitimacy and embeddedness of organizational fields. In other words, New Institutionalism emphasizes how people in organizations act to produce and reproduce their environments (DiMaggio & Powell, 1983).

In regard to the question, why there are so few forms of organization, DiMaggio and Powell (1983) theorized that organizations are shaped by powerful extraneous processes, which push toward homogenization in terms of forms and practices within organizational fields. They suggested to define organizational field consisting of key suppliers, customers, regulatory agencies, and other firms that produce similar services or products, "...that, in the aggregate, constitute a recognized area of institutional life" (p. 148). Alternatively, Scott and Meyer (1991) employed the concept of "societal sector" to refer a collection of organizations operating in the same domain, as identified by similarity of their services, products or functions. These clusters of organizations were considered being under the influence of other organizations that critically influence the performance of the focal organizations: for example major suppliers, customers, regulators, funding sources and competitors.

The process of homogenization in organizational clusters was called *isomorphism*, and two types of it were identified in the literature: institutional and competitive. DiMaggio and Powell (1983) have more heavily dealt with the *institutional isomorphism* and the three sub-processes of this type. In their formulation,

these processes of isomorphic change were: 1) coercive isomorphism, which stems from formal or informal pressures that could result from legal environment or organization's need for legitimacy; 2) mimetic isomorphism, faced with environmental uncertainty, organizations might model themselves after similar organizations in their field that they perceive to be more legitimate or successful, and 3) normative isomorphism, associated either with professionalization that results from formal education, and thus legitimation of cognitive base, or through established norms of an organizational field, which manifest themselves as common expectations about personal behavior, appropriate style of dress, standard methods of speaking, etc. This process was regarded to result in establishment of professional norms, and diffusion of models rapidly.

Tolbert and Zucker (1983) stated that when some organizational elements become widely accepted as being appropriate and necessary components of efficient, rational organizations, these elements get incorporated into formal structure, in order to maintain legitimacy and to increase the probability of survival. The requirements may stem from such diverse sources as regulatory agencies authorized by state, from professional and trade associations, from generalized belief systems about specific organization types, or

arising from the organization itself (Scott & Meyer, 1991; Zucker, 1987).

The Institutional Theory also emphasizes the influence of wider social context, including influences arising from international, historical, relational, i.e. social ties, and cultural grounds of the organizational fields (Scott & Christensen, 1995). New Institutionalization highlights cultural influences both on decision-making and institutional structures. It holds that organizations, organizational fields and the individuals who populate them are "...suspended in a web of values, norms, rules, beliefs and taken-for-granted assumptions, that are at least partially their own making" (Barley & Tolbert, 1997, p. 93). It was argued that the New Institutionalism has been instrumental in calling attention to the cultural, political, and normative pressures present in the environment of enterprises, and thus it was considered a fruitful avenue of research in analysis of organizations, which are particularly vulnerable to these kinds of pressures (Orru, Biggart & Hamilton, 1991; Scott & Christensen, 1995). Orru, et al. (1991) claimed that each society creates a context of fiscal, political, as well as social institutions that limit and direct the development of suitable

organizational forms. Considering the important role of state in the economic affairs in Turkey (Buğra, 1994), it could be stated that coercive processes have been more influential in Turkish business life and characteristic pattern of business relationships. This issue will be raised again in the third chapter.

2.2.1 Micro Foundations of Institutionalization

DiMaggio and Powell (1991) and Zucker (1991) contended that the focus of New Institutionalism research has mostly been on macro-level, institutionalized environment's (the state, law or constitutional orders) effects on legitimizing organizations and their structures. Such work mainly deals with increasing isomorphism among organizations and context of institutionalism. It was argued that explicit attention to micro processes of institutionalization to date did not earn the attention it deserves (Roberts & Greenwood, 1997; Scott, 1995) since "most institutionalists prefer to focus on the structure of environments, macro- to micro level effects and analytic autonomy of macro structures" (DiMaggio & Powell, 1991, p. 16).

Whereas macro-level New Institutionalism generally deals with society's influence on organizations, Zucker (1987, 1991) stresses the power of cognitive factors, such as expectations and beliefs, to determine the behavior of people in organizations. By focusing on content of institutionalization such as indicators of the effects of institutional environment on some aspects of organizational structure or activity, Zucker (1991) argues that New Institutionalization faces the risk of getting reduced to Resource Dependency perspective. The micro-level institutionalization focuses upon

- 1) institutionalization as a process rather than a state,
- 2) cognitive processes involved in the creation and transmission of institutions, 3) their maintenance and resistance to change and 4) the role of language and symbols in this process.

In this regard, we consider that trust between business partners could arise from the cognitive processes such as expectations and belief systems. Moreover, once institutionalized the amount of trust in a group of people is resistant to change, and commonalities perpetuate it.

The links between micro- and macro-levels of analysis have been continuously been elaborated by Zucker and her

colleagues (Tolbert & Zucker, 1983; Zucker, 1987, 1988, 1991). Zucker (1991) argued that macro-level and micro-level are complementary and inseparable from each other because each actor perceives and describes social reality by "enacting" in it, and transmits this reality to other actors. Although some individual or small-group level behavior is governed by macro-level order, a large proportion of individual behavior is nevertheless determined by structures that originate and regulated at the micro-level (Zucker, 1988). As argued by Roberts and Greenwood (1997) in attending micro processes of institutionalization, researchers would be in a better position to understand how, and under what circumstances, actors begin to comprehend and question existing practices. Moreover, Oliver (1991) contends that the early versions of Institutionalism (taken-for-granted character of institutional rules, beliefs as shared social reality and the processes by which organizations infused by value and social meaning), has greater similarity with micro New Institutionalism. That might be one of the reasons of the negligence of most of the current researchers to attend micro-level, in addition to general macro-level orientation of researcher from sociological tradition, which makes it difficult for them to get acquainted with micro-level problems.

One of the major criticisms of the New Institutional Theory, raised mainly by the theorists of the micro side, was its lack of attention to strategic behaviors that organizations might employ to cope with institutional pressures and expectations that might affect them. It was argued that organizations do not invariably conform to the rules, myths or expectations of their institutional environment; organizations may resist institutionalization (Oliver 1991, 1992), or deliberately modify or eliminate institutions (Barley & Tolbert, 1997). Similarly, Zucker (1991) notes that whereas institutionalization often is a byproduct of the creation of other structures, "deinstitutionalization" requires deliberate attempt.

2.2.2 Transaction Costs Economics

The question of why formal organizations exist has been a question that was dealt with by many authors. Among the most well-known answers to this question are Barnard's assertion that formal organizations will arise, when the capacity of a single individual is exceeded by the technological conditions, and Blau and Scott's definitions of purposive collection of individuals directed towards explicitly recognized goals (Ouchi,

1997). In his attempt to provide an explanation for the existence of hierarchies and markets as governance forms, Oliver Williamson developed a theory known as Transaction Costs Economics (TCE). Transaction costs being the primary reason for the existence of hierarchies is a relatively more recent and one of the more prominent explanations revitalized⁶ by Williamson (1979; 1996). This influential formulation about the effects of transaction costs on the emergence of organization was considered to be a part of the new institutional movement in economics (Granovetter, 1985; Williamson, 1996).

At the expense of some simplification, Williamson's (1979, 1991) approach could be summarized as that transactions, which is the basic unit of analysis, involve uncertainty in regard to their outcomes. An economic transaction was defined as an exchange of goods and services across boundaries of firms (Williamson, 1979). Williamson (1979) defines governance structure as an institutional matrix, within which transactions are negotiated and executed. In other words, when there are high levels of uncertainty surrounding the outcomes in general, it is more efficient to organize production in hierarchically organized firms. Determination of a fair price in a business exchange where uncertainty prevails,

⁶ Williamson recognizes that this issue was raised by Ronald Coase around 1940s.

would require services of experts to make estimations, estimation of estimations, in addition to extensive and complete contract writing, which are regarded as the transaction costs that are leading to formation of large scale enterprises. If the level of uncertainty is low, exchanges occur through contractual agreements in the spot market. The TCE approach explicitly regards efficiency as a fundamental element in determining the nature of the organizations. In this view, an organization such as a corporation exists because it can mediate economic transactions between its members better than market mechanisms can. However, under certain conditions markets are more efficient because without paying the costs of managers, accountants or personnel departments these relationships could be governed.

As pointed out by Burrell and Morgan (1979), all theories of organization are based upon a philosophy of science, and a theory of society. The assertion that the American economic thinking is largely grounded in neo-classical economic tradition (Biggart & Hamilton, 1992) was hardly debated. Under perfect competition, the terms of trade would determine the market relations, and thus social relations among market actors, business networks and issues related to these matters could only be sources of imperfection, according to these tenets. This was also

the particular worldview that surrounds TCE formulation. While keeping tenet of neo-classical theory that individuals try to attempt to maximize their gains, TCE accepts that they have cognitive limits, and thus crippled by incomplete information, and difficulties in monitoring and enforcing agreements, to do so (DiMaggio & Powell, 1991; Williamson, 1996). Moreover, the theory pursues a particular point of view of human nature that is untrustworthy, egoistic, hedonistic, and autonomous individuals pursuing opportunistic behavior, and foresees a functioning of organizations in accordance with that human nature (Donaldson, 1995; Swanson, 1996).

In his critique, Granovetter (1985) stated that TCE try to explain social institutions from a neoclassical point of view, and thus presenting utilitarian and atomistic, or "undersocialized" account of economic transactions. Whereas it is assumed that the normative standards of behavior in competitive markets guarantee orderly transactions, organizational forms in any given situation are viewed in terms of cost efficiency of economic transactions. However, Granovetter argued that "...the anonymous market of neoclassical models is virtually nonexistent in economic life and that transactions of all kinds are rife with the social connections..." (p. 495). Similarly, Biggart and Hamilton (1992) argued that the

Asian capitalistic example, full with business networks based on kinship relationships that are based on trust and loyalty, revealed that the neoclassical model was not the general theory of capitalism. A similar example was provided by the research (e.g., Fukuyama, 1995; Lazerson, 1988), which investigated the Italian experience of SMEs. The above findings indicated that variations in the institutionalization of various economies, and the abundance of network organizations could not be satisfactorily explained from a neoclassical perspective. Thus, they concluded that neo-classical model is a rather ethnocentric model developed from Western experience, and thus it is applicable only to the Western economies. Some researchers argued that TCE fails to recognize the importance of personal and network relations in business relationships and ignores the influence of trust, in creating expectations and norms, in addition to enforcing those norms (Coleman, 1988; Granovetter, 1985) and the possibility of trust, mutual tolerance and reputation supplementing and/or replacing price mechanisms or administrative fiat (Powell & Smith-Doerr, 1994).

Upon the criticisms raised by several scholars (e.g., Granovetter, 1985; Powell, 1990), Williamson (1991) extended his Transactions Costs approach to include trust and personal relationships among business people, and a

third form of governance structure related with this, which he called "hybrid", or mixed form in his theory of organizations. While considering market and hierarchy as polar opposites, he portrays hybrid form as an "in between mode" characterized by an intermediate degree of administrative apparatus, with semi-strong incentive intensity and administrative control, which performs under a semi-legalistic contract law regime. This formulation was encompassing the existence and functioning of network forms of organization to a large degree. Later, Williamson (1996) explicitly stated that network form of organization idea was very closely linked with the TCE's treatment of the hybrid form of economic organization.

Proposing an extension of the TCE, Ouchi (1997) defines the problem of control as a problem of achieving cooperation among individuals with divergent objectives. He distinguishes three sources of control: markets, bureaucracies and clans, and observes that all organizations in reality are a combination of these three control systems in differing degrees. Broadly speaking, the main divergence point of Ouchi's proposition of control of human behavior, is the "clan" control, according to which cultural values, norms and expectations provide the primary mechanisms of control.

On the basis of most Japanese firms experience, he argues that if socialization and commitment of individuals to organizations is complete, then the monitoring will largely be unnecessary. In Ouchi's formulation, transaction costs mainly arise when it is difficult to determine value of goods or services either due to the nature of the goods or the services or the lack of trust between parties. Thus, it could be argued that once trust is established, the transaction costs could be regarded to be rather high to be functional.

The neo-classical view of organizations and functioning of the markets can be challenged by stating markets are not only formed with deliberate attempts of institution building, emerge spontaneously as a result of changes in production and profit (e.g., DiMaggio & Powell, 1983, Scott & Christiansen, 1995). Secondly, economic behavior cannot be reduced to impersonal and non-enduring relationships in the market (Buğra, 1998), but there are the effects of relationship history, networks of such relationships (Granovetter, 1985) and context, that is the political, economic, cultural, legal or historical situation (Boyacıgiller & Adler, 1991).

2.3 Theories of the "New Era"

In Weber's view, one the most influential events in shaping of the "modern" social life was the development of the "iron cage" of capitalism or the rational bureaucratic organization (Schroeder, 1992). Modernity is described by the growth of rationality considerations and sometimes equated with progress (Parker, 1992). The hallmarks of modernity were creation of nation-state, abstract citizenship, bureaucratic administration and systematic capitalistic production, which shaped some of the most basic characteristics of contemporary institutions, and it was distinctively a Western project (Giddens, 1991; Kumar, 1995).

Moreover, Giddens (1991) contends that modernity is to a large extent "globalizing", meaning "intensification" of worldwide social relations, which link distant places in such a way that the local happenings are shaped by events taking place in other places, while vice versa is also true. In this sense, it is possible to talk about a global, industrial modernity. However, this alteration took place although the central institutions of contemporary Western societies -capitalism, family, bureaucratic state, democracy and Christianity (Friedland & Alford, 1991)-, do not necessarily fully overlap with

the preexisting institutions of the non-Western societies that do not share a similar heritage. Nevertheless, under the influence of accelerating globalization it is true that to hide away from the influences, or not being aware of what is happening in distant places becoming more and more difficult.

A set of conditions arising after the 1973 oil shock and the following economic crisis of the mid 1970s that shook the socioeconomic structures, gave rise to claims for the need of a fundamental transformation of production (Piore & Sabel, 1984) and coming of a new era of capitalism (e.g., Bell, 1973). In this new stage of capitalism, the "conventional" production technologies, labor process, organizational principles, and maybe more importantly, interfirm relations need to be reshaped in most of the existing sectors. The Fordist principle of mass production and the notion of a regulated mass market, which have close affinity with modernity, came under strain because of the new socioeconomic conditions (Kumar, 1995; Piore & Sabel, 1984). This new era also saw emergence of new sectors, such as computer and telecommunication devices, which had tremendous impact in terms of dissemination of knowledge, everyday life (Bell, 1973; Kumar, 1995), organizations (Parker, 1992) and forms of communication (Lipnack & Stamps, 2000).

The transformation on the supply side was largely required by the changing customers' demand for higher quality, custom made and variable goods. In contrast to the mass production technology, which insist on large-scale production units, vertical integration, dedicated machinery, rigid, hierarchical work rules, detailed division of labor and mass consumption markets, to supply the new demand, flatter hierarchies, flexible specialization of machinery and highly skilled workers were found to be more suitable (Piore & Sabel, 1984; Piore, 1992). For example, whereas in the Fordist era a typical good's life was between five to seven years, in the new era the product life cycles of goods dropped to half, and in some cases like computer games to 18 months. These pressures for change from Fordist to post-Fordist production were considered as the origin of postmodernity by some (e.g., Gülova & Aktaş, 2001; Parker, 1992).

It was argued that this transformation in the economic order was a result of a larger set of changes, including the advances in the microelectronics and information technologies, intensification of global competition forcing companies to concentrate on core competencies and trends toward descaling, downsizing and decentralization of business firms, increasing significance of "industrial

districts" populated by SMEs, the need to adopt "flexible production" systems in response to the diversification of consumer markets, and the decreasing role of nation-state in economic life (Buğra, 1999; Kumar, 1995).

As stated before, some authors called this new period of industrialization as the "post-Fordist" era. Post-Fordism theory emphasizes the relations of production, because the idea of post-Fordism has some Marxist underpinnings. Some Marxist thinkers, while rejecting the original post-industrialization idea, as "...a clear demonstration of late bourgeois ideology", provided their own version of post-industrialization, which became to known as post-Fordism, according to Kumar (1995, p. 3). Being the leading figures for post-Fordism argument, Piore and Sabel (1984) point out to the changes in the external world that were brought by in the economic crisis of the 1970s created too many uncertainties to allow scale economies of the Fordist organization. The authors claimed that these uncertainties required a transition to a more flexible type of production, which favors small-scale and economy of scope. They referred the two technological trajectories as "mass production" and "flexible specialization", and the associated organizational forms with these trajectories as

hierarchies and networks, respectively (Piore, 1992; Piore & Sabel, 1984).

In a more recent formulation of the concept of flexibility, Rasmussen, Schmitz and van Dijk (1992) also suggested moving away from Fordist era and production practices was necessary to be able to meet the new demand patterns that has been created by consumers' pursuit for cheaper and high quality products. However, they also included that at the micro level, this development refers to flexibility within the firm or within the production process, that is enabled through rapid transfer of machines and processes (e.g., computer aided design and manufacturing), coupled with more flexible forms of work organization, such as flextime, group and team approaches, more general job definitions, etc. In line with these production processes and work organization, the new technologies provide the opportunity that flexibly organized firms to produce variations of products, in smaller batches at reasonable prices.

The association of flexible specialization with a third institutional structure, based on the experience of Italian small-scale craft communities led to an upsurge of research on this organizational form (Piore, 1992). Characterized by small production units engaged in

intense direct communication and "embedded" in a dense social network (Granovetter, 1985), this organizational form was termed as "network forms of organization" (Powell, 1990). According to this theory, to meet the demands of the changing market, firms adopted new models of organization among which network forms of production was the most common alternative (Powell & Smith-Doerr, 1994). In terms of organization of production, the vertically integrated hierarchies that has worked well in centralized, industrial era, substituted by the network model of organization and communication, which offers horizontal restructuring of organizations (Kumar, 1995).

In the filed of OT, the idea that the contemporary societies undergoing a transformation, which would surely have an effect on organizations, increased interest in the nature of this transformation and the issue of "postmodernism". The term postmodernism, in social sciences, was used to describe such diverse matters as a social mood, a historical period of significant changes in social and organizational spheres, and also as a set of philosophical approaches to organizational and other studies (Alvesson & Deetz, 1996; Parker, 1992). The major currents of influence were the issue of culture, and the increasing concern with the "flexible firm" and post-Fordism (Clegg & Hardy, 1996; Parker, 1992).

However, Alvesson and Deetz (1996) were skeptical about the postmodern organization being a distinct form. In contrast, they argued that postmodern organization is nothing more than relabeling of what is also called organic, adhocratic or post-Fordist organizations, with negligible amount of conceptual gain.

Nevertheless, the theories of the new era are not restricted to post-Fordism. A variety of other terms have been suggested to refer to this era, and the emergence of a new type of social system: post-modernity, post-modernism, post-industrial society, information society, post-capitalism, and consumer society (Giddens, 1991; Kumar, 1995). Kumar (1995) came up with three distinctive broad categories of post-industrialism as "information society", "post-Fordism" and "post-modernism", and the terminology used such as information technology, decentralization, diversity and globalization were the common "denominators" of all. According to Kumar, the theory of post-modernity, which in a way includes the other two categories of Information Society and post-Fordism, provide only an "eclectic, elusive and ambiguous" conceptualization of current developments.

Within all the theoretical indistinctness, the issue of whether we are currently living in a new phase of capitalism, or in a totally new era, has not been resolved yet. It would be misleading to suggest that there is a widespread consensus among postmodernity theorists. For example, the proponents of post-Fordism seem to neglect the fact that this theory was mainly based on the experience of small and medium sized manufacturing firms, in many respects. However, the increasing importance of service sector organizations in economic life (Alvesson & Deetz, 1996) requires a broader theoretical background. One such alternative could be the Theory of Post-Industrialization. The Post-Industrialization theorists foresee the rise of professionalization mainly in the new service class of knowledge workers, and the disappearance of organizational boundaries (Clegg, 1990). Kumar (1995) demonstrates that the theories of post-industrial society differentiate the current society from the "old" one by its novel methods of acquiring, processing and distributing of information. Thus, the notion of information society fits well with the premise that knowledge and information being the strategic resource and transforming agent of post-industrial society. Moreover, proponents of post-industrial society contend that the information society enhances democracy, "...as it

diffuses information throughout society, making for a more alert and educated public" (Kumar, 1995, p. 14). However, this is another debated issue, still.

The distinctive features of post-industrial era, based on Clegg (1990), Hatch (1997), Kumar (1995), Powell and Smith-Doerr's (1994) analyses, could be summarized under several headings. The forms of organization associated with post-industrialism are networks, joint ventures, strategic alliances and virtual organizations. These forms are generally characterized by horizontal restructuring of organizations, intense communication in flat hierarchies, larger participation of employees in decision-making, importance attributed to organization culture, vertical and horizontal disintegration, two-way information flow that allows integration between assembler and supplier for product flexibility, just-in-time supply system, outsourcing, emphasis on quality, innovation, diversity and customer service. In this structure, nature of work shifts from routine, deskilled labor towards a less specialized, complex one, which requires knowledge-based skills, constant investment in learning and developing teamwork in organizations (Rasmussen, et al., 1992).

2.4 Network Forms of Governance

In business life some form of formal or informal networking has always existed (Granovetter, 1985), yet the systematic study with a positive consideration and acceptance to network forms of organization, as a viable alternative of economic enterprise is rather new. In line with the premises of the neo-classical economic theory, attitude towards interfirm collaboration used to be rather negative (Staber, 1996a). The assertion of Alfred Chandler that we should only have integrated production and multidivisional firms that technology made possible by permitting economies of scale, and made efficient by bureaucracy allowing control of mass of employees, processes and products, was in line with this view (Perrow, 1992). Similarly, the Transaction Costs' solution of avoiding malfeasance by buying out suppliers and distributors (Williamson, 1979, 1991), and settling out disputes autocratically instead of bargaining (Perrow, 1992) also fits well to this picture.

In the interorganizational network research, there has been a dominant tendency to conceptualize intra-company business arrangements as an alternative form of organizing economic exchange, to be added to the markets and hierarchies dichotomy. There are two competing views

that regard network forms of organization as a distinct form. The first view that was based on Transactions Costs Economics, interprets networks as an intermediate, or "hybrid" (Williamson, 1991) organizational form that has some features of both markets and hierarchies. The second and more elaborated view of network forms of organization perspective has been put forward based on a sociological tradition (Astley & Van de Ven, 1983; Granovetter, 1985). This view holds that network forms of organization is a distinct form of organizing economic exchange. It is regarded that network forms of organization has distinctive traits as peer group joint decision-making, reciprocal, preferential, mutually supportive actions, trust, and informal, extra-contractual agreements (Ebers & Grandori, 1997). In the OT, the term network initially was employed in the analysis of nonprofit organizations, however later eventually spread to the other areas of business (Thorelli, 1986). The organizational theorists and sociologists who recognize interdependencies among individuals, variability of individual preferences that neoclassical economists choose to ignore (Piore, 1992) tend to use the Network Perspective.

A growing literature suggests that networking and subcontracting between various size firms are needed for

the survival and growth of competitive small and medium sized firms (e.g., Dubini & Aldrich, 1991; Humphrey & Schmitz, 1998; Staber, 1996a). Moreover, it was also argued that in the context of relatively underdeveloped regions, to be able to increase the competitiveness of SMEs, and their successful integration with the general economy, the network systems approach has crucial importance (Dağ, 2000; Sabel, 1993). According to Nohria (1992), the increased interest in the concept of networks emerged partly because of the competitive rise of small entrepreneurial firms of regional districts, and the interest in the organizational networks that new information technologies has made possible, and expected to generate.

As an organizational form, small-firm networks could be considered as a new and diverse form, and as an economic phenomenon it deserves careful consideration (Perrow, 1992). The firms that are part of this type of a network tend to be generally very small, and they interact with one another by sharing information, equipment, personnel, and orders, even as they compete with each other at the same time. These levels of sharing to be viable, the basic ingredients of such an organization are institutionalized trust and cooperation among the members of network, which are mostly based on social

relationships and supported by facilities provided by regional governments, trade associations, and unions (Lazerson, 1988).

The central concepts in network analysis are "trust" and "power", where trust is based on personal friendship, and social bonds which manifests themselves in mutual feelings of belongingness and interdependence (Thorelli, 1986). While describing power, Thorelli (1986, p. 38) stated that he understands the phenomenon in terms of interdependence rather than power that is "possessed and exercised unilaterally". In his view, the key to understand any particular network is to understand the flows of power that is supported by the flows of information within networks. The possibility of power being a driving force in interorganizational interactions was suggested as a potential alternative that could be taken into consideration (e.g., Clegg & Hardy, 1996; Granovetter, 1985). It was argued that many of the complexities that arise in interorganizational relationships are resolved not by trust relations, but power relations among firms (Granovetter, 1985). However, Clegg and Hardy (1996, p. 679) maintains that "...interorganizational coordination based on power are unlikely to lead to the synergy and creativity associated with more trusting forms of collaboration." To our mind,

for the above reason, an investigation of trust in long-term business relationships could be considered more relevant.

Researchers working in the area of small-scale business entrepreneurship delineate networking as a necessary strategy for obtaining critical resources and connecting to resources of information (Staber, 1996a). Dubini and Aldrich (1991) suggest that there are two coexisting networking processes, which, taken together affect the fate of entrepreneurs and their companies: a) the extended networks associated with other organizations, and b) the informal, personal networks associated with individuals. Above that, it was argued that in this intensely competitive business environment, firms of all sizes have to establish networks, i.e., strong bonds with their customers, suppliers, vendors and branches (Perrow, 1992). However, Nohria (1992) argues that this assertion is a normative one that has been used to advocate networks. Instead, he suggests that the term network should be used to describe an observable pattern of organization.

It was suggested that raising competitiveness in developing countries -a category in which we can safely place Turkey- requires rebuilding interfirm relationships

(Humphrey & Schmitz, 1998). Major role models, as frequently mentioned in the literature, could be Japanese supply chains and Italian industrial clusters. Both models entail a high degree of inter-firm dependence and appear to involve a high degree of trust and personal ties, rather than contracts (Humphrey & Schmitz, 1998; Uzzi, 1997). Similarly, Chinese small business networks typically developed on family and kinship ties, reciprocity and trust relationships. Interorganizational linkages in these networks are based on patrimonial and personalistic direct control (Clegg, 1990; Fukuyama, 1995), rather than on impersonalized, rational-legal bureaucratic model.

Another strand of networking theories can be found in the field of industrial marketing under the headings of Industrial Marketing and Purchasing (e.g., Axelsson, 1995; Hakansson & Johanson, 1992), and relationship marketing (see Mattson, 1997), which are research programmes developed mainly by European marketing scholars, based on relationships between seller and buyer as a fundamental concept. Although these literatures are to a large extent restricted to discussions of industrial networks and managing the market relationships of firms, they could be regarded as providing some basic insights for the present investigation. Relationships between

buyer and seller being the fundamental concept of investigation and deep interest in exchange relationships to provide continuous links were among those insights, to name a few.

2.5 Types of Networked Organizations

As it was mentioned before, the success stories of some industrial districts were instrumental in the increased interest about SMEs and the key concepts related to them. However, success of network forms of production is not restricted to regional networks, but extends to high technology research and development communities, strategic alliances and collaborative manufacturing and East Asian economic success (Powell & Smith-Doerr, 1994). Industrial districts were described as geographical regions where a number of -mostly small-scale- enterprises cluster, specializing in one particular aspect or phase of production, alternatively compete and cooperate with one another (Staber, 1998). Nevertheless, the benefit provided by industrial districts seems to be derived from a source other than geographical proximity. Powell and Smith-Doerr (1994, p. 387) argues that the key factor is trust-based governance, which is enabled by repeated contracting "...embedded in local social relationships cemented by

kinship, religion, and politics, encourages reciprocity". Powell and Smith-Doerr contended that trust based governance that is exemplified by interorganizational collaboration has the advantages of radically reducing cognitive complexity and uncertainty associated with most business dealings. They also suggest that there are at least four types of networks of production with varying bases of trust (see Table 2.1).

Table 2.1 Four Types of Networks of Production*

	Organizational Examples	Key Concepts	Basis of Trust
Regional	Third Italy manufacturing & high tech in Silicon Valley	Flexible specialization	Location, kinship, norms of reciprocity
Research and Development	Basic science collaborations	Innovation, learning	Common technological community
Business Group	Japanese <i>keiretsu</i> , Korean <i>chaebol</i>	Benevolent authority	Common business identity
Strategic alliances and collaborative manufacturing	Joint ventures, subcontracting	Identity altered from repeated interaction	Calculative, common dependencies

*Adapted from Powell and Smith-Doerr (1994).

Business groups that were organized as networks of production, for example, achieve the savings of transaction costs of large firms, while retaining the overhead and administrative costs of large firms (Fukuyama, 1995; Powell & Smith-Doerr, 1994). In their

analysis, Powell and Smith-Doerr (1994) suggest that the regional type of networks meet the demands of the changing marketplace by spreading production across diversified interfirm linkages of suppliers, subcontractors, and end-users. This organization form, at times requires greater reliance on subcontractors and establishing collaborative ventures with the former competitors, as it was the cases of territorially bounded networks of north-central Italy, southwestern Germany, and US Silicon Valley. In those areas that prosper, it was observed that these relationships were based on mutual trust as a natural fact (Sabel, 1993) rather than strict contracts or other methods of elaborative monitoring. The alternative trust production sources were either kinship, or norms of reciprocity in many cases (Powell & Smith-Doerr, 1994).

Advocates of the Network Perspective (e.g., Granovetter, 1985, 1992; Nohria, 1992) assertions could be summarized as follows:

- Like all human action, economic action can only be properly understood as being embedded in ongoing network of relationships.
- Economic goals are pursued parallel to non-economic goals (such as sociability, approval, status and power).

- Economic institutions do not arise automatically because of some external circumstances, but they are socially constructed and maintained by ongoing social processes.
- Whether or how an industry, a firm, or a business group is organized, is a social construction.

Nohria (1992) contends that networks are social constructions, which are constantly reproduced and altered as a result of the actions of involved actors, while they in turn constrain the actions of the actors. In these assertions, Network Perspective theorists subscribe to Berger and Luckmann's (1966) phenomenological approach, in which institutions are comprehended as "social constructions" rather than an outcome of social circumstances. This point also conveys the common theoretical background between New Institutionalism in organizational analysis and Network Perspectives, which acknowledges the influence of phenomenological approach (DiMaggio & Powell, 1991). Similarly, Nohria (1992, p. 5), while describing "environment" from Network Perspective point of view, suggests that an environment "...consists of a field of relationships that bind organizations together". This definition of environment fits well with DiMaggio and Powell's (1983, p. 148) definition of organizational

field, which includes "...key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products." This point is also important as an indicator of the connection, or continuity between New Institutionalism and Network Perspective.

2.6 Research on Business Networks in Turkey

Research on industrial districts, and network arrangements in Turkey provides conflicting views about these clusters providing a suitable institutional structure for efficient and effective production and competitive advantage. For example, Sugur (1997) stated that due to high levels of competition and lack of trust between workshop owners in an industrial and commercial center in Ankara, the collective efficiency had been quite rare. It appears that some small-scale business owners find it quite difficult to overcome their mutual suspicions, even when it would appear in their interest to collaborate. Similarly, after her investigation of a consumer durables network, Buğra (1998) highlighted the importance of trust and loyalty in establishing networks among manufacturers, retailers, and customers.

Previous research (e.g., Lazerson, 1988; Powell, 1990; Powell & Smith-Doerr, 1994) suggests that alternative trust production sources that replace contracts in network forms of organization were kinship, religion, politics or norms of reciprocity in many countries. Considering the impact of kinship, regional bondage, and reciprocity relationships in the Turkish society (e.g., Esmer, 1999; Fişek, 1994; Kabasakal & Bodur, in press; Kıray, 1997; Kıray & Abadan-Unat, 1985), one could expect these mechanisms as viable trust building tools for interfirm commerce and production in Turkey. Likewise, Semerciöz (2001), who found high-levels of cooperation in the Merter textile industrial district, contends that the success of businesses in this region was due to high levels of trust produced on the basis of social relationships, including family and friendship ties. In a recent research on SMEs of three medium sized Turkish cities (Özcan, 1995) found that family and kinship ties, and local networks were critical success factors. In her study of jeans industry in Istanbul, Neidik (1995) highlighted importance of networking activities in critical turning points for the firms, such as entry to the industry, establishing relationships with manufactures, domestic customers and with local municipal authorities. These connections were, more or less,

founded on a mutual sense of trust, which was based on kinship, ethnicity, friendship or place of origin networks. To sum up, these researchers all stressed importance of kin and friendship networks, and regional bondage as trust building mechanisms in various business settings in Turkey.

CHAPTER THREE

3.1 Small and Medium Sized Enterprises across Nations

The success of Italian industrial clusters, highly adaptable enterprises of the Silicon Valley in US, Baden-Württemberg area in Germany, and to some extent Japanese network organizations, were the sources of inspiration for the "flexible business networks" movement, which became widely recognized after Piore and Sabel's (1984) landmark book of *The Second Industrial Divide*. Piore and Sabel coined the term "flexible specialization" which became closely associated with the field of SME research. They ascribe great importance on small firms for development and creation of wealth, for they could produce a variety of different products by employing skilled and adaptable employees using general purpose machines, efficiently responding to fragmented mass markets in the "new era". According to Piore and Sabel's (1984) analysis, successful regional economies were populated mostly by SMEs, which were able to adjust quickly to changing economic conditions, because they could draw on "thick" institutional framework of embedded social structures.

To the question of why small firms still do exist against the pressures for vertical integration as suggested by Transaction Costs Economics (Williamson, 1979, 1996) for example, Granovetter (1985, p.507) puts forward that small firms in a market setting may persist "...because a dense network of social relations is overlaid on the business relations connecting such firms and reduces pressures for integration." In other words, territorially bounded networking while providing room for cooperation and an environment that supports innovation, also provides opportunity for SMEs to survive while protecting their autonomy. The regional economies in which close proximity of firms, repetitive interactions between firm owners who share long-term interests and reciprocal relationships, eventually fosters a sense of "trust" (Humphrey & Schmitz, 1998; Piore & Sabel, 1984; Sabel, 1993). It should be taken into consideration that these clusters of cooperation are "embedded" in socio-cultural factors, such as ethnic, religious, or kin groups (Granovetter, 1985), as well as suitable institutions and a politically favorable political environment (Weiss, 1988).

It is a commonly held opinion that SMEs play a major role in technological innovation and job creation. For

instance in Europe, on the average SMEs account for double the number of innovations per employee created by big corporations, and provide close to 70 percent of the jobs. Furthermore, in times of economic crisis of 1970s, the small-scale enterprises were practically alone in creating jobs in Europe and elsewhere (Özgenç, 1998); for that reason European Union attributes special importance to development of SMEs⁷. European Union pursues a strategy toward regionalization of policies dealing with craft enterprises and SMEs. Some countries, such as Denmark, Norway and Britain, have national programmes for initiating business networks among firms of various sizes (Humphrey & Schmitz, 1998; Staber, 1996a).

Strength of small and medium sized businesses can be considered as a key for healthy economic development. Drawing on the results of previous examinations (e.g., Müftüoğlu, 1993; Özcan, 1995; Piore & Sabel, 1984; Toptaş, 1998), it could be suggested that SMEs

- provide more employment capacity than large businesses, for equal amount of investment
- provide training for semi-skilled people
- are more flexible when faced with economic instability

⁷ Activities in Favor of SMEs and the Craft Sector http://europa.eu.int/comm/enterprise/entrepreneurship/promoting_entrepreneurship/doc/com_1997_610_en.pdf

- adapt more easily to variability in consumer's demand of variation of goods, compared to large enterprises
- can provide large potential for regional development
- can be instrumental in reducing economic inequalities
- individual's saving can be directed towards production
- create new entrepreneurs in the form of "spin-off"s
- play an intermediary role between large factories and local needs.

Having outlined the commonly agreed upon benefits of SMEs, in the coming sections, we like to shift our attention to two soils where the most celebrated examples of small business networks flourished, namely the Third Italy and the Silicon Valley in USA, and to the SMEs in the Turkish context.

3.2 The Italian Experience

Italy, being one of the relatively late industrialized countries of Europe, with the prominence of networks of small businesses producing everything ranging from textiles to industrial robots from 1970s onwards, enjoyed

a rapid development and increased welfare. At the hey days of this development, SMEs employed approximately the half of the Italian work force (Lazerson, 1988). It was argued that the Italian model of small-scale industrialization represents an entirely new paradigm of industrial production, and can be exported to other countries (Fukuyama, 1995; Lipnack & Stamps, 2000).

As being one of the models of investigation, the story of north-central Italy, or with better-known name the "Third Italy", started with Italy decentralizing its governmental power by forming local governments in the 1970s (Dağ, 2000; Weiss, 1988). The First Italy is the industrial triangle of Turin, Milan and Genoa, which concentrates in large-scale production, and the Second Italy being the economically undeveloped South. The Third Italy was distinguished from the other two by being a dynamic area of small firms and workshops in the central and northeastern regions of the country (Kumar, 1995). For example, being one of the 21 administrative regions of Italy, Emilia-Romagna was among the poorest regions. However, over the next decade with the initiatives provided by the local government for SMEs and companies linking up to form giant structures to produce and export, the region became the second wealthiest region in Italy (Lipnack & Stamps, 2000). Each

geographical district being specialized in a single or a few products constituted the core of "industrial districts" idea. The workshops using state of art numerically controlled tools, produced sophisticated and design conscious products for domestic and international markets (Piore & Sabel, 1984). Moreover, workers were well paid, and enjoyed by additional benefits like transport, housing, education, and social security of high standard (Kumar, 1995).

Lazerson (1988) pictured a sketch of SME and the particular social and political order in Italy. In his observation, the continuation of the extended family secured a basis for cooperation and trust on which the economic relations are based. These small-scale enterprises were cooperating in issues such as joint purchase of raw material and pooling of resources to employ export consultants, which helps to keep the costs down (Amin & Thrift, 1992). The social factors that assist the small firms are further reinforced by the national and local policies (e.g., favorable tax, company and labor-relations legislations), and a rich network of private economic as well as political organizations (confederation of artisans, unions, political party bodies) provide a rich milieu for SMEs to develop (Lazerson, 1988; Weiss, 1988). Expensive infrastructure

investments were provided by municipality-sponsored industrial parks, where small firms did cooperate with one another to create wealth. Efficiency was achieved by rapid responses to market needs, based on a flexible organizational structure and substantial subcontracting to other small firms to allow maximum use of existing plant and equipment (Lazerson, 1988).

In terms of labor relations, Lazerson (1988) observed a general attitude of trust towards employees which was exemplified by the lack of "oppressive forms of simple control", that might, in his view, be an end result of preference for hiring people recommended by other firms and friends, as well as well-defined lines of authority in the firms. This point could be linked with to the level of familism of culture concept. Staber (1996b) observed that many businesses in Italian clusters, the terms of competition and cooperation was determined by a sense of "familism", and declared that the persistence of networks based on kinship relations is difficult to explain with standard economic theory. While commenting on the effects of familism in a society, Fukuyama (1995) asserted that familistic societies have greater difficulties in creating large economic institutions. Thus, he categorized Italy, as one of the familistic cultures that also has resemblance to Chinese business

environment where small and family owned firms are abundant.

Besides the strong tradition of self-employment and small-scale entrepreneurship, Amin and Thrift (1992) argued that there were two other institutional factors that were influential on the growth of SMEs in the Third Italian cities. A prominent factor was the risk minimization strategy preference of rural savings banks to give loans widely but thinly to a large number of applicants. The variety of fiscal and other incentives offered by the Italian state to small-scale enterprises were also influential.

Another point, which was shown by previous studies, was the existence vibrant and vigorous civil society that flourished in the prosperous North, but not in the underdeveloped South. Helliwell and Putnam (1995) argued that the large number of voluntary associations among people in Northern Italy explains the region's economic success. These associations provide the North the "social" capital that the South, where the associations are far less common, does not have. This finding is in accordance with the common understanding that liberal political and economic institutions depend on healthy and dynamic civil society (Esmer, 1999; Fukuyama, 1995).

3.3 The Silicon Valley

In the case of California's Silicon Valley, the microprocessor revolution of the 1970s created the technological basis of a new industrial community starting from late 1970s and early 1980s. The high start-up rates and transmission of technological know-how in the region was supported by a complex pattern of social organization facilitated by interpersonal brokers, central meeting points, and family and friendship networks (Powell & Smith-Doerr, 1994). This rapid development was facilitated by geographical proximity making the diffusion of knowledge fast, and success of the earlier ventures, which made copying their example cognitively legitimate (Aldrich & Fiol, 1994). In his study of firm development in Silicon Valley, Suchman (1995) found that the primary obstacle to commercial development at the early days of this development was obtaining funding for innovative ventures from traditional institutional investors. This initial problem of start-up firms was solved largely by venture capital funds, and Silicon Valley law offices acting as "information intermediaries", drawing on the fairly large experience base in dealing with similar sets of transactional challenges. These law firms benefited from the context of well-developed organizational

communication structures, and their well-institutionalized professional roles. These findings were parallel to theoretical conceptions, which emphasize the legitimation need of practices (e.g., DiMaggio & Powell, 1983), and the influence of proximity in diffusion of know-how (Oliver, 1991).

3.4 The Turkish Context

For thousands of years, the land now part of the Republic of Turkey has been at the crossroads of major forces of civilizations. Being situated at the boundary between Europe and Asia both geographically and culturally, Turkey is a land of dramatic contrasts. While 97% of the population describes itself as Muslim (Çarkoğlu & Toprak, 2000), unlike other predominantly Islamic countries, its government is a secular democracy with a parliamentary system similar to that of many European countries. Whereas its cultural roots is in the Middle East, colored with some mythological Middle Asian references, in addition to being a NATO country, and an active member of many European platforms for decades, Turkey rather recently was named as a candidate for the European Union. However, Turkey lies behind to the European Union member countries in several respects such as level of economic development that is exemplified by the comparatively low

per capita income, and flaws in democracy. Nevertheless, the aspiration of large portion of the society to become a full member of the "modern" world, combined with the economic and social change that accelerated since 1980s, has brought about a social consensus to overcome these difficulties. An opinion poll showed that 67.8 percent of the population supports European Union membership; whereas only 9.9 percent declared that they were against this aspiration (Elekdağ, 2000).

The industrialization movement in Turkey was characterized by dependence on foreign technology, and took place in an international context of advanced economies of the post World War II, and thus Turkey is regarded as a late-industrializer (Buğra, 1994). In the Ottoman times, the industrialization efforts were rather scarce. There was, however, a strong tradition know as Akhi-ism merchants, traders, and craftsmen, who were engaged in production and distribution of manufactured goods, which were organized under different guild like network organizations of small shops working in the same sector (Kıray & Abadan-Unat, 1985; Yardımcı & İşeri, 2000). These guild organizations were regarded largely means of administrative control over artisans (Sunar & Sayarı, 1987), and these organizations played an important role in the Turkish society, and business life

until they were banned in 1913. At the foundation years of the Republic, industrialization was directed toward import substitution. The state led economy, protectionism and heavy centralization led to an expanded public sector. The years of Great Depression, and the following World War II, intensified the closed and protectionist economic model further. The industrialization efforts started to yield substantial results in the early 1960s, and the protectionist foreign trade regime, import substitution strategy were questioned.

In 1963, Turkey became an associate member of European Economic Community, which gave a full integration perspective (a customs union), which was realized in 1996. Parallel to such factors as the crisis of mass production technology (Piore & Sabel, 1984) and arguments about arrival of post-industrial society (e.g., Bell, 1973), the 1970s was denoting a turning point in terms of the approach towards state intervention in economy. While earlier central plans aimed at economic growth via public investment and enterprises, in 1970s the duty of the public sector was redefined as encouragement of private sector with incentives and subsidies (İlyasoğlu & Duruiz, 1991). It should be stated that the society and economy-shaping role of the state in Turkey has been

rather broad compared with to many Western countries. Nevertheless, it was argued that extensive state intervention in economic and social life was not successful "...in assuring social integration, and large segments of population have been remained excluded from economic benefits of modernization and no significant uniformization of life styles could materialize" (Buğra, 1999, p.14). This was partly because large portions of population remain dependent to agricultural work (Kıray & Abadan-Unat, 1985).

Beginning with 1980, the former policies of highly protected and heavily regulated economy have been replaced with the export oriented growth model, liberalization and deregulation of economy (İlyasoğlu & Duruiz, 1991). The forces of globalization have been also instrumental in this choice of adopting neo-liberal economic policies (Toptaş, 1998). In this new institutional environment, small and medium sized enterprises situated in provincial cities (Anatolian Tigers) have drawn attention by displaying a significant dynamism. For the first time, SMEs and their potentials have come to be favorably compared with large-scale, diversified companies (Buğra, 1999), which until then dominated the economic scene. This economic dynamism was partly as a byproduct of religious networks and groups

that concentrate their energy on private economic activity (Sunar, 1996).

All these components create a unique mix of social, political and economic life in Turkey. The western portion of the country, centered around Istanbul, offers a cosmopolitan, urban life for a quarter of Turkey's population. Most of the country's geography, however, consists of pastoral agricultural regions with nearly 40 percent of the population still working in the agricultural sector. This disparity in the west-east direction was quantified by an index provided in the Human Development Report (1998) for Turkey. According to Human Development Index (HDI) results, 20 cities in Turkey may be classified under high, 52 under medium and 6 under low human development.

In Turkey, the salience of blood ties, lineage relations, salience of regional bondage (*hemşehrilik*) and other primordial affiliations in the establishment of political, social, as well as economic organizations are wide spread even in large cities (Esmer, 1999). The mechanization of the agricultural production starting with the 1950s resulted in a rapid decline of the ratio of rural population being around 80% down to 56% in 1980,

followed by 47% in 1985, and going down below 40% at the beginning of 1990s (Dağ, 2000). The latest figures of State Institute of Statistics figures indicate that in the last 30 years, the urban population in Turkey has risen from 32.4 percent to 67.6 percent in year 2000. However, the result of this influx was not necessarily meant adopting an urban way of life for the newcomers. Regional bondage has salience in individual's life, regardless how long they have been living in the urban areas (Esmer, 1999; Kıray & Abadan-Unat, 1985). Moreover, Mayer, Davis and Schoorman (1995) stated that people with different developmental experiences, personality types, and cultural backgrounds could vary on different points, including their propensity to trust. Therefore, it may be possible to expect variations between individuals, depending on the region and the cultural background a person feels that s/he belongs to.

3.5 Small and Medium Sized Enterprises in Turkey

Regarding their numbers among all business enterprises in Turkey, SMEs provide a modest 37.7% of the total turnover⁸, and use only 26.5% of all investment capital (Günel, 1998). Although SMEs comprise a substantial percentage of economic activity, they seem to be

⁸ This figure is 56.2% for EU.

secondary to large-scale enterprises in Turkey (Buğra, 1999). Kiray and Abadan-Unat (1985) contended that the Turkish SME owners' need for being independent from formal hierarchies, combined with the shortage of capital and other economic factors, leads to formation of numerous small enterprises, which in the long run constitute an obstacle for formation of large scale businesses which requires partnership and organization. In countries, where structurally small-scale enterprises are wide spread, gaining advantage from this composition could only be possible by organizing industrialization around SMEs (Toptaş, 1998). To this aim, a comprehensive SME policy, which includes technological, financial, research and development, and consultancy support for SMEs, needs to be instituted. Although, there seems to be a wide spread agreement on this point, to date this aim could not be realized.

At present, there are a number of civil society organizations that represent multitude of SMEs (e.g., The Union of Chambers of Commerce [TOBB], Turkish Confederation for Artisans and Craftsman [TESK], Turkish Foundation for Small and Medium Business [TOSYÖV], Economic Development Foundation [İKV]), and government institutions like Halkbank (a state owned bank), Bağ-Kur (a social security organization), Küçük Sanatlar, Sanayii

Bölgeleri ve Siteleri Genel Müdürlüğü (Directorate of Artisanship and Industrial Clusters), Çıraklık Eğitim Merkezi (Center for Traineeship Education) and TÜBİTAK (The Scientific and Technical Research Council of Turkey) are among those organizations that has duties related to SME development (Özgenç, 1998). However, the institution that has the main organization duty of this effort is the Small and Medium Industry Development Organization (KOSGEB). KOSGEB was established in 1990, in affiliation with the Ministry of Industry and Trade. The major objective of the organization is to establish cooperation links between SMEs and public and private institutions, universities, banks and other financial institutions. Another aim of the organization was formulated as increasing the contribution of SMEs to the general economy, assisting and financing technical change and product quality in SMEs for international competition.

Liberalization of the economy and increased external competition did bring some disadvantages, as well as advantages, for the SMEs. Since the Customs Union came into effect in January 1996, the external competition that was expected to pose more strain on SMEs than on large-scale enterprises has been a major concern for the Turkish public policy. For that matter, the government

issued bylaws⁹ to protect the SMEs from external competition, and to give support for quality improvement, standardization, and employment production (Günel, 1998). It was feared a large number of SMEs that account for a large percentage of employment could be wiped out as it was in the case of Spain and Portugal's after entering to the European Union (Erzan & Filiztekin, 1997). Starting from 1998, to replace the SME support bylaws that was abolished in 1995, in accordance with EU legislation and World Trade Organization norms, an investment support mechanism¹⁰ that gives credence to research and development, and environmental issues was instituted (Yeltin, 1998).

After the Customs Union, trading with external markets gained more importance for SMEs, as well as other business organizations. The potential for internalization lies among companies -the majority of which are SMEs- that are performing well domestically but face certain difficulties with regard to the export trade (Lindmark & Eskelinen, 1995). Internationalization of the SMEs is hindered by geographical distance and transport costs to foreign markets, although Turkey is located at the periphery of the advanced European market.

⁹ 96/8615 "Küçük ve Orta Boy İşletmelerin Yatırımlarında Devlet Yardımları Hakkında Karar"

¹⁰ 98/23279 "KOBİ Yatırımlarında Devlet Yardımları Hakkında Karar"

Cultural differences, lack of market knowledge, including problems of identifying partners and customers abroad, and strong foreign competition are other impeding factors. Internalization of a firm could be described as a learning process, in which the firm gathers information and experience from international operations and establishes personal contacts: the know-how of internalization evolves on the basis of "know who".

Erzan and Filiztekin (1997) found that unlike large firms, the SMEs in Turkey were not able to insulate themselves from macroeconomic instability, resulting in decreased amount of employment and value added growth. In other words, to be able to maintain their productivity, SMEs were found to reduce the amount of labor that has been possible by low impact of labor regulations and level of unionization in the case of SMEs. The SMEs in Turkey seem to be handling the impacts of external environment by accepting employment and production losses that is shrinking instead of firm closure. Erzan and Filiztekin concluded that the argument suggesting that the SMEs would be more vulnerable to Customs Union at the adjustment phase could be overcome in the long run, because of the macroeconomic stability that will be provided by it. It was also suggested that potentials of interfirm networking for

regional economic development in Turkey need careful consideration (Dağ, 2000; Staber, 1996a). Greater emphasis should be placed on mobilizing and developing resources that are already available in any given region.

3.6 Informal Economy & Small and Medium Sized Enterprises

Since 1990s, informal economy has been an important issue of the country's agenda. Although, the term was sometimes used to refer to illegal activities, in Turkey informal economy generally refers to legal economic activity that is not documented, and thus do not show in the GNP (Toptaş, 1998). Precisely, International Labor Office (ILO) defines informal sector as an "urban way of doing things", whose enterprises are characterized by: (1) low entry barriers in terms of skill, capital, and organization; (2) family ownership of enterprises; (3) small-scale of operation; (4) labor intensive production with outdated technology; and (5) unregulated and competitive markets (Portes, 1994). The informal nature of economic transactions, which is consequent upon such factors as absence of written contracts, could be considered as a factor that increases uncertainty in the environment. The lack of a serious enforcement for requiring invoice or documentation of the transactions until 1984, and widespread tax evasion were considered

serious problems (Toptaş, 1998). Especially among SMEs, the most common method of tax evasion was said to be not reporting, or giving distorted information in terms of income, and constituting an important dimension of informal economy.

Small-scale businesses relate to the issues of informality for a number of reasons, according to Cheng and Gereffi (1994). First, given their low visibility, limited start-up costs, and the ease to enter and exit the market, small firms provide an appropriate environment for casual hiring, or non-reporting of income. Second, in contrast to rationalized, bureaucratic forms of economic activity, small-scale businesses often involve reciprocal patterns of social organization, such as paternalistic family enterprises. Recent research (Kabasakal & Bodur, in press) showed that paternalistic style of administration is expected from the Turkish managers. Finally, the contemporary work patterns, which allow a more flexible combination of time and space for work (Rasmussen, Schmitz & van Dijk 1992), could be considered as another reason for increased informality in SMEs.

It was argued that the development of SMEs should be encouraged under strong legal control to minimize unfair

practices and informality that was repeatedly found in SMEs (e.g., Morris & Lowder, 1992; Özcan, 1995; Portes, 1994). In many cases, to avoid the burden of social security legislation, small firms tend to prefer to put out production to workers' homes rather than being done in factories, and payments are made in cash to avoid social security contributions. That brings considerable informalization of the economy and problems of social security on the side of the employees. Unfair practices such as tax evasion, discrimination based on sex, ethnicity, and unregistered use of labor of temporary employees -youngsters, elderly, students, immigrants- who work for much less than they would receive in a large factory (Özcan, 1995; Powell, 1990) should be prevented. Serious measures should be taken such as regulatory laws and dissuasive penalties. However, these measures are not sufficient by themselves if the education of business owners and an efficient control mechanism could not be established.

A structural factor that leads to informal economic activity in Turkish business environment is most often the sector that the firm is operating in. The institutionalized ways of doing business, or nature of the business in a sector is quite often forces individual firms into accepting and behaving according to the rules

of informality. Toptaş (1998) argued that in sectors where the transactions could be completed in a short time, such as jewellery shops, exchange offices, restaurants, etc. it would be infeasible to have a controller to constantly monitor the transactions. Moreover, some sectors' members come to consider informality a natural way of doing thing since transactions beginning from the raw material buying is not documented, and Toptaş included that shop owners that cannot tolerate informality would be forced out of the sector.

CHAPTER FOUR

4.1 A Multifaceted Concept: Trust

In everyday life, trust can be said to develop as a result of both feelings and rational thinking. People's trust in others reflects the sum total of one's lifelong experiences with others, and it could be said that trust progresses in up- or downward spirals. The Oxford English Dictionary defines trust as:

- confidence in or reliance on some quality or attribute of a person or thing, or the trust of a statement;
- accepting or giving credit to without investigation or evidence;
- giving credence to, believing (a statement); relying upon the veracity or evidence of (a person, etc.)
- confident expectations of something; and the quality of being trustworthy; fidelity, reliability, loyalty, trustiness.

As Erickson (1968) sees it, all the confusing social cues of infant's very early days can be incorporated to a "sense of basic trust" as long as there is continuity in

the inner and outer world of the person. In his description of sense of basic trust, Erickson emphasized the expectation of a person about others' trustfulness, as well as a fundamental sense of one's own trustworthiness. In other words, trust implies that one has learned to rely on sameness and continuity of "outer providers", but also that one may trust oneself. Rotter (1980) agrees with Erickson in underlying the strong relationship between high trust and trustworthiness; i.e. people who act more trusting are themselves less likely to lie, cheat or steal. On the other hand, Rotter contends that interpersonal trust continues to develop beyond very early days, and modeling and direct teaching are the most effective forces in developing high- or low-trusting beliefs in children. This premise is in line with the Social Learning Theory, which characterizes interpersonal trust as a generalized expectancy held by an individual that other individual or group can be relied on (Rotter, 1980). Deutsch (1973) contended that mutual trust is most likely to occur when people are positively oriented to each other's welfare, and vice versa. In other words, between individuals who are known to each other on the basis of long-term acquaintance, beliefs about the other party's trustworthiness can develop. Moreover, Giddens (1991, p. 83) distinguishes a second, more abstract type of trustworthiness, which is

related to the reliability of modern institutions and modern governments, which could be said to be "...deeply bound with the mechanisms of trust in abstract systems, especially trust in expert systems." There he points to the complex series of trust relations between government, political leaders and public. In either case, it may be concluded that perceived trustworthiness of a person in other view develops as a result of exchange relationships.

In an influential formulation of the Social Exchange Theory, Blau (1964) described social exchange relationships as developing between two parties through a series of mutual, although not necessarily simultaneous, exchanges that yield a pattern of reciprocal obligation in each other. The Social Exchange Theory is essentially economic, and thus quite appropriate in to the realm of economic transactions. A critical distinction between social and economic exchange, according to Blau (1964, p. 93), is that "...social exchange entails *unspecified* obligations. The prototype of an economic transaction rests on a formal contract that stipulates the exact quantities to be exchanged", although economic exchanges that involve services, in general, are somewhat closer to social exchange than the pure type of economic exchange of commodities or products of services. Social exchange

relations most often evolve in a slow process, starting with minor transactions in which little trust is required because little risk is involved and in which both partners can prove their trustworthiness, enabling them to expand their relations and engage in major transactions. In a more recent formulation, Gassenheimer, Houston and Davis (1998) stated that Social Exchange Theory argues that parties evaluate relationships in a behavioral context. In this respect, it could be stated that interorganizational exchange decisions are made both on the social value derived from the satisfaction with the exchange partner, and a comparative evaluation of the alternative options for accomplishing the goals of the relationship. Gassenheimer et al. maintained that for an exchange relationship to survive over a long-term, neither social, nor economic value of the relationship, i.e. satisfaction with the exchange situation, is enough by themselves; instead there is a need for a combination of both.

The interest of the present study was primarily on economic interactions of small-scale enterprise owners, who run their firms almost single handedly, and their perceptions about the key suppliers. Thus, the social exchange point of view that takes both social value and the economic value into consideration, was considered

suitable for this investigation. In this respect, the present investigation has focused on the possibility of using trust as a "commodity" in developing and maintaining business relationships. For example, Gassenheimer et al. (1998) argued that the interdependence relationships ultimately fail or survive because of the *net value* of social and economic value interacting with self-interest, mutual-interest, and group interest to create interdependence. Here, interdependence corresponds to the importance of each party's need to the given relationship and the importance of each party on the relationship.

The orthodox neoclassical model of economic life does not look favorably upon the interpersonal feelings, social values and relationships. In business life, and especially in the Western models of business and management, rationality and minimization of uncertainty have been the major concerns (e.g., Thompson, 1967). Potential opportunistic behavior of the other party has always been considered a major threat (e.g., Williamson, 1979). In fact, bureaucracies are social inventions that supposedly reduce the uncertain to predictable and routine (DiMaggio & Powell, 1991). Nevertheless, the importance of expectations and beliefs about trustworthiness between the negotiating parties was

acknowledged by Mayer, Davis and Schoorman (1995, p.712, italics added) who defined trust as "...the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party." In other words, trust can be defined as to mean that one believes in, and is willing to depend on, another party. On the other hand, Ring and Van de Ven (1994) defined trust in interorganizational relationships as a mixture of two aspects: 1) confidence in the predictability of one's expectations, and 2) confidence in the other's good will and moral integrity of others. Moreover, for interorganizational exchange relationships to survive, parties must acknowledge that at both economic and/or social level there is dependence, which makes parties somewhat vulnerable to the relationship (Gassenheimer, et al. 1998).

According to Mayer, Davis and Schoorman (1995), people will differ in their inherent propensity to trust, or the general willingness of a person to trust others. They have defined this construct as "a stable within-party factor that will affect the likelihood that party will trust." (p.715). Therefore, it could be suggested that individual level trust -or propensity to trust- is one of

the antecedents of trust in business relationships as implied by Esmer (1999). It may be argued that the level of propensity to trust of an enterprise owner would strongly influence the perceptions about trustworthiness of the key supplier, and thus the buying behavior.

Trust can also be defined as a set of shared expectations by all of those who are involved in any exchange relationship, a part of basic norms and social customs. People, in general, have a tendency to take it for granted that members of a community will use the same interpretive frame for events (Zucker, 1986). Trust that is based on this expectation has a taken-for-granted character until a party violates it. However, if there is a high level of uncertainty in the environment, drive to turn to socially similar others would be greater. If conditions of uncertainty mean that people, but not organizations, have to be relied on, then people fall back on social bases (Kanter, 1977), i.e. social background and characteristics, for trust.

In a different attempt to define trust as being situation and person specific, Bhattacharya, Devinney and Pillutla (1998, p.462, *italics added*) provided the following: "Trust is an *expectancy* of positive (or nonnegative) outcomes that one can receive based on the *expected*

action of another party in an interaction characterized by uncertainty". We see that the vulnerability component in trust relations was again acknowledged. All of the above mentioned definitions implicitly or explicitly stress at least three aspects of trust in exchange relationships: (1) trust arises in an environment of mutuality, and (2) it is based on an expectation on the side of the trustor, and (3) it is employed as an agent to reduce the uncertainty.

After reviewing the a number of definition of trust, we suggest the following working definition of trust:

Trust is the optimistic expectation of a person, group or firm of the behavior of another party, under conditions of mutual dependence and vulnerability, for the purpose of facilitating cooperation between parties that will result in ultimate joint gain in an economic exchange or joint effort.

4.2 Level of Trust Inherent in Society

Several scholars (e.g., Esmer, 1999; Fukuyama, 1995; Ingelhart, 1999; La Porta, et al., 1999) argue that national economic performance is highly correlated with the existence of a high trust institutional environment.

The findings of these and other studies have directed attention on the role of trust in economic exchanges. An empirical investigation of values of 62 countries designated (World Value Survey, Esmer, 1999) interpersonal trust within a community as a crucial factor in achieving cooperation among people, which in turn seems to be correlated with stable democracy on the one hand, and economic development on the other.

There are a number of possible antecedents of trust at the societal level. At her investigation of the production of trust, Zucker (1986), suggested an outline that includes three modes for three levels of trust production: Characteristic-Based (ascribed characteristics, tied to person, family background, ethnicity, sex), Process-Based (tied to past or expected exchange, reputation), and Institutional-Based (tied to formal societal structures, or intermediary mechanisms such as bureaucracy, firm associations, regulation, certification, etc.) modes of trust production. Characteristic-based trust is built on norms and cooperation based on social similarity. In the process-based trust, trust arises either through personal experience of reciprocal nature, or in expectations based on reputation. Both are embedded in the social fabric of a society. However, in societies where trust to formal

institutions is very low, like Turkey (Adaman, Çarkoğlu & Şenatalar, 2001; Esmer, 1999; Kabasakal & Bodur, in press), the validity of institutional-based trust is questionable. Similarly, Aldrich (1995) concluded that institution-based trust is really external to the trusting parties' relationship, and unless appealed to it remains inactive. From a social networking perspective, the other two bases that were identified by Zucker (1986) could be considered to be separate bases for collective action: *Categorical-trust* produced by similarities based in sharing a distinctive group membership (e.g., ethnicity, religion, etc.), and *network-trust* produced by social relationships in which trusted and trusting parties are involved (Aldrich, 1995).

A number of economically important behaviors that contribute to aggregate productivity are socially determined (see Fukuyama, 1995). The behavior patterns, such as trust in others, the willingness and capacity to cooperate and coordinate, and the habit of contributing to a common effort even when the behavior is not monitored are among those economically important behavior. Such behavior was termed by Coleman (1988) as "social capital", and this formulation attracted wide spread attention. He differentiates social capital emphasizing its interpersonal quality, which

differentiates it from physical capital (physical tools of production) and human capital (skills and knowledge acquired by individuals). Similar to physical and human capitals, social one could also be regarded as a capital because it takes time and effort to produce, and it facilitates productivity. Such ability of people to work together for common purposes in groups and organizations, i.e. social capital, was seen as "a capability that arises from the prevalence of trust in a society or in certain parts of it..." (Fukuyama, 1995, p. 26). Fukuyama argued that establishment of trust requires a community of regular, honest, and cooperative behavior, based on commonly shared norms that can range from "secular" norms like professional standards and codes of behavior, or "value" questions such as the nature of God and justice.

It may be concluded that the level of trust inherent in the society has been recognized as one of the fuels of economic and social development. Having said that, it should be added that the Turkish society is marked with relatively high level of interpersonal *distrust*.

According to the results of a cross-national study, Turkey ranks second from the bottom¹¹ among 62 countries, on believing that most fellow human beings that are

¹¹ Brazil had the lowest score on that scale.

living in the same society are trustworthy (Ingelhart, 1999). Esmer (1999) argued that corporate structure full with family owned firms (see Buğra, 1994), the key role of blood ties, lineage relations, salience of regional bondage and other primordial affiliations (see Fişek, 1994) in the establishment of political, social, as well as economic organizations are all symptoms of the lack of generalized interpersonal trust and associability in Turkish culture. Similarly, a recent investigation showed that a fairly large percentage of SME owners showed high levels of distrust towards the current political and economic administration (TOSYÖV Report, 2001).

These basic ingredients have other significant effects on economic, social and political domains of life, such as the lack of vigorous civil society and entrepreneurship (Esmer, 1999). In a recent study, Alpay, Özçelik, Kabasakal and Bodur (2000) found that the Turkish SME owners' affiliation with the commerce associations and social clubs is less than ethnically Jewish and Armenian enterprise owners. This result may be crucial in understanding the low levels of trust in this society, because as mentioned before, some studies (e.g., Hellivell & Putnam, 1995) found a strong relationship between high density of volunteer organizations in a

society and wide spread social capital, of which the most salient component is interpersonal trust. In regard to reciprocity relationships in today's communities, Buğra (2000) suggests that volunteer organizations may be regarded as the modern sources of trust and loyalty, and these organizations could monitor and direct state agenda.

Inglehart (1999) argued that interpersonal trust is a relatively enduring characteristic of given societies, and it reflects the entire historical heritage of given people, including economic, political, religious, and other factors. High interpersonal trust in a society could give life to stable democracy, yet visa versa is not true, according to Ingelhart. A society's political institutions are only one among many factors involved in the emergence of a culture of trust or distrust, and there is no institutional "quick fix" for creating trust and social capital. For example, it could be argued that civil society organizations, and the notion of social responsibility do not arise through intervention of state, but develop through motivations that are internal to any given society.

4.3 Culture and Trust

Providing a highly selective screen between man and the outside world, culture of a society, in a way, determines what we pay attention to. Therefore, we can conclude that the culture of a society has profound effects on the level of trust in a given society. There is no doubt that economic exchange among parties that trust each other is facilitated in a society where the level of generalized trust -and, thus social capital- is high (Fukuyama, 1995). In such context, people can get together more easily to make "successful" business that is a "win-win" situation for all involved parties. However, it is true that there is variability in terms of beliefs, attitudes and work values among cultures (Hofstede, 1991), or even among subcultures (Alpay, et al., 2000).

Anthropologist Edward Hall distinguishes cultures on the basis of their way of communicating in the context. A high-context communication is one in which little has to be said or written because most of the information is either in the physical environment or within the person and the actual meaning of the message is derived from paralanguage, facial expression, setting and timing, while there is little in the explicit part of the message

(Hall, 1976), and this type of communication is frequent in collectivistic cultures (Hofstede, 1991). In contrast, and typically in the individualistic cultures, in low-context communication the mass of information is in the explicit code (Hofstede, 1991).

Another categorization of cultures in the literature was made basing on "familistic" orientation. Fukuyama (1995) contends that the reason for familistic countries having frequently weak voluntary associations, is that unrelated people having no basis for trusting each other. He claims further that a low social capital country will also be more likely to have small, weak and inefficient companies, which requires state intervention to built large scale industries, and will highly likely to suffer from corruption of its public officials and inefficient public administration, as in the case of Italy. This picture that Fukuyama portrays, frightfully resembles Turkey today.

Another hint about the Turkish society can be categorized as a low-trust, familistic society comes from the fact that the scarcity of voluntary organizations and low associability, whereas primordial affiliations play a major role in establishment of political, economic and social organizations (Buğra, 1994; Esmer, 1999). The

salience of family and kinship ties in Turkish society has attracted attention. For instance, Fişek (1994) noted the strong emphasis on family values, and the social relations in Turkish society, which are structured on the basis of expectations of reciprocal support and loyalty among kinship groups. She also stated that on the whole the Turkish culture is still quite patriarchal, despite regional variation and contemporary change. In line with this cultural context, the patriarchal organizational model, in which manager/owner provides security and protection for employees in exchange of loyalty and hard work, is still prevalent (Kabasakal & Bodur, in press). Therefore, social and professional distance between the manager/owner and the subordinate, i.e. power distance, is quite high in Turkey compared many other cultures (Hofstede, 1991).

Hofstede described three other dimensions (1991) as cultural universals on which national variances might be arranged: individualism-collectivism, masculinity-femininity, and high to low uncertainty avoidance. In a collectivistic country for example, an individual trusts one's family absolutely, one's clan a little less, one's friends and acquaintances even lesser, and others not at all. Similarly, Kabasakal and Bodur (in press) concluded that in the society's organization families occupy the

center stage, and individuals mainly trust to their family members. High uncertainty avoidance, on the other hand, would predict constant need for documentation, rules and regulations. Stiff bureaucratic red tape, constant need for notary certification, etc. could be mentioned as some of the results of this high uncertainty avoidance, as well as manifestation of low levels of trust to non-significant others in Turkey, as also indicated by Esmer (1999). It would be not much of a surprise for an experienced eye, to find out that in Hofstede's (1991) work Turkey was categorized as a high power distance, high uncertainty avoidance, rather collective and feminine culture.

In a recent and comprehensive cross-country comparison of several cultural dimensions based on GLOBE project findings, Kabasakal and Bodur (in press) argued that Islam religion, by its emphasis on family and kinship relationships creates a highly collectivistic culture, legitimizes high levels of power distance by requiring people to accept the authorities of people in the leadership positions, and the notion of predetermined fate in part creates a low future orientation, and Turkey was no exception in these regards. Turkey was found to be high on power distance, assertiveness, masculinity, and group and family collectivism, but considerably low

on institutional collectivism, humane orientation, uncertainty avoidance, and future orientation dimensions.

Some of the GLOBE findings were in conflict with Hofstede's (1991) findings. One such conflicting finding was about the uncertainty avoidance dimension.

Kabasakal and Bodur (in press) contended that the political and economic turmoil that marked the last decades, resulted in adaptation and tolerance for uncertainties in Turkish organizations. However, the issue of whether Turkey could be regarded as a highly masculine or relatively feminine culture was not resolved yet. This difference may be due to slightly different operationalization of this dimension on the two studies. Nevertheless, a more interesting finding that came forward was that in addition to the high level of group and family collectivism, which was also predicted by Hofstede, a separate dimension of institutional collectivism was found to be rather low in the Turkish people. The institutional collectivism dimension was related to economic and societal levels, and this low result may be linked with the low levels of trust towards economic and political institutions in the Turkish society (Esmer, 1999).

4.4 Interorganizational Trust

Being a multidimensional concept, trust has received attention in different social sciences literatures: psychology, sociology, political science, anthropology, history, socio-biology, economics, and organization studies (Lewicki & Bunker, 1995). Trust is an important ingredient in any transaction or exchange; as the level of trust is high, the trusting party perceives the risk involved in a business transaction manageable. In his account of exchange relationships, Blau (1964) described trust as an ingredient that is essential for stable social and economic relationships. Similarly, social exchange has been identified as a significant factor in the overall strength of interorganizational relationships (e.g., Ring & Van de Ven, 1994). There seems to be no single variable that so thoroughly influences interpersonal and group behavior as does trust. Zucker (1986) holds trust as fundamental for maintenance of collaboration in society, and a necessary component of day-to-day interactions.

In today's business environment where markets become volatile and fragmented, technological change is much more rapid than 1970s and earlier, mutual trust between parties has been regarded as a precondition for

competitive success (Sabel, 1993). Despite considerable academic and managerial interest in trust between trading partners, to date there has been little empirical research on the antecedents or determinants of interorganizational trust (i.e., between buyer and supplier), and on trust in different institutional (i.e., country) environments (Dyer & Chu, 1996). Buyer-supplier trust relationships can be said to stem from to interpersonal trust between firm owners (e.g., Granovetter, 1985), and more so in the context of SMEs. Calton and Lad (1995) stated that trust provides the glue to hold business relations together. In their terms, existence of trust between parties provides the "lubrication" needed for complex tasks that require coordination in a highly efficient manner. Thus, high trust levels are optimal for firms in interdependency relationships. Ring and Van de Ven (1994) argued that the knowledge about processes of emergence, growing and dissolution is central to managing interorganizational relationships, and mutual trust among business partners is an essential ingredient to reduce uncertainty in all of these steps.

Trust, however, does not mean blind loyalty, and hence especially in business relationships there must be a calculative side to it (Powell & Smith-Doerr, 1994; Ring

& Van de Ven, 1994). The decision to endure a relationship even under adverse conditions should be termed as loyalty, according to Gassenheimer et al. (1998). Cooperation results in mutual dependencies whether it is a strategic alliance or collaborative manufacturing. In the case of collaborative manufacturing, regional sources of trust tend to provide a "natural" basis for business making. On the other hand, strategic alliances rely mostly on contractual agreements, since they lack the social basis of trust. However, for cooperation to last over extended periods, calculative trust must be created, according to Powell & Smith-Doerr, 1994. Similarly, Zucker (1986) concluded that the mode of trust preferred in a social system depends on the concrete circumstances under which exchange typically takes place and they were strongly affected by long-term processes. As a result, it could be argued that informal contracts increasingly substitute formal contracts as reliance on trust among exchange relationship parties increases over time.

Dependence on the resources of the other party might force parties to engage in a close relationship. Wicks, Berman and Coughlin (1999) contend that the degree of interdependence in a buyer-supplier relationship is a function of the degree to which both parties are

dependent on each other to achieve their desired outcomes. In other words, trust becomes both possible and important in a context where parties have something to lose. Thus, where dependence exists, trust becomes a potential coping mechanism: as it increases, so too does the potential need for trust.

Where trust between parties does not already exist, or there is need to deepen the level of trust, formal (negotiation, transaction and administration) and informal (sense-making, understanding and committing) processes of transacting may be employed for emergence (Ring, 1997). The formal processes of negotiation and transaction, while increasing communication between parties, provide parties with the opportunity of clarifying the obligations and information rights that they expect from each other. At the administration stage, monitoring of how parties honor those obligations could be possible. Nevertheless, in the course of creating a collaborative effort, parties also employ the informal processes, although these processes may require relatively long time to develop.

4.5 Contracts as Trust Alternative

It was argued that lack of contract enforcing institutions results in economic setback. Dasgupta and Serageldin (1999) contended that low-income countries could not obtain large gains from investment, specialization, and trade, because such countries are limited by a lack of institutions that enforce contracts impartially and secure long-term property rights. Contracts, as well as property rights, and commercial law are considered essential institutions for market-oriented system to continue, although it is possible to reduce the transaction costs if such institutions are supplemented by social capital and trust (Fukuyama, 1995). However, Williamson (1996, p. 260) maintains, "...trust is irrelevant to commercial exchange and that reference to trust in this connection promotes confusion", and contract violations could be settled easily with a calculative approach to contracts. As, it could be understood from the above-mentioned views, the clash of sociological and economic perspectives is again apparent on the issue of contracts.

Weber (quoted in Hosmer, 1995, p. 388) was the first to remark that formal social mechanisms, such as legal systems, were designed to "guarantee or secure

trustworthy conduct." The legal apparatus, serving as a substitute for trust, requires formal rules, regulations, which have to be negotiated, and enforced. This process involves overheads, which are known by the economists as the "transaction costs" (e.g., Williamson, 1989). For settling disputes, modern societies established the jurisdiction process as an institution. This process also bears costs, and heavy reliance on this institution could impose extra burden on society. Fukuyama (1995, p. 11) calls the costs that are involved with jurisdiction process as "...a direct tax imposed by the breakdown of the trust in the society" which the high-trust societies do not have to pay.

In today's communities, the accepted patterns of economic behavior are generally very widely agreed upon and are enforced by a network of sanctions that might range from social to economic (Mead, 1984). The most obvious and common sanctions in inter-firm relationships are those written into contractual provisions that state the terms of an exchange. Classical contract law holds that individual buyers and sellers bear no dependency relationships to each other, thus it applies to the ideal transaction in the market. Neoclassical contract law, on the other hand, applies to the transactions where parties

maintain autonomy, but are interdependent to an important degree (Williamson, 1991).

In its strictest sense, contract violation is the failing of a party to comply with the terms of a contract; foreseeing such possibility contracts generally provide compensatory measures (Rousseau, 1995). On the other hand, sanctions can be applied at the sectoral and individual levels. The significant example of sanctions that operate at sectoral level would be the loss of reputation consequent misbehavior. In business relationships, loss of future benefits from relationship due to opportunistic behavior is a widely known personalized level sanction (Mead, 1984). These sanctions are functioning as means of reducing uncertainty and increasing the trust in exchange relationships.

Rousseau (1995) contends that notion of contract is a product of nontraditional and free societies. In traditional societies (tribes, clans, or feudal systems), commitment and obligations constitute much of social life and people are born with obligations. In these societies, traditions provide a basic sense of security, which connects trust to routinized social practices (Giddens, 1991). In societies where freedom of choice

prevails, more importance is attributed in honoring a contract than on social obligations. According to Rousseau (1995), contracts are end results of the fact that people in modern societies have come to believe that they have choice in their dealings, where people voluntarily agree to be bounded by a contract. This view may be regarded as a reflection of a neoclassical economic point of view, and US overreliance on legally enforceable contracts in business relationships (Boyacıgiller & Adler, 1991; Zucker, 1986).

Turkish people, in general, place great importance on personal relationships, especially with the in-group members (Kabasakal & Bodur, in press). In a similar vein, Turkish entrepreneurs feel that it is a necessity to "know" and trust their business partners, and put less importance on a formal business contract, unlike their Anglo-Saxon counterparts (Boyacıgiller & Adler, 1991). They rather place a high value on dynamic interpersonal aspects of day-to day reality of negotiating and reaching an agreement. It appears also that a personal network of clients and suppliers is considered essential for business success.

In this environment, legislations and institutional constitutions of contract making are far less developed

compared to European cases, upon which the Turkish legislation was mimicked. For instance, the Loan Act that was enacted in 1926 on the basis of the Swiss Law, which then considered to be the state of the art.

Whereas the Swiss Law was amended six times since that date, the Turkish Act remained the same. Moreover, the sales contracts require enormous costs of transactions, including presence of a notary general, and other bureaucratic formalities, which after all provide limited protection to the seller (Buğra, 1998). An idiom that is commonly used in the business circles summarizes the distrust to the jurisdiction process rather well:

"What's good in having a signed paper; go to court if you are the faulty one."¹² Disagreements could be solved more often by relying on informal societal structures, when there is high level of distrust to judiciary system (Esmer, 1999), and especially so in small-scale business environment where informality prevails (Toptaş, 1998).

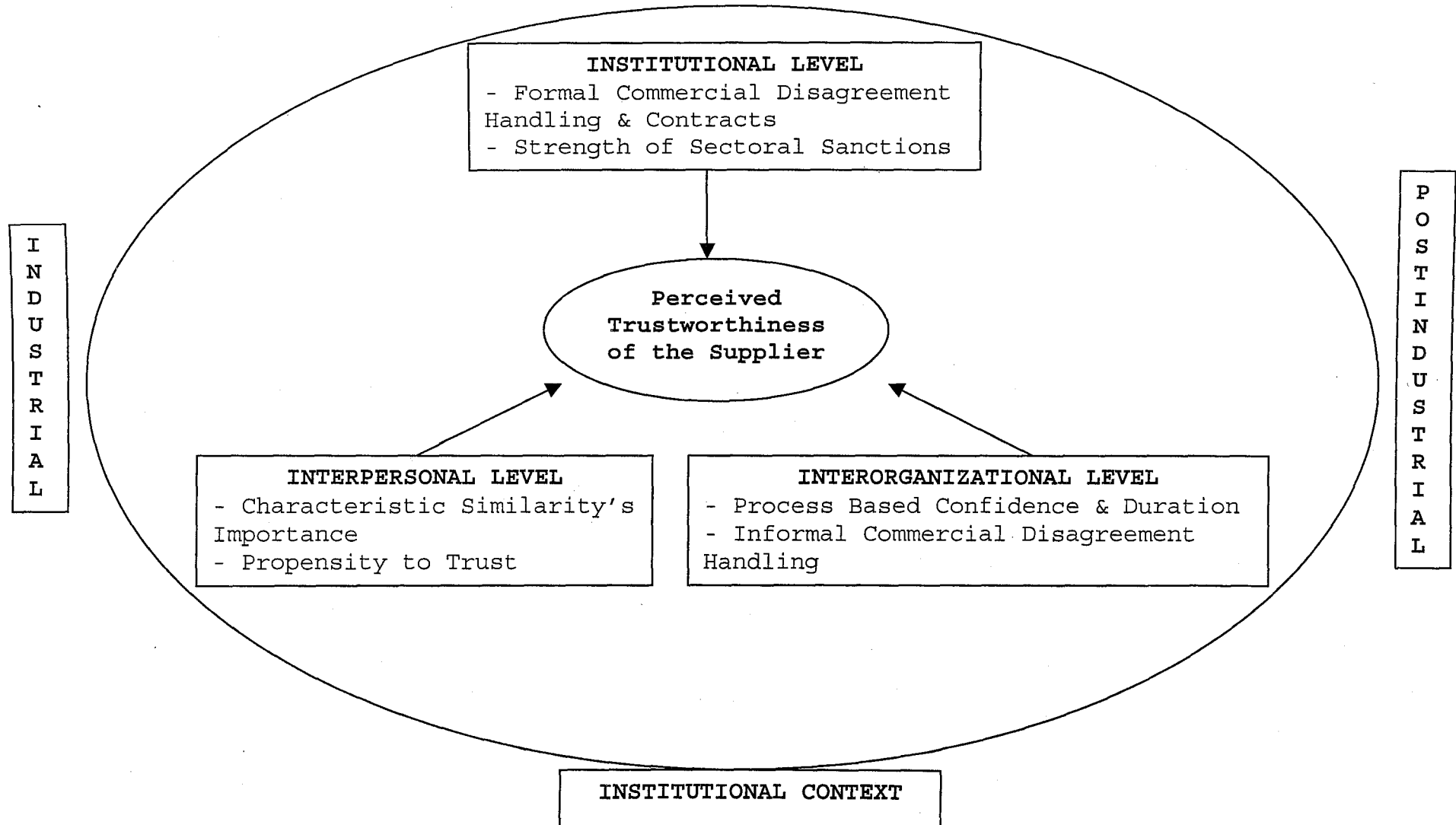
¹² "İmza alsan ne olacak; haksızsan mahkemeye git."

CHAPTER FIVE

5 Theoretical Framework and Hypotheses of the Study

The descriptions for the main constructs employed in the present investigation, the conceptual model of the study, a path diagram of the "perceived trustworthiness of the supplier" model and the principle questions that were addressed in this dissertation are presented in this chapter. It is our view that the conceptual framework that will be presented in this section allows us to better understand the main influences on trustworthiness perceptions in business relationships in characteristically different institutional contexts of industrial and postindustrial eras. The conceptual perceived trustworthiness of the supplier model (see Figure 5.1) shows the three core levels of interpersonal, interorganizational and institutional factors that have some bearing on perceptions of the small-scale enterprise owners. For each level, based on the literature review the components that best represent the key influence on the trustworthiness perceptions in small-scale enterprises environment were selected.

Figure 5.1 The Conceptual Perceived Trustworthiness of the Supplier Model



The institutional environments pose several influences on the structure and behavior of enterprises (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). These environments are social constructions (DiMaggio & Powell, 1991; Nohria, 1992) and are partially shaped by the trends and ideologies of their time (Kumar, 1995). The present model proposes to differentiate between the industrial and postindustrial eras and provides an opportunity for making a comparison between these institutional environments at the Turkish small-scale enterprises context at the basis of an investigation of trust relationships between buyers and suppliers.

As it was indicated before, for this investigation a number of antecedents of trust at three levels were taken into consideration. At the interpersonal level, importance attributed to dynamics such as similarity of origin or religious background by the enterprise owners in business associate choice (Esmer, 1999), in addition to general willingness to trust others (Mayer et al., 1995) were regarded as the key factors. At the interorganizational level, duration of business relationship, intermediary mechanisms tied to social structures, as well as process-based confidence (Zucker, 1986) were taken into consideration. Finally at the

institutional level, formal commercial disagreement handling (Zucker, 1986), salience of contracts as trust alternatives (Williamson, 1979, 1996), as well as the strength of intra-sectoral networks in assuring members of trustworthy business conduct (Humphrey & Schmitz, 1998; Mead, 1984) were judged as the influential factors in business relationships.

Business relationships between buyers and suppliers have both economic and social building blocks. Unspecified obligations created through social exchange could be suggested to play an important role in commercial relationship retention decisions and trust between business parties (Blau, 1964). We chose to investigate established business relationships, like a small-scale enterprise's relationship with their most prominent supplier, or in DiMaggio and Powell's (1983) term the "key supplier", because trust could only be expected to emerge when the parties have successfully completed transactions in the past and they perceive one another as complying with norms of equity (Clegg & Hardy, 1996; Ring & Van de Ven, 1994). In the coming sections, we will illustrate the reasons for the selection of these constructs and provide descriptions for each.

5.1 Trust in Dyadic Business Networks

The term "network" was defined by Aldrich (1995) as a set of loosely connected organizations linked together by various bonds or social relationships. Alternatively, Thorelli (1986, p. 37) uses the term network to refer to "...two or more organizations involved in long-term relationships". Network governance, on the other hand, was defined as a finite number of autonomous firms engaged in creating products or services based on "implicit" contracts to safeguard exchanges (Jones, Hesterly & Borgatti, 1997). It would be rather difficult for business networks to persist without existence of trust between the involved parties. In an investigation of network dyads Larson (1992) found that in the formation of a long-term relationship, besides mutual economic advantages, incremental growth of trust and evolution of reciprocity norms were outmost important. Trusting behavior was considered as quality of dyadic exchanges in the form of relational embeddedness, or the degree to which exchange parties attend to needs and goals of one another (Granovetter, 1992). In the present study, these definitions were adapted with the aim of investigating trust in loosely connected, long-term dyadic business relationships linked together by various bonds including economic, interpersonal and social

relations, to coordinate exchanges. This formulation intentionally excludes within company networks and/or coalitions, since the scope of this investigation was restricted to networks of economic relationships between commercial organizations.

Most of the research (e.g., Buğra, 1998; Neidik, 1995; Semerciöz, 2001) carried out in the field of trust in interorganizational business relationships among small firms in Turkey were employing unstructured in-depth interviewing as the primary data collection method. Without discarding the obvious advantages of qualitative natured data collection methods at providing rich descriptions of context, and processes related to the investigated phenomenon (Bryman, 1988), one could contend that the amount of information collected with qualitative techniques so far was enough to build upon for an investigation that would employ quantitative methods in studying Turkish small-scale business networks.

Moreover, the literature cautions us about drawing on conceptions that has based on different backgrounds. In addition to reflecting primarily the American cultural characteristics of rationality and free will, Organization Studies also adopted a low-context orientation of the US and the emphasis on written legal

documents. However, "...many other cultures put more faith in face to face personal agreement. In many cultures, the relationship, not the legal document, binds the agreement" (Boyacıgiller & Adler, 1991, p. 276).

Classical contract law suggests that formal measures (e.g., written agreements) should take the place of informal (e.g., oral amendments) terms of business making (Williamson, 1991). Whether social relations, and characteristic similarity between business partners are such that they lead to trust, and whether the outcome enhances firm's willingness to make risky (not covered by legal compensation) deals, as suggested by Mayer et al. (1995) was investigated in the present study. As implied by Toptaş (1998), we hypothesized that those sectors in which written contracts are predominant, are the sectors that are more novel, that is comparatively newly institutionalized sectors where primordial ties and networks of social relations are scarce, and vice versa.

Trust requires familiarity and good will on both sides of a relationship, and trust in an exchange relationship is subject to test of time. Two factors can explain why trust in "buying" firms increases with the length of the buyer-supplier relationship. First factor is the length of time, which represents an investment both parties make in the relationship. Secondly, the process of prediction

also could be invoked, as a relationship grows older (Özcan, 1995). When exchange relationship has a history, the outcomes of previous business episodes provide a framework for the next interaction. Thus, the level of the uncertainty involved in the relationship is decreased with the establishment of trust. It was concluded that the more continuous the exchange relations between economic agents, the less likely is the need to formalize them legally (e.g., Lazerson, 1988; Özcan, 1995).

As it was apparent from the earlier review of literature, the interest in populations of organizations as the unit of analysis is not new (e.g., Hannan & Freeman, 1977; DiMaggio & Powell, 1983). These accounts of organizations were primarily interested in the effects of the organization's environment on organization, and think that forces internal to the organization are less important. Yet, we perceive that a multidimensional concept such as trust cannot be studied satisfactorily without taking the effects at organizational field, as well as at interpersonal levels into consideration.

Furthermore, we noted that most of the networking literature focuses on manufacturing industries, at the expense of only marginally dealing with service sector organizations. This is an especially problematic point,

considering that the shift from manufacturing to service industries as the most typical economic form (Alvesson & Deetz, 1996) has implications such as control of organization. The shift towards service sectors was also observed in Turkey (Toptaş, 1998). The main thrust of the present investigation was that small-scale manufacturing and service sector enterprises that are at close proximity, either geographically or owing to the facilities provided by the information technologies, could also benefit largely by the efficiencies that the network forms of organization provide. The neglect of literature to cover the service industries was partly remedied in the current investigation of small-scale enterprises from both service and manufacturing sectors.

To theorize on trust in dyadic business relationships, we have drawn partly upon the concept of institutionalization, because it takes into account culture and non-rational influences, such as construction of cognitive systems, i.e., beliefs and symbolic frameworks, governing logics of action in firms and in the organizational fields (Scott, 1995). Length of relationship is also an important ingredient for trust between business partners being institutionalized. Larson (1992) suggested that at least six months of interaction in dyadic networks is necessary. Similarly,

Perrow (1992) argued that the possibility of trust is increased between small enterprises that have been in an exchange relationship for some time and networked.

Therefore, those buyer and key supplier relationships that did not mature were not included into the present investigation.

Finally, we like to note that this discussion deliberately avoided an entrepreneurial approach of interfirm networks, for this would suggest primacy of motivation and individual characteristics. A Schumpeterian view of entrepreneurs as independent individuals able to exploit original ideas through "creative destruction" loses its explanatory power within interfirm networks (Lipparini & Sobrero, 1997). Rather, in these contexts, entrepreneurs appear as a mechanism of coordination.

5.2 Small-Scale Enterprise Defined

Small sized firms are described more than often with the sheer number of its employees and although definitions show variations. For example, European Union defines small-scale enterprises, as enterprises having less than 50 employees, with a turnover less than seven million ECU per annum, and less than 25% of its ownership belonging

to large-scale establishments (Sayin & Fazlıoğlu, 1997). The Turkish Republic State Institute of Statistics categorizes those firms with less than 25 employees as small-scale. Among the quantitative criteria defining small business, the most prevalent seem to concern the number of employees, capitalization, gross and net assets, capital investment including investment in machinery, value-added production, gross and net income (e.g., Wicklund, 1998). However, querying such information would be less than welcome in the Turkish small-scale business context where informality prevails. Although obtaining accurate data regarding small-scale enterprises has been problematic since personalized nature of management, the high levels of family involvement and the high labor turnover makes it difficult to keep healthy statistics (Özcan, 1995), it was nevertheless a more viable alternative. In some studies (e.g., Özcan, 1995) manufacturing firms employing fewer than 50 employees are considered small, whereas others (e.g., Alpay, Özçelik, Kabasakal & Bodur, 2000; Semerciöz, 2001) contended that firms with less than 25 should be considered as small-scale.

The most frequently applied qualitative criteria in the Turkish context call for independent ownership, personalized (not structured) management style, and moral

integrity of the owner and his relatives (e.g., Alpay, et al., 2000; Özcan, 1995; Semerciöz, 2001). To be independent, i.e. not being part of hierarchy of a formal organization, is considered important and worth among SME owners, even at the cost of earning less, which Kiray and Abadan-Unat (1985, p. 504) regarded to be related to "... the persistence of the values of the old artisan life, but it also springs from the esteem of the modern *middle classes* who themselves are employed by other traders and manufacturers who *control* their own businesses" (italics in original). From an organizational behavioral point of view, a small enterprise often refers to a relatively simple organizational structure, and a relatively homogeneous culture (Mintzberg, 1979). It is the entrepreneur's vision that shapes the given organization's character (Özcan, 1995; Wicklund, 1998), or as Wicklund (1998, p. 10) puts it, "the firm and the entrepreneur is intertwined". In this study, we adopted Özcan's (1995) expanded definition that includes several dimensions. Therefore, a small-scale enterprise is here understood as a firm:

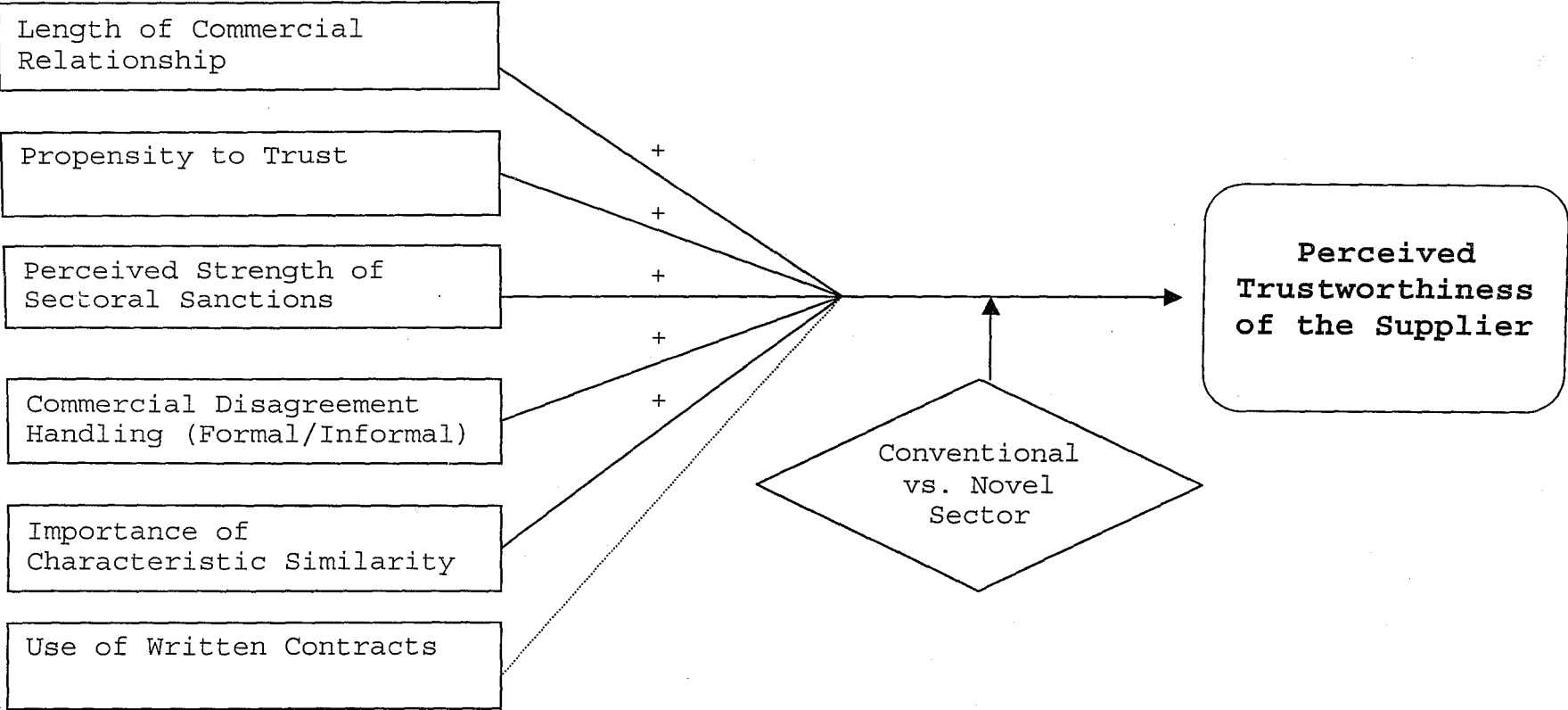
- which has a business premise,
- has less than 25 employees,
- holds only a small share of its market,

- and has a highly personalized management structure, i.e. it is managed in a personalized way by its owner(s), and not through the medium of an elaborate management structure.

Although Turkey lacked behind in terms of industrialization (Buğra, 1994), it bears a large potential to grow and a sizable market taking into consideration that it has a young population with 50% of its population is below the age of 30. We believe that Turkey needs to increase the pace of its development to be able to become part of European Union where it actively seeks to be a member of. As it was true in other cases in Europe (e.g., north-central Italy, southern Germany, Sweden), and elsewhere in the world SMEs could prove to be one of the major sources of growth in value added wealth. However, that can only be achieved by establishing an economic, social and institutional milieu where SMEs can flourish freely (Lazerson, 1988; Piore & Sabel, 1984; Powell & Smith-Doerr, 1994). This opportunity should be seized and supported by providing the social infrastructure that would enable this development. We believe that realization of Turkey's potentials that has not fulfilled yet, could gain a major swing from the dynamism of SMEs.

The major contribution of the present study lies in its attempt to provide empirical evidence in relation to trust and interpersonal relationships, in established dyadic networks, and process based trust building in a number of sectors dominated by small-scale enterprises. Therefore, the purposes of the present investigation was two-fold: 1) investigating the antecedents of trust production in dyadic buyer-supplier relationships, and 2) the level of trust in characteristically different institutional contexts. To realize these goals, this study examined the determinants of firm owners' perceptions of their key suppliers trustworthiness, in a sample of small-scale enterprises situated in the Istanbul region and we have drawn general conclusions from the obtained results. Finally, on the basis of the present findings, the question of "Could networks of small firms be a tool for expanding the 'radius of trust' in business relationships?" was addressed. The path diagram, which presents the expected relationships between the variables considered relevant and the main dependent variable of the study, namely perceived trustworthiness of the supplier, was shown in Figure 5.2.

Figure 5.2 The Path Diagram of the Perceived Supplier Trustworthiness Model



5.3 Hypotheses and Exploratory Questions

Hypotheses

The duration of business bond represents an investment in the relationship on the side of both parties (Özcan, 1995), and in addition to mutual economic advantages, trust arises as an important factor in dyadic long-term business relationships (Larson, 1992). Thus, we argue that the owners' perception of trustworthiness of the supplier is strongly related to the length of time that two companies have been in a buyer-supplier relationship.

H1. In all sectors, perceived trustworthiness of the supplier could be predicted by the duration of commercial relationship between firms.

The general willingness of a person to trust others was regarded as a stable within party property (Mayer, et al., 1995) that has influence over trust between business partners. Therefore, we argued that the level of propensity to trust of enterprise owners would strongly influence their perceptions about the trustworthiness of their suppliers.

H2. In all sectors, perceived trustworthiness of the key supplier can be predicted by buying firm owner's level of propensity to trust.

The importance of wider social context that the organizations are operating in, as emphasized by New Institutionalism in Organizational Analysis (e.g., DiMaggio & Powell, 1983; Scott & Meyer, 1991), and their influence on shaping organizational behavior such as trust in supplier was investigated. We argued that as the enterprise owners' perceptions about the established professional codes and strength of within sector network to enforce those codes increases, trust towards supplier would also increase, and vice versa.

H3. Perceived trustworthiness of the supplier can be predicted by buyer's perceptions about the strength of sectoral sanctions, in all sectors.

Although, Williamson (1979; 1996) argued that contract is the primary mechanism to substitute trust in business transactions, given the limited legal protection provided by contracts in Turkey (Buğra, 1998), the high levels of

informality in small enterprise context (Toptaş, 1998), and the low levels of confidence towards contract enforcing legal agencies (Esmer, 1999), we argued that there would be no relationship between the percentage use of written contracts in transactions with the key supplier, and the perceptions of enterprise owners about their suppliers trustworthiness.

H4. In all sectors, perceived trustworthiness of the supplier is independent of use of written contracts in business transactions.

A strand of previous research indicates that the more continuous the exchange relations between economic agents, there will be a less need to formalize them legally (Boyacıgiller & Adler, 1991; Lazerson, 1988; Özcan, 1995). In the same vein, we argued that as the relationship between two enterprises solidify over time; the need to rely on formal means to ensure trustworthy conduct becomes less. Therefore, we claim that length of relationship could predict percentage use of oral contracts in business transactions with the key supplier.

H5. Use of oral contracts can be predicted by the length of time that companies have been in buyer-supplier relationship.

Previous research on business networks in Turkey provided conflicting evidence on the issue of level of trust in business relationships in individual sectors (e.g., Neidik, 1995; Semerciöz, 2001; Sugur, 1997). The present investigation was carried out on data collected from 10 distinct sectors, and we argued that there were differences between sectors in regard to the general perceptions of trustworthiness of the suppliers in each sector.

H6. Perceived trustworthiness of the supplier scores differ between the sectors.

The new era of capitalistic production and services saw the emergence of newer sectors which institutionalized under a different set of environmental constraints (Bell, 1973; Kumar, 1995), including influences arising from international, historical, relational and cultural grounds (Scott & Christensen, 1995). Therefore, we

suggested several comparisons between the sectors that had established their ways of doing business, and institutions of their organizational environment in the earlier industrial period, i.e. the "conventional" sectors, with those sectors that appeared during the post-industrial period, here referred as the "novel" sectors, which saw the radical transformation of the organization of production of goods and services (e.g., Piore & Sabel, 1984) that led to a new era of organizing for enterprises (Clegg, 1990; Parker, 1992). In the light of this assertion, it was predicted that different variables would have predictive capacity for the perceived trustworthiness of the supplier scores in the two separate groups of sectors.

H7. Predictors of perceived trustworthiness of the supplier differs between the conventional and the novel sector groups.

It was argued that due to differences in sources of trust production, and differences in the levels of perceptions about others trustworthiness, there would be noteworthy amount of difference in terms of perceived trustworthiness of the supplier scores of the owners from the conventional sectors compared to the novel sectors.

In other words, discriminating the enterprise owners from the conventional and the novel sectors in terms of their perceptions is feasible.

H8. The perceived trustworthiness of the supplier scores of the owners from the conventional sectors is higher than the owners from the novel sectors.

The hypotheses nine through thirteen were formulated upon the premise that there would be differences in regard to work values and established norms of business making in the two types of sectors. In this regard higher levels of informality (Toptaş, 1998) and more reliance on traditional ways of business making and commercial conflict handling (Müftüoğlu, 1993) was expected in the conventional sectors in comparison to the novel sectors.

H9. Reliance on informal commercial disagreement handling in the novel sectors is lower than the conventional sectors.

H10. Reliance on characteristic similarity in choosing a business partner is higher in the conventional sectors compared to the novel sectors.

H11. In the conventional sectors, perceived strength of sectoral sanctions is higher than the novel sectors.

H12. The amount of reliance on chambers of commerce for conflict handling is higher in the novel sectors, than the conventional sectors.

H13. The amount of reliance on jurisdiction process for conflict handling is higher in the novel sectors, than the conventional sectors.

Since the conventional sectors have a longer history resulting in more continuous business bonds in these sectors, it was predicted that there would be more reliance on oral amendments (Lazerson, 1988) in the older sectors in comparison to the novel sectors.

H14. Percentage use of oral contracts in the novel sectors is lower than the conventional sectors.

Exploratory Questions

During the course of our investigation some questions arose as potentially informative avenues of

investigation, although the results of the literature review did not provide to the point proposals. To investigate these topics three exploratory questions were also formulated.

EQ1. Is there a relationship between the use of oral contracts and informal commercial disagreement handling?

EQ2. Is there a difference between the levels of perceived trustworthiness of the supplier scores of the respondents originating from high versus medium-low HDI regions?

EQ3. Is there a difference between the importance attributed to characteristic similarity based trust production by the respondents originating from medium-low HDI regions compared to those who are originating from high HDI regions?

CHAPTER SIX

6. METHODOLOGY

In this chapter, employed methodology and the research design of the study are explained in detail. For this purpose, information related to the sample characteristics in summary format, descriptions of the studied sectors, an explanation about the development, the construct validity and the reliability of the questionnaire, in addition to the definition of key concepts are presented in the following sections.

6.1 The Sample

Respondents of the study consisted of small-scale enterprise owners from various sectors. The selection of the sectors was done on the basis of a list of the sector groups obtained from the Istanbul Chamber of Commerce¹³. The list of the Chamber consisted of 90 different sector groups that operate in the Istanbul region. From these 90 sectors, ten sector groups were selected on a random basis to be included in the study: Spice and Dried Nuts Sellers, Textile, Readymade Clothing and Leather

¹³ The Istanbul Chamber of Commerce is the largest and established organization of its own kind, having been founded in 1882.

Retailers, Durable Goods Retailers, Vehicle Spare Parts Shops, Jewellery and Gift Shops, Furnishing and Furniture Shops, Book Trading Shops, Computer and Electronic Equipment Firms, and Optics and Optometric Goods Shops.

In an initial investigation, the full sector lists were found to be not useful for being employed as sampling frames, being outdated and incomplete in terms of the information that was of interest for the present study. Since a thoroughly randomized sample was impossible to attain, judgment sampling was used in selecting the enterprises and districts to approach. Additionally, since participation to the study was done on a voluntary basis, convenience sampling method was preferred, and a total number of 412 respondents were surveyed (see Table 5.1). The raw data collection phase was completed in July 1999. Relevant background information for each sector group is reported in the following section.

6.2 The Studied Sector Groups

6.2.1 Spice and Dried Nuts Shops Group

Since the Ottoman times, Egyptian Bazaar has been the center of the pharmaceutical (*aktariye*) tradition. The foundation stone of the Egyptian Bazaar was laid in 17th

century, as a part of the New Mosque complex.

Pharmaceutical shops used to buy herbs and spices from Jewish importers and sell them to public, as well as to other shops. Since the spices and drugs sold in the bazaar arrived by ships from Egypt, which unloaded their cargos nearby, and in time it came to be known as the Egyptian Bazaar. Only the shopkeepers in the bazaar (non-Muslims were in majority among them) had the privilege of buying goods from importers with the renewed permits (*ferman*). They not only sold medical herbs but also served as folk doctors. The pharmacists were trained as apprentices and having risen to master opened their own shops (Kılıç, 2000). The foundation date of some shops in the today's Bazaar goes back to 1860s. Since Egyptian Bazaar is an old market, and the shop owners generally tend to have a longer history with their suppliers. Suppliers' reliability in terms of quality of the goods is essential, since the goods sold in the market has to be of superior quality due to health reasons. These relationships are carried on for years as long as there is no deviation from quality of goods. Today, the spice shops located in the bazaar totals 23. The data for the spice and dried nut sellers, was gathered from shop owners in the Egyptian Bazaar whose numbers totaled 21.

6.2.2 Textile Group

Being one of the oldest manufacturing sectors in Turkey, the foundation of the industry dates back 1800s when production on wooden workbenches became commonplace in Western Anatolia. One of the earliest examples of the textile industry was established in Adana as early as 1901, for cotton string production. However, the modernization of the sector was achieved only after 1970s¹⁴. In the early 1930s, textile was announced as an industry with first priority by the government (İlyasoğlu & Duruiz, 1991). The textile production sector has earned its current importance, and has increased its development pace after 1983 with the increasing share of export-oriented production (Semerciöz, 2001). The questionnaire was administered to 42 workshop owners, most of which carried out both manufacturing and trading operations in the textile sector. These workshops were located at Merter and Eminönü districts.

6.2.3 Ready-Made Clothing Retailers Group

Although the start-up date of the ready-made clothing and leather sector group cannot exactly be pinpointed, it was

¹⁴ Adana Development Alliance Foundation web page: www.agv.org.tr

stated that clothing as an industry, emerged much later than textile industry, with the export-oriented drive of 1970's (İlyasoğlu & Duruiz, 1991). The sector showed a trend of rapid development after 1980 reforms with the increase of export-oriented production that was influential in other sectors, had its effect on this sector group as well (Sektörel Durum Analizi, 2000). With this development ready-made clothing and leather shops become wide spread. To represent the readymade clothing and leather sector, the data was collected from 30 fashion boutiques located in Beşiktaş, 15 boutiques in Fatih district, and 14 leather clothing shops located in Zeytinburnu district, which totals up to 47 small-scale enterprises from this sector.

6.2.4 Durable Consumer Goods Group

The development of domestic durable goods market in Turkey began towards 1970s (Buğra, 1998). At present, there are a number of networks of sales agents or vendors of consumer durables. However, in many respects Doğubank was the center of this new beginning. The oldest shops foundation date of the market goes back to 1970s at Doğubank located in Sirkeci, with the entrance of imported goods to the Turkish market. At the early days, imported goods have been acquired with "workers

permits¹⁵". After the liberalization of imports in 1984 and reduction of tariff and levies on imports, the status of Doğubank has naturalized to become a consumer goods spot market¹⁶. Price fluctuations prevent the shop owners from purchasing in large quantities and from the same supplier on each transaction. Rather they check with various suppliers on each time in order to make sure to buy for a reasonable price. The fact that the percentage of defected goods is very low, makes the wholesale price more important and the suppliers who offer lowest price has higher chance because there is no need for quality control due to guarantee of the well known brands. For this reason, they frequently change their suppliers. Instead of the reputation, the perceived honesty (especially in pricing) of the supplier is what matters according to shop owners in Doğubank. Most shops prefer to buy when there is demand for the goods sold because of high carrying cost of rather expensive goods. The imported electronics goods in Doğubank are provided from the domestic suppliers, which mostly have branches in Sirkeci region. These wholesalers are the suppliers of the shops in Doğubank, and the goods are sold to the customers as the final

¹⁵ Purchasing rights of the Turkish workers who have worked for more than three years abroad, free of tax.

¹⁶ The total of electronics and durable goods shops in Doğubank was 130, according to Mr. Dursun Akkaya, and experienced entrepreneur in the sector.

party in the circle. Sixty-three small-scale electronics, licensed retailers of various brands, and durable goods shops in Sirkeci (mostly in Doğubank), and Beşiktaş districts to represent the consumer durables retailers were surveyed.

6.2.5 *Vehicle Spare Parts Group*

The start-up of the vehicle spare parts sector in Turkey goes back to 1970s when the vehicle assembly operation reached at a certain production level. Until the end of 1980s, there was only a moderate level of sectoral development parallel with the economic development of Turkey. After the liberalization of the economy, a number of measures were taken to increase the amount of technology use and international competitiveness (Bedir, 1999). Spare parts industry is a labor-intensive sector and thanks to low labor costs in Turkey, the sector enjoyed a competitive advantage in exports. With the 1990s, Turkey started to suffer from recession -initiated by the Gulf War and following crises- in turn caused the firms in the industry to turn their routes to export¹⁷. To represent the vehicle spare parts sector, a number of business owners at three industrial districts in Istanbul were contacted at YEDPA (Cooperative of Spare Parts

¹⁷ Interview with Mr. İsmail Bayrak, an experienced entrepreneur.

Wholesalers), Kadosan (Cooperative of Retailers) and Bostancı Sanayi Sitesi (Cooperative of Retailers).

Although a larger number of shops were approached, some of the owners were either unavailable, or unwilling to answer the questionnaire, and thus the number of respondents that could be included to the study was 23.

6.2.6 Jewellery and Gift Shops Group

The highest concentration of jewellery shops in Istanbul is at the old-town region of the city including Eminönü and Beşiktaş districts. The Grand Bazaar is an exemplary institution where the traditional ways of doing business still exists, although maybe in a slightly different fashion. The bazaar has started to evolve in the early days of Istanbul's capture with the construction of two big markets. Later, shops and caravansaries were built on the streets, storehouses were set up and streets were covered by arches and cylindrical roofs (Kılıç, 2000). An important characteristic of the bazaar since the foundation days, due to the institutionalized social roles of Turks being soldiers and only the non-Muslims dealing with trade, large majority of the shop owners were non-Muslim. Although this feature started to change, still a substantial percent of the shop owners are from Armenian, Jewish and other ethnic minorities,

and the bazaar shows a religious heterogeneity. To represent the jewellery and gift shops, the questionnaires were administered in three localities. Firstly, 60 jewellery and gift shop owners in Grand Bazaar were surveyed. Moreover, 23 shop owners in the Eminönü and Beşiktaş were also contacted and surveyed.

6.2.7 Furnishing and Furniture Group

The furnishing and furniture sector in Turkey had begun with hand made furniture workshops in the 19th century. Today, the sector is dominated largely by SMEs. It was indicated that these shops were operating in a traditional way that belong to a relatively declining sector due to changing environment and the emergence of large scale, domestic and foreign companies (Mobilya Sektör Raporu, 1998). To represent the furnishing and furniture sector group, 14 furniture retailers from "Mobilyacılar Çarşısı" (Furniture Retailers Bazaar), Dolapdere, 13 curtain retailers in Istanbul Manifaturacılar Çarşısı (Istanbul Furnishing Retailers Bazaar), Unkapanı, and 10 furniture shop owners specialized in customized furniture located in Mecidiyeköy and Kadıköy districts were surveyed.

6.2.8 Book Trading Group

Between Beyazıt Mosque and Grand Bazaar is a 500 year-old walled bazaar known as "Sahaflar Çarşısı" (Antiquarian Bookshops Bazaar). In the past the word "sahaf" referred to a bookseller of any kind, although today it is used only for antiquarian or secondhand booksellers.

Istanbul's booksellers used to have their own street in the Grand Bazaar, but the damage to this area in the earthquake of 1894 forced them to move elsewhere. Today, for university students, writers, researchers and collectors, Sahaflar Çarşısı is a cultural centre in its own right with books displayed on tables outside. As well as manuscripts and printed books in Ottoman Turkish script, second hand books in modern Turkish, new books and foreign language books can all be found here (Newspot, 1997). Also, the Beyoğlu district was identified as region where stores in book trading gather. To represent the book retailers, 27 second-hand book dealers (sahaf) and bookstore owners were surveyed. Both group showed characteristics of small craftsman type of business organization allowing for owner to run the business single handedly. For the reason that the bookstores are mostly situated Sultanahmet Sahaflar Çarşısı, and Beyoğlu, these two districts were chosen judgmentally.

6.2.9 Computer and Electronics Group

Personal computer (PC) apart being a recent phenomenon with their entrance to daily life in mid-1970s made a dramatic influence on everyday life, and moreover it led to formation of a new market. The sector becoming a district part of economic life in Turkey was not before the second half of the 1980s. A number of private firms and entrepreneurs seizing the importance of the new era, exploited the new market opportunity (Yeltin, 1998). There are a number of type of different enterprises in the sector ranging from programming companies, to no-name firms¹⁸. These companies belong to a fast growing sector, which has a history dating back approximately to the last 15 year. Mobile phone trading became more common after 1996, due to privatization of the GSM rights in 1994 (Yeltin, 1998). Computer and electronics firm owners surveyed were mostly of companies, which were mainly in the business of trading telecommunication devices including mobile phones, software for computers, assembling "no-name" computers, and to some extend they were also solution providers. The firm owners that make-up the sample, were contacted at Mecidiyeköy, Etiler and Kadıköy districts, and the total number of respondents amounted to 50.

¹⁸ Interview with Mr. İlker Oyman, an experienced entrepreneur in the sector.

6.2.10 Optics and Optometric Goods Group

In regard to optics and optometrics sector, the amount of documentation was found to be rather scarce.

Nevertheless, an interview¹⁹ with the largest representative organization's executive revealed that the founding out the first optometric shops go back to 1920-1930 period. It was also stated that in the early days, most of the tradesmen in the sector consisted of non-Muslims, yet this characteristic has changed sharply²⁰.

Almost all optometric wholesalers are situated in Sirkeci region whereas the retailers are much more in number and dispersed in Istanbul leading to a low cohesiveness compared to wholesalers. Wholesalers are mostly either a "dealer" of a reputable international brand or import from 2-3 Italian and/or German firms. Wholesalers mainly import the eyeglasses from Italy and their work procedures are rather clearly defined. One striking similarity between the two groups is that both complain that there are no institutionalized control mechanisms in this sector for unethical behavior. However, it was argued that sector members monitor each other and the social networks are highly developed. Thirty optics and optometric shops owners, which operated as small-scale

¹⁹ Interview with Mr. Numan Hoccoğlu, an experienced entrepreneur in the sector and an executive the sector's major association organized under the name of "Tüm Fenni Gözlükçüler Derneği" (Optics and Optometrists Association), which was founded in 1951.

²⁰ Gözlük (1998, March)

optics retailers and wholesalers located at Sirkeci and Şişli districts contributed to the study as respondents.

6.3 Sample Characteristics

The summary table of demographic variables of the respondents in terms of sectoral distribution related to enterprise owner's age (Owner's Age), his/her years of education (Education), and whether there were any first or second-degree relatives working in the same sector who may have passed information related to the business making in the sector (Family Member), or not, can be found in Table 6.1. Since the number of female owners was rather few (14), no cross-gender comparisons were carried out. Information related to the geographical origin of the respondent was also obtained to allow comparisons related to the effect of geographical origin on the study variables.

Table 6.1 Sample Characteristics*

Sector Group	n	Family Member	Owner's Age (years)	Education (years)
Spice and Dried Nut Sellers	21	12	49.1 (11.8)	12.0 (3.6)
Textile Manufacture	42	26	35.5 (8.8)	9.9 (2.9)
Jewellery and Gift	83	60	38.8 (11.1)	10.5 (3.0)
Furnishing and Furniture	37	21	40.3 (11.7)	8.1 (2.8)
Bookstores	31	7	40.2 (9.0)	13.3 (2.7)
Optics and Optometric Goods	30	22	41.3 (12.2)	10.7 (3.5)
Clothing Retailers	47	30	37.0 (10.9)	10.3 (3.2)
Consumer Durables	48	22	36.9 (10.0)	10.0 (3.4)
Vehicle Spare Parts	23	14	38.7 (11.6)	10.6 (3.5)
Computer and Electronics	50	12	33.2 (7.7)	12.3 (2.6)
Total	412	227	38.5 (11.0)	10.7 (3.3)

*For each sector group means and standard deviations (in parentheses) in years for each variable were given. Fourteen of the respondents were female and the rest were male.

There were also a number of single item measures created for obtaining information about some firm characteristics (Table 6.2) such as the number of employees working for the enterprise (# of Employees), the number of years the company has been in operation (Operation), and the duration of buyer-supplier relationship with the key supplier at the time of data collection (Duration). The data was collected from the owners of the enterprises via

structured interviews on site. This information was used to make sure that the studied enterprises were indeed small-scale enterprises, and to verify that the buyer-supplier relationship was matured enough, to be able talk about a trust relationship.

Table 6.2 Operational Demographics*

Sector Group	# of Employees	Operation (years)	Duration (years)
Conventional			
Spice and Dried Nuts	5.9 (3.2)	35.1 (32.2)	16.1 (15.9)
Textile Manufacture	5.0 (6.8)	11.3 (9.2)	4.5 (5.4)
Jewellery and Gift	4.3 (3.5)	20.2 (15.8)	11.1 (7.8)
Furnishing Furniture	3.3 (2.0)	13.6 (9.8)	9.2 (8.5)
Bookstores	3.4 (3.2)	10.7 (9.5)	6.6 (7.3)
Optic Goods	4.4 (3.0)	16.0 (13.0)	10.6 (6.4)
Novel			
Clothing Retailers	8.1 (10.4)	11.3 (8.9)	5.7 (5.7)
Consumer Durables	4.2 (2.8)	10.9 (5.9)	3.9 (4.4)
Vehicle Spare Parts	6.2 (4.5)	15.4 (9.8)	2.8 (1.4)
Computer & Electronics	7.3 (6.4)	6.4 (6.2)	2.6 (1.9)
Total	5.2 (5.5)	14.4 (14.4)	7.3 (7.8)

*Means and standard deviations (in parentheses) for each variable.

6.4 Questionnaire

The "Trust in Supplier" questionnaire was developed specially for this study in order to investigate the small-scale enterprise owner's trust in their key supplier, and its sources (see Appendix B). The variables measured with subscales, and single item questions to obtain several demographic and buyer-supplier relationship related variables are operationalized in the following sections. The construct validity of the subscales, and the internal reliability measurements are also provided.

6.4.1 *Perceived Trustworthiness of the Supplier*

The "perceived trustworthiness of the supplier" subscale consists of five items, which were adopted from Doney and Cannon (1997). The questions aimed at assessing the perceptions of the owners about their suppliers' promise keeping behavior, proficiency to fulfill the requirements of their business, whether this person is genuinely concerned about buyer's business being successful, information provided by supplier being truthful, and the degree to which the person/firm is perceived being trustworthy. The respondents were asked to consider their major supplier in answering these questions. The

internal reliability score (Cronbach's Alpha) calculated for this subscale was $\alpha=0.79$ (see Appendix A for a complete list of items for each subscale).

6.4.2 Buyer's Propensity to Trust

The second subscale was named as "propensity to trust" of the buyer, and consisted of four items with the intent of measuring the general willingness of a person to trust others. The items of this measure, which was developed to measure work values, including trust to others, were adopted from Kahl (1970). These items included the respondents' approach to tell every detail about one's life to his/her relatives, or acquaintances, whether one should trust only to those people who he/she knows very well or not, and perceptions about people would return a favor. The internal reliability score (Cronbach's Alpha) calculated for this subscale was $\alpha=0.64$. The calculated reliability score was found to be sufficiently high for the research purposes, although it might be low for practical applications (Pierce, Gardner, Dunham & Cummings, 1993).

6.4.3 Importance of Characteristic Similarity

As the implicit quality of trust makes it intangible, and requires indirect measurement through indices or indicators (Zucker, 1986), a number of indicators of trust were developed. With an individual level variable, importance of similarity of the potential supplier for enterprise owners, in forming business relationships was investigated. Importance attributed by buyer to "characteristic similarity" based trust was measured with five items intended to assess the importance attributed to the other party being a fellow countryman, being a member of a well-known family, similarity of ethnic origin, being from the same school, and similar religious beliefs, while choosing a business associate. The internal reliability score (Cronbach's Alpha) calculated for this subscale was $\alpha=0.70$.

6.4.4 Perceived Strength of Sectoral Sanctions

The fourth subscale was developed for the present study to measure the salience of the "perceived strength of sectoral sanctions", which was designed as an institutional level variable. Whether most of the members in a given sector know each other, whether the criteria that should be employed in business deals are

known to everyone, whether internal mechanisms of the given sector that would punish those people who behave against these criteria established, and mischievous behavior would be noted by others in this sector, or not, were assessed. The internal reliability score (Cronbach's Alpha) calculated for this subscale, that consisted of four items, was $\alpha=0.64$.

6.4.5 Informal Commercial Disagreement Handling

This subscale was developed to assess the enterprise owners' opinion in regard to their choice of methods in commercial disagreement handling with another party in the same sector. Available alternatives were, asking someone to act as an intermediary between the two parties, asking another craftsman to act as an intermediary, asking a fellow countryman to act as an intermediary, or drawing the attention of elder members of the other party's family to this matter. The internal reliability score (Cronbach's Alpha) calculated for this subscale was $\alpha=0.78$.

6.4.6 Formal Disagreement Handling Methods

Frequency of formal disagreement handling methods employed by buyers was assessed with two questions

developed for the study. The two investigated formal institutions of commercial disagreement handling were "applying to chamber of commerce" for the resolution of the dispute, and "applying to court" or suing the other party for the misconduct. Since the internal reliability score (Cronbach's Alpha) calculated for these two items were less than desired ($\alpha=0.34$), these questions were employed as single item variables.

6.4.7 Importance of Process Based Confidence

Importance attributed by buyer to process based confidence in forming business relationships was assessed with two questions also developed for the study. Two process related questions, which were included in the questionnaire, were related to the importance of "reputation of the person", and buyer's "previous business experience" with a specific supplier. Since the internal reliability score (Cronbach's Alpha) calculated for these two items were less than desired ($\alpha=0.31$), these questions were employed as single item variables.

6.4.8 Length of Relationship

The duration of buyer-supplier relationship with the key supplier, i.e., the length of transaction time with the

largest supplier of the firm, at the time of data collection was obtained from the respondents (for averages of each sector group see Table 6.2) via single item question.

6.4.9 Use of Dealing Methods

The enterprise owners were asked to indicate approximately to what extent different types of business deals were used in transactions with key suppliers (for averages of each sector group see Table 6.2). More explicitly, the respondents were asked to state at what percentages they relied upon the four different types of deals in business transactions with their key suppliers, on a constant sum scale (see Appendix B). These deals that were employed in business transactions with the key supplier were: use of formalized agreements or "written contracts", use of habitually agreed upon informal agreements or "oral contracts", use of bill payable and checks for payments, and finally use of cash for payments.

6.4.10 Regional Differences and HDI

Istanbul is a city that has been subject to large migration waves from other parts of Turkey since decades

now: about 63 percent of the population living in Istanbul consists of recent migrants to the city²¹. In pursuit of economic welfare and security, the flow of people to this large city continues to date. However, that bears a price to be paid in the form of preexisting social ties being broken. In general, the values, attitudes, common practices do not match with the ones living in the big cities. Zucker (1986) listed high rates of immigration and internal migration among the sources of disruption of trust in US at the second half of the 19th century. The need to transact with groups that are geographically dispersed, required replacement or supplementation of informal, interpersonal trust with formal structures such as rational bureaucratic organizations, professional credentialing, regulation and legislation, etc. or institutional trust. This point provides a potential for explaining the low levels of trust in Turkish society (Esmer, 1999), and its relation to economic underdevelopment. Moreover, we believe that this situation provides a pertinent opportunity to investigate, whether or not there were any differences in terms of trusting in others of people originating from different regions of Turkey. For that purpose, a categorization of regions based on the Human Development Index (HDI) was considered suitable. The United Nations

²¹ State Institute of Statistics web page <http://www.dic.gov.tr/>

Development Programme has released the HDI for Turkey since 1990 annually. The index is meant for measuring the development level of an average individual at the provincial level. The 1998 HDI in the Human Development Report comprised the ranking of 78 cities²² of Turkey according the following criteria: life expectancy at birth; adult literacy rate; combined first, second and third level gross enrolment ratio; real GDP per capita; adjusted real GDP per capita; education index; GDP index; 1996 HDI.

6.4.11 Conventional versus Novel Sectors

The investigation of a number of sectors provided the opportunity to make a comparison between two types of sector groups that have institutionalized before and after 1970s in Turkey. It is a common argument that the 1970s was denoting the arrival of postmodern era (e.g., Bell, 1973; Kumar, 1995) and postmodern organizations (Clegg, 1990; Parker, 1992). This era also saw the emergence of newfound sectors, arising under a new set of conditions. We suggested carrying out several comparisons between these and earlier sectors, which have established, in many cases way earlier than 1970s, and

²² High Human Development: Bursa, Kocaeli, İstanbul, İzmir, Sakarya, Ankara, Balıkesir, Muğla, Eskişehir, Tekirdağ, Aydın, Bilecik, Antalya, Denizli, Çanakkale, Manisa, Bolu, Edirne, Kırklareli, Burdur. The rest of the cities were categorized as being at medium to low human development level.

thus institutionalized in a protectionist, state led economic environment (Buğra, 1999). However, this environment has changed considerably with liberalization of the economy, fragmentation of markets and decentralization of production, demand for customized goods, and global competition both around the world (Kumar, 1995), and in Turkey (Buğra, 1999; Erzan & Filiztekin, 1997). These sectors are more open to international business trends, and have more dependence on the external business partners. Therefore, we grouped the spice and dried nuts, textile, jewellery and gift, furnishing and furniture, book trading, and optics sector groups under the heading of "conventional". In most of these sectors, informality and operation based on renowned ways of making business was regarded essential (Toptaş, 1998). The sectors, which have institutionalized after 1970s, namely computer and electronics sectors, ready-made clothing, durable consumer goods, and vehicle spare parts were grouped as the "novel" sectors. The type of the sector group was employed as a grouping variable for analyzing sectoral differences. This approach provided interesting insights that are reported in the Results chapter.

6.4.12 Validation of the Subscales

To establish construct validity of the subscales, i.e. to confirm the dimensions of the variables that have been operationally defined, an exploratory factor analysis on the item scores was carried out. First, the initial, unrotated matrix was computed for the 26 items, and seven main factors were extracted. To be able to achieve a simpler and theoretically more meaningful factor pattern, a rotated component matrix was regarded to be beneficial (Hair, Anderson, Tatham & Black, 1998). Varimax rotation with Kaiser normalization was employed and the rotated factor loadings were found to be theoretically meaningful. The items that did not load on any factor, and items with a loading less than 0.50 were excluded from the variable set. For the results of this analysis see Table 6.3 below.

Table 6.3 Exploratory Factor Analysis Results

Factor	Loading	Eigen-value	% of Var. Explained	Cronbach Alpha
Perceived Supplier Trustworthiness		3.3	12.6	.79
Keeps promises	.67			
Proficient in business	.76			
Sincerely interested	.72			
Provides reliable information	.75			
Trustworthy	.79			
Informal Commercial Disagreement Handling		3.1	11.4	.78
Intermediary acquaintance seeking	.71			
Asking other craftsman to act as intermediary	.80			
Asking a countryman to act as intermediary	.75			
Talk to elder members of other party's family	.78			
Characteristic Similarity's Importance		2.1	7.9	.70
Regional bondage	.65			
Member of a known family	.51			
Ethnic origin	.75			
Buddies from school	.54			
Religious origin	.74			
Buyer's Propensity to Trust		1.8	6.9	.64
Relatives might rip-off	.79			
Trust only to whom you know well	.58			
Ingratitude of people	.57			
Cautious against acquaintances	.80			
Perceived Strength of Sectoral Sanctions		1.7	6.6	.64
Sector members know each other	.71			
Business criteria known by everyone	.69			
Internal mechanisms to enforce the criteria	.63			
Strength of "word-of-mouth"	.62			

Table 6.3 (continued)

Factor	Loading	Eigen-value	% of Var. Explained	Cronbach Alpha
Formal Disagreement Handling Used by Buyer		1.1	4.4	.34
Applying to chamber of commerce	.66			
Applying to court	.77			
Importance of Process Based Confidence		1.1	4.2	.31
Reputation of the person	.57			
Previous business experience	.66			

Total Variance Explained %54.1

Keiser-Meyer-Olkin Measure of Sampling Adequacy = .74

Barlett's Test of Sphericity = 2078.95 (p = .000)

The last two variables, namely "Formal Disagreement Handling Used by Buyer" and "Importance of Process Based Confidence", both consisted of two items, and were found theoretically meaningful. However, since the internal reliability measures of both variables were less than desired (Cronbach's Alpha scores being .34, and .31, respectively) these items were employed separately, as single item variables in all further analyses.

6.5 Data Collection Procedure

Based on a review of relevant concepts and available measures, a pilot form of the "Trust in Supplier" questionnaire was prepared and presented to four academicians in the Business Administration field, for a review. Moreover, three small firm owners were also used as a pilot group, and were asked about their impressions and/or suggestions about the completion of the questionnaire in semi-structured interviews. After the received feedback, necessary revisions were made and the final questionnaire was designed. The final version of the questionnaire consisted of subscales with 4-point Likert and rating type items, individual items and the demographics section (see Appendix B). The completion of the questionnaire typically took 15-20 min. The questionnaire included a cover letter to disclose the aim of the study, and the confidentiality was guaranteed.

The data was collected as a part of a larger project carried out at the Department of Management of Boğaziçi University. The firm owners in predetermined sectors and districts were approached during work hours and were asked if they would be willing to contribute to a research carried out on small-scale enterprises by a research team at Boğaziçi University. Several

demographic information were acquired to assure that the respondents that completed the questionnaire were the owners of enterprises that employed less than 25 employees, in line with the State Institute of Statistics criterion. The amount of usable questionnaires was 412.

CHAPTER SEVEN

7. RESULTS

7.1 Summary Statistics

The opening part of this section is devoted to the summary statistics of the study variables. Table 7.1 shows the means and the standard deviations for the variables of the present investigation, for all respondents.

Table 7.1 Summary Statistics of the Study Variables*

Variables	Means	s.d.
Perceived Supplier Trustworthiness	3.25	0.63
Informal Commercial Disagreement Handling	1.57	0.63
Characteristic Similarity's Importance	1.53	0.59
Buyer's Propensity to Trust	2.02	0.74
Perceived Strength of Sectoral Sanctions	3.05	0.67
Applying to Chamber of Commerce in Conflict	1.27	0.68
Applying to Court in Conflict	1.86	0.96
Reputation of the Person	3.19	1.07
Previous Business	2.87	1.11

*The variables, which were measured on a 4-point Likert type scale, where the maximum was 4, and the minimum was 1. For the subscales, which contained "reverse coded" items, necessary recoding was made.

In an item, the respondents were asked to indicate at what percentages written contracts, oral contracts, bill payable and checks, or cash payment were relied on while making business transactions with the key supplier firm, on a constant sum scale. The related results can be found in Table 7.2.

Table 7.2 Use of Different Dealing Methods in Sectors' Business Transactions with Key Suppliers

Sector Group	% Use of Written Contract	% Use of Oral Contract	% Use of Bills Payable	% Use of Cash
Spice and Nut Sellers	3.8 (17.5)	58.8 (38.5)	21.9 (36.6)	15.5 (29.2)
Textile Manufacture	6.4 (19.0)	52.6 (43.1)	24.8 (36.7)	16.2 (32.2)
Jewellery and Gift	2.2 (12.2)	95.3 (19.3)	2.2 (12.9)	0.2 (2.2)
Furnishing Furniture	1.3 (8.2)	80.5 (35.9)	0.5 (3.3)	17.6 (35.8)
Bookstores	8.9 (27.4)	80.4 (39.3)	7.1 (26.2)	3.6 (18.9)
Optic Goods	17.8 (35.4)	51.9 (47.0)	14.7 (29.0)	15.7 (21.2)
Conventional	5.7 (18.57)	75.3 (39.10)	9.7 (25.84)	9.3 (25.37)
Clothing Retailers	12.3 (28.6)	59.6 (43.8)	6.9 (22.0)	29.3 (39.1)
Consumer Durables	9.0 (24.6)	57.8 (43.6)	27.8 (37.4)	5.4 (21.2)
Vehicle Spare Parts	20.8 (40.8)	41.5 (48.2)	25.3 (40.8)	13.3 (31.4)
Computer & Electronics	32.8 (36.8)	41.4 (35.0)	15.2 (23.1)	10.6 (21.9)
Novel	18.6 (33.21)	51.3 (42.28)	18.0 (31.14)	12.3 (29.01)
Total	10.9 (26.9)	65.7 (42.0)	13.0 (28.3)	10.5 (26.9)

*Means and standard deviations (in parentheses) for each variable.

These summary results indicated that there were indeed considerable amounts of variation between sectors in terms of preferred dealing methods. However, the major indication of these results was the marked difference the dominant preference of the members of the conventional sectors for oral contracts, whereas the novel sector members were more reluctant to do so ($t=-4.41$, $p<.001$), and relied on written contracts more in comparison to the member of the conventional sectors ($t=5.75$, $p<.001$). Moreover, compared to the conventional sectors, in business dealings with supplier the respondents from the novel sectors relied more on bills payable ($t=-2.77$, $p<.01$), whereas there was no marked difference in terms of preference for cash payments ($t=-1.09$, $p>.05$).

The subsequent table (Table 7.3) gives the correlations among the variables studied²³. Several bivariate correlations with the main dependent variable of the study, i.e., "perceived trustworthiness of the supplier" scores and the other study variables were conducted. Firstly, these analyses indicated that as the duration of relationship increase, perceived trustworthiness of the

²³ Examination of the raw data revealed that the variables of "Informal Commercial Disagreement Handling", "Applying to Chamber of Commerce", and "Length of Relationship" required transformations for meeting normality demands of multivariate analyses. Appropriate transformations on these variables were carried out.

key supplier also increases ($r_{\text{Pearson}}=0.26$, $p<.001$).

Secondly, the enterprise owners perceptions about the strength of the sectoral connectedness in enforcing social sanctions was found to be positively correlated with their perceptions of their key supplier's trustworthiness ($r_{\text{Pearson}}=0.24$, $p<.001$). There was a statistically significant negative relationship between the perceived trustworthiness of the supplier score and the buyer's propensity to trust in others ($r_{\text{Pearson}}=-0.12$, $p<.01$). These results are discussed further in relation to the subsequent analyses.

Table 7.3 Intercorrelations Among the Variables Studied^a

	1	2	3	4	5	6	7	8	9	10
1. Perceived Supplier Trustworthiness										
2. Informal Commercial Disagreement Handling	.00									
3. Characteristic Similarity's Importance	-.02	.23***								
4. Buyer's Propensity to Trust	-.12**	-.02	.10*							
5. Perceived Strength of Sectoral Sanctions	.24***	.13**	.06	-.05						
6. Applying to Chamber of Commerce	.01	.22***	.15**	-.03	.07					
7. Applying to Court	-.03	.20***	.06	.00	-.01	.21***				
8. Reputation of the Person	.07	.10*	.14**	-.06	.16**	-.00	.08			
9. Previous Business	-.01	.02	.22***	.00	.03	-.04	.01	.14**		
10. Length of Relationship	.26***	.08	-.02	-.11*	.08	.06	-.08	.11*	-.01	
11. % Use of Written Contracts	-.01	-.03	.05	-.01	-.07	.11*	.18***	-.01	-.01	-.11*

^a n = 412. Correlations marked (*) statistically significant at 0.05 level, (**) statistically significant at 0.01 level, (***) statistically significant at 0.001 level (two-sided).

7.2 Statistical Test Results

The first hypothesis asserting that buying firm owner's perception of trustworthiness of the supplier could be predicted by the length of time that the companies have been in buyer-supplier relationship, was supported ($\text{Beta}=0.22$, $p<.0001$). As hypothesized, length of buyer-supplier relationship was an important predictor of trust perceptions between parties. For this analysis, a multiple regression analysis was conducted where the dependent variable was "perceived trustworthiness of the supplier", and the independent variables were "length of relationship", "strength of sectoral sanctions", "buyer's propensity to trust", and "percentage use of written contracts" in business transactions with key supplier. The unit of analysis in this investigation was the firm represented by the owner manager of the company. The coefficient of determination calculated for the whole sample was $R^2=.12$, and the result was found to be statistically significant ($F [4, 376] = 13.29$, $p<.0001$), for this regression analysis. The Table 7.4 shows the results of the regression analysis.

Table 7.4 Regression Results of Predictor Variables on "Perceived Trustworthiness of the Supplier" Scores

Predictors	Unstandardized Coefficients		Standardized Coefficients		Sig.
	β	Standard error	Beta	t	
Length of Relationship	.32	.07	.22	4.5	.000
Strength of Sectoral Sanctions	.20	.05	.22	4.4	.000
Propensity to Trust of Buyer	-.01	.04	-.10	-2.1	.03
% Written Contract Use	.00	.00	.03	0.6	.53
(constant)	2.60	.17			

$R^2 = .12$, $F(4, 376) = 13.29$ ($p < .001$), Durbin-Watson = 1.57

The second hypothesis of buying firm owner's level of propensity to trust being an important predictor of perceived trustworthiness of the supplier, gained initial support by the calculated standardized regression coefficient (Beta=-0.10, $p < .05$). Interestingly however, there was actually a statistically significant negative relationship between the two variables, and thus the hypothesis was not supported. This result could be explained by taking the low levels of trust to others in the Turkish society (Esmer, 1999) into consideration.

The small-scale enterprise owners seem to stick to customary buyer-supplier relationships, once trust is established, as their general level of trust decreases. This result also indicated that those enterprise owners, who have a high level of propensity to trust in others, could make business with those suppliers whom they do not perceive as trustworthy.

The third hypothesis of perceived trustworthiness of the supplier being positively predicted by perceived strength of sectoral sanctions, was statistically supported ($\text{Beta}=0.22$, $p<.0001$). We conclude that, for all respondents, the importance attributed to existence of established professional codes, and a strong intra-sector network that could enforce sanctions, was rather high in shaping the perceptions of trustworthiness of parties in the same sector group.

The fourth hypothesis asserting that perceived trustworthiness of the supplier not being related to percentage use of written contracts in business transactions was supported ($\text{Beta}=0.03$, $p>.05$). The percentage use of written contracts was not a predictor variable in explaining the variance in perceived trustworthiness of the supplier score of the total sample. The written contracts were hardly a preferred

alternative of trust building in long-term business relationships in the small-scale enterprises context, given the high levels of informality that governs transactions in several sectors (Toptaş, 1998), and the low levels of perceived utility of contracts (Buğra, 1998; Esmer, 1999).

To test the fifth hypothesis asserting that percentage use of oral contracts could be predicted by the length of time the companies have been in buyer-supplier relationship, a simple linear regression analysis was carried out, and this analysis supported the hypothesis ($\text{Beta}=0.25$, $p<.0001$). The coefficient of determination calculated for the whole sample was $R^2=.06$, and the result was found to be statistically significant ($F [1, 395] = 26.87$, $p<.0001$). This result indicated that the level of oral amendments between parties increase with the passing time of business relationship. Formal contracts would be more commonly employed at early phases of business relationships due to insufficient levels of trust between business parties. But in the long run, oral contracts were preferred more often than written contracts that bear important transaction costs. Moreover, during interviews businessmen stated that they did not want to lose their customers by disturbing them through formal procedures of written contracts. In the

conventional sectors (e.g., jewellery, book trading, furnishing and furniture) oral contracts seem to be a vital part of business making with the key supplier (see Table 7.3). As indicated by Toptaş (1998), it would be impossible to operate in such sectors without pertaining to oral contracts.

An argument of the present study was that the type of the sector, in which the small-scale firms were operating, could be a differentiating variable in determining the enterprise owners' "perceived trustworthiness of the supplier" scores. In line with this assertion, the sixth hypothesis asserting that the perceived trustworthiness of the supplier scores varies statistically significantly between the studied ten sectors was formulated, and found support ($F [9, 392] = 4.73, p < .001$) (see Table 7.5 and Table 7.6). To identify from which sector group, or groups this difference actually stems from following the One-way ANOVA, a Scheffe multiple comparisons test was carried out. The results of these multiple comparisons indicated that the difference stems largely from durable goods sector group, which, on the average, provided statistically significantly lower perceived trustworthiness of the supplier scores than jewellery ($p < .05$), in addition to furnishing and furniture sectors ($p < .05$). There were no other statistically significant

differences in these multiple comparisons. These test results provided preliminary information about the differences between the perceived trustworthiness scores in the studied sector groups. To test this assertion further, a series of multiple regression analyses were conducted and the results of these analyses are reported in the following section. The initial regression analysis was carried on the dependent variable of perceived trustworthiness of the supplier scores of all respondents, and employed all study variables as the predictor variables. The following two regression analyses were conducted on the scores of the respondents of the two types of sectors, separately (see Table 7.7).

Table 7.5 Summary Table for the One-Way ANOVA Results of Perceived Trustworthiness of the Supplier as a Function of Sector

	SS	df	MS	F	Sig.
Between Groups	15.61	9	1.74	4.73	.0001
Within Groups	143.84	392	0.38		
Total	159.46				

Table 7.6 Means and Standard Deviations of Perceived Trustworthiness of the Supplier Scores for each Sector

Sector Group	n	Mean	s.d.
Spice and Dried Nut Sellers	21	3.45	0.43
Textile Manufacture	42	3.12	0.77
Jewellery and Gift	83	3.41	0.50
Furnishing and Furniture	37	3.50	0.47
Bookstores	31	2.93	0.64
Optics and Optometric Goods	30	3.51	0.49
Clothing Retailers	47	3.16	0.68
Consumer Durables	48	2.95	0.69
Vehicle Spare Parts	23	3.19	0.73
Computer and Electronics	50	3.20	0.57

The results displayed in Table 7.7 indicate that for all respondents, the only study variables that significantly predicted perceived trustworthiness of the supplier were perceived strength of sectoral sanctions (Beta=0.18, $p<.001$), length of business relationship (Beta=0.24, $p<.001$), and although negatively, buyer's propensity to trust in others (Beta=-0.10, $p<.05$). The separate regression analyses carried out for the conventional and

the novel sector groups appear in columns 3 and 4 of Table 7.7.

Table 7.7 Regression Results of Predictor Variables on Perceived Trustworthiness of Supplier, for All Sectors and Separately for Respondents from Two Types of Sectors

Predictors	All Sectors	Conventional Sectors	Novel Sectors
Informal Commercial Disagreement Handling	.01 ^a	-.03	.05
Characteristic Similarity	-.02	.05	-.05
Propensity to Trust	-.10*	.02	-.20*
Perceived Strength of Sectoral Sanction	.18***	.18**	.15*
Chamber of Commerce in Conflict	.00	-.04	.02
Applying to Court in Conflict	-.02	.04	-.07
Reputation of the Person	.02	-.05	.08
Previous Business	-.00	.01	-.05
Length of Relationship (yrs.)	.24***	.21***	.12
Written Contract (%)	.07	.11	.05
R	.35	.31	.37
R ²	.12***	.10**	.14**
Adjusted R ²	.10	.06	.08
Durbin-Watson Test	1.62	1.54	1.69

^a Standardized Regression Coefficient scores, statistically significant at 0.05 level (*), significant at 0.01 level (**), and significant at 0.001 level (***) (two-sided).

The seventh hypothesis that asserted the type of the sector (conventional versus novel) would differentiate the prediction of perceived trustworthiness of the supplier, was supported by the differences obtained in statistically significant predictor variables. The two separate regression analyses for the conventional sectors and the novel sectors provided information both on the magnitude of the effect of each variable on perceived trustworthiness of the supplier, and the influential predictors for the two types of sectors. These analyses revealed that in the conventional sectors group, only perceived strength of sectoral sanctions ($\text{Beta}=0.18$, $p<.01$) and length of relationship ($\text{Beta}=0.21$, $p<.001$) were influential as predictors regressed on perceived trustworthiness of the supplier. The coefficient of determination calculated for the conventional sectors was $\text{adjusted-}R^2=0.06^{24}$, and this result was statistically significant ($F [10, 213] = 2.32$, $p<.01$).

²⁴ Coefficient of determination is a measure of the proportion of the variance of the dependent variable about its mean that is explained by the independent, or predictor, variables. Interpreted similarly, adjusted coefficient of determination, is particularly useful in comparing across regression equations involving different number of independent variables or different sample sizes, because it makes allowances for the specific number of independent variables and the sample size upon which each model is based (Hair, et al., 1998).

On the other hand, for the novel sectors the picture was different: the respective regression analysis provided a coefficient of determination of adjusted- $R^2=.08$. Except perceived strength of the sectoral sanctions ($Beta=0.15$, $p<.05$), and buyer's propensity to trust (negatively) ($Beta=-0.20$, $p<.05$), no other variable had emerged in this regression analysis as a statistically significant predictor. This finding indicated that in the novel sectors the general suspicion towards others in the society should be regarded an important variable to understand trust relationships. This regression analysis result was also found to be statistically significant ($F[10, 145] = 2.33$, $p<.01$). These two regression analyses indicated that perceived strength of sectoral sanctions was the only predictor variable that was influential in both types of sectors.

These results showed that there were indeed differences between the two types of sectors in regard to the sources of trust production. However, to classify on which dimensions the conventional and the novel sectors differ, in relation to the formulated hypotheses, there was need for further analyses. Therefore, a two-group discriminant analysis between conventional and novel sectors and study variables was carried out (Table 7.8 and Table 7.9). The independent variables were screened

by a stepwise procedure, and five of these variables were found significant enough to be included to the discriminant function²⁵. Classificatory ability of the discriminant function obtained is statistically significant ($t=5.52$, $p<.001$) by approximately 64 percent.

The eighth hypothesis asserting that in the conventional sectors perceived trustworthiness of the supplier scores would be higher in comparison to the novel sectors was strongly supported ($F [1, 391] = 14.13$, $p<.0001$). This result could be interpreted as the codes of professional ethics and sectoral network being much more established, and the buyer-supplier relationship have had longer duration in the conventional sectors (DiMaggio & Powell, 1991), leading to a higher perception of trustworthiness in comparison to the novel sectors. Moreover, the fact that these two groups of sectors were flourished under different historical, economic and social circumstances, and business environment of their era made enduring impact on the established norms of reciprocity and equity relationships (Ring & Van de Ven, 1994), which have effects about perceptions of other parties' trustworthiness in long-term business relationships.

²⁵ The assumption of equal covariance was tested by the Box's M test, and the resulting significance value of $p=.039$ was found to be good enough, taking the sensitivity of the test to factors other than just covariances into consideration (Hair, et al., 1998).

Table 7.8 Test of Equality of Group Means for the Discriminant Analysis Results between the "Type of the Sector" and "Trust to Supplier" Variables

	Wilk's Lambda	F	p	Mean 1	Mean 2
Perceived Supplier Trustworthiness	.965	14.13	.000	3.353	3.119
Strength of Sectoral Sanctions	.975	10.16	.002	3.150	2.939
Characteristic Similarity's Importance	.977	9.05	.003	1.454	1.632
Applying to Court	.989	4.33	.038	1.796	2.000
Informal Commercial Disagreement Handling	.991	3.72	.054	0.179	0.149

Group 1: Conventional Sectors

Group 2: Novel Sectors

Table 7.9 Loadings for the Discriminant Analysis

	Function 1
Perceived Supplier Trustworthiness	.575
Strength of Sectoral Sanctions	.487
Characteristic Similarity's Importance	-.460
Applying to Court	-.318
Informal Commercial Disagreement Handling	.295
Propensity to Trust of Buyer	-.118
Previous Business	-.113
Applying to Chamber of Commerce	-.056
Reputation of the Person	.025

Summary of Canonical Discriminant Function

Box's M-p: 26.277 .039
 (equal population covariance)
 Eigenvalue: .109
 Canonical Correlation: .314
 χ^2 (of Wilk's Lambda)-p: 40.329 .000
 Centroids: G1: .278 G2: -.392
 Percent of Cases Correctly Classified (Hit Ratio): 63.9%

Note: The proportional chance criterion for this analysis has been calculated to be 0.54 according to $C_{PRO} = p^2 + (1-p)^2$ formula. The level of classification accuracy was found to be significant based on a t value calculated 5.52 compared to a critical t value of 1.96.

The ninth hypothesis asserting that reliance on informal commercial disagreement handling would be less common in the novel sectors than the conventional sectors was supported ($F [1, 391] = 3.72, p < .05$). This result could be considered as an end result of different institutionalizations of commercial disagreement handling practices (Zucker, 1991), and relatively shorter time elapsed since the novel sectors were established. For example, during the conversations with enterprise owners in jewellery and book trading sectors, it was indicated that the shop owners, which do not abide with the ethical norms of the given sector, could have major difficulties in trading with suppliers and other shops. As indicated by Müftüoğlu (1993), non-ethical situations have not been predetermined by law in traditional craftsmanship groups. Instead of trying to monitor them via external control, auto-control mechanism such as blacklisting, serve to provide efficiency in resolving disputes in unethical acts. In the same vein, we have found that the businessmen in the conventional sectors have the tendency to prefer informal mechanisms to protect themselves against misconduct in business transactions. Violation of the norms brings about isolation that has adverse consequences incomparable with legal outcomes in the enforcement magnitude. This enforcement operates through fast word-of-mouth information flow. In addition to

that, as it was outlined in the first exploratory question (see the Exploratory questions section), the preference of oral contracts was also positively correlated with the extent of informal commercial disagreement handling methods. The reliance on such informal ties indicates that traditional forms of social control, and conflict resolution still dominate rationalized formal means of attaining social order in portions of business society.

The tenth hypothesis asserting that reliance on characteristic similarity among the enterprise owners operating in the conventional sectors would be considerably higher than the novel sectors members was not supported. In contrast, the respondents from the novel sectors relied more on importance of characteristic similarity, and there was a statistically significant difference between the two sector types ($F [1, 391] = 9.05, p < .01$). It seems that the lower levels of establishment of sectoral institutions, norms and norm enforcing, and informal disagreement handling mechanisms in commercial disputes, leads the novel sector members to rely on their own sources such as school affiliations, regional bondage, ethnic and religious similarity as sources of trust production in business partner choice. However, an alternative explanation could be that this

reliance on characteristic similarity being an end result of originating from high versus medium-low HDI regions. This possibility was investigated in the third exploratory question.

The eleventh hypothesis asserting that perceived strength of sectoral sanctions would be considerably higher in the conventional sectors than the novel sectors was supported ($F [1, 391] = 10.16, p < .001$). This finding was in line with the expectation that with the passing time a sector gets institutionalized, that is establishes its own norms standards and professional codes, which are enforced by a set of sectoral sanctions. Since the novel sectors were handicapped in this respect of having established intra-sectoral institutions, which develop with the passing time (DiMaggio & Powell, 1991), the perceptions about the strength of sectoral sanctions was lower.

In relation to more formal methods for disagreement handling in commercial disputes two hypotheses were formulated. The twelfth hypothesis asserting that in the novel sectors reliance on the chamber of commerce in case of commercial conflict would be higher than the conventional sectors, in case of disputes was not supported ($F [1, 391] = 1.56, p > .05$). This result indicated that enterprise owners' from both sector groups

relied on the chambers of commerce in resolution of disputes, almost equally. However, in general the reliance on this option was rather low among respondents (see Table 7.1).

The thirteenth hypothesis asserting that the reliance on jurisdiction process for commercial disagreement handling would be more common in the novel sectors than the conventional sectors was supported ($F [1, 391] = 4.33$, $p < .05$). The dependence on jurisdiction process in novel sectors could be higher because of the insufficient amount of time passed since the institution of the novel sectors, the relative lack of informal disagreement methods that requires a strong intra-sector network, and thus the lack of power to enforce of informal sanctions at the sectoral level.

The fourteenth hypothesis asserting that percentage use of oral contracts in the novel sectors group would be lower than the conventional sectors group, has found statistical support ($t=5.75$, $p < .0001$). Indeed, the reported average amount of oral contract use was 75.3 percent ($s.d.=39.09$) for the conventional sectors group, whereas the average for the novel sectors group dropped sharply down to 51.3 percent ($s.d.=42.28$). To sum up, it was found that rather than honoring strictly the terms of

a written contract, more informal commitments were considered proper for business making in conventional sectors, as also suggested by Özcan (1995).

7.3 Further Results on the Exploratory Questions

The first exploratory question of whether there was a relationship between percentage use of oral contracts and informal commercial disagreement handling, displayed a statistically significant positive correlation ($r_{\text{Pearson}}=0.17$, $p<.001$). This result was indicative of the tendency that in cases where oral contracts were preferred, informal commercial disagreement handling was regarded as a viable alternative; when disagreements arise parties rely on informal methods, such as employing mediators in finding a solution to problems, instead of invoking jurisdiction process, for example. Attributable to experience of successfully completed previous business transaction with the supplier, and to avoid the costs involved with contract preparation, most enterprise owners tend to forgo written contracts, and prefer oral contracts. The fact that most of the time business partners were chosen by reference of trusted others, and previous business experience, malfeasance was rather rare, according to interviewees. However, interviewed enterprise owners also declared that at times it might

become necessary to forget about claims (*sineye çekmek*), since there is nothing on paper, and thus no legal redress. This point was in line with Granovetter's (1985) assertion that embedded or informal obligations lead to even greater opportunities for malfeasance. If that type of trust was broken, because of the informal nature of the social obligation, it provides no straightforward enforcement procedure. Some enterprise owners suggested that due to economic turmoil, and the increased amount of unpaid bill payables and checks, recently many suppliers were hesitant to accept payments of that sort. Moreover, the answers obtained via an open-ended question assessing the "unconventional" disagreement handling methods indicated that adopting informal, even illegal measures were increasingly regarded legitimate ways of handling disagreements related to unpaid debts (see Results of Open-Ended Questions section).

The second exploratory question of whether there was a difference between the levels of perceived trustworthiness of the supplier scores of the respondents originating from high versus medium-low HDI regions, did not show a statistically significant difference ($t=1.44$, $p>.05$, $X_{ML}=3.27$, $X_H=3.18$). However, it should be noted that the obtained result was only barely insignificant;

at least among studied small-scale enterprise owners, the respondents originating from medium-low HDI regions were slightly more positive in judging the trustworthiness of their key suppliers, than the enterprise owners that originate from high-HDI regions. It could be thought that this result may be an outcome of different sources employed in finding business partners. This issue was investigated further in the next exploratory question, below.

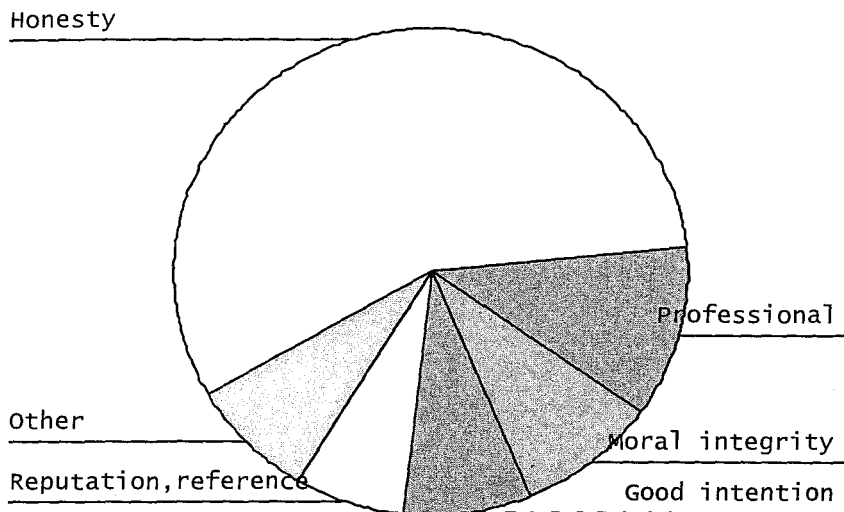
During the interviews, some enterprise owners indicated that for establishing and maintaining business relations, personal links and family involvement were rather important, as also found in previous research (e.g., Neidik, 1995). As it was predicted in exploratory question three, there was indeed a statistically significant difference in the importance attributed to characteristic-based trust production between respondents, depending on their geographical origin. The respondents originating from the medium-low HDI regions showed a higher tendency to rely on characteristic based trust mechanisms in comparison to respondents originating from the high HDI regions ($t=3.27$, $p<.001$, $X_{ML}=1.61$, $X_H=1.42$). This result indicated that ascribed characteristics were attributed far more importance in building trust in long-term business relationships by the

owner's who originate from medium-low HDI regions. That might be a result of the desire to take stock of all possible sources on the side of the respondents originating from medium-low HDI regions by fostering networks based on ascribed characteristics more keenly than the respondents originating from high HDI regions, who probably rely more on, what Giddens (1991) called trust in abstract systems.

7.4 Results of the Open-Ended Questions

In built to the questionnaire, there were two open-ended questions, which were produced to give the respondents an opportunity to make additional comments and descriptions. The advantage of open-ended questions is allowing respondents to answer in any way they choose, instead of choosing among a set of alternatives given by the researcher (Sekaran, 2000). Firstly, the respondents were invited to comment on the following question: "While choosing business associates which factor has salience for you, excluding ascribed characteristics?" This open-ended question provided a database of 113 responses. The responses were categorized, and a respective pie-chart (see Figure 7.1) was provided below.

Figure 7.1 Factors Influencing Business Associate Choice



The large majority of the respondents (56.6 %), while describing what they value the most in choosing a business associate, stated that it was being honest, or as many people puts it "being a man of his word". The second most common answer given to this question was the other party being "professional, good craftsman" (11.5%) emphasizing professional qualities relevant for business. This was followed by "moral integrity" (8.8%), "being a person of good intentions" (8.0%) and "reputation & references" (7.1%). Finally, there was the category of

"other" which consisted of miscellaneous answers, mostly related to practice of business making (e.g., convenient price, having money, physical proximity).

We suggest that these answers can be further categorized under two broad headings: factors related to "personal qualities" (honest, moral integrity, person of good intentions), and "business related qualities" (being professional, reputation, and other). The salience of personal qualities in choosing business associate can be seen on the total of 73.4 percent of the answers being related to this category (Table 7.10). This emphasis on personal qualities could be interpreted as that there was almost a consensus on what to look for in building thriving business relationships.

Table 7.10 Categories of Business Associate Choice

Factor	Frequency	Percent	Cumulative Percent
Personal Qualities			
Honesty, Being man of his word	64	56.6	56.6
Moral integrity	10	8.8	65.4
Person of good intentions	9	8.0	73.4
Business Related Qualities			
Being professional, Good craftsman	13	11.5	11.5
Reputation, References	8	7.1	18.6
Other	9	7.9	26.5
Total	113	100	100.0

The second open-ended question was included to the questionnaire with the intention of inviting the respondents to suggest available alternatives of handling misbehavior or conflict in business relationships, other than looking for intermediary, talking to the person himself, applying to chamber of commerce, or to court. The idea was to identify whether there were any other alternatives in the practice than the commonly functional ones, taken the low reliance into more formal methods. The number of the respondents who suggested other alternatives totaled 29. From these, 10 answers were

categorizable as "informal coercive measures". Six respondents explicitly stated that they would ask the "promissory notes mafia"²⁶ to handle the situation, whereas four stated that they would convince the other party by threatening him. The salience of these answers was interesting taking into consideration that this method being strictly illegal.

Seven respondents answered the second open-ended question by stating that they would seek the help of police, or an experienced lawyer, etc. Five of the respondents answered this question by stating that they would ask for the return of the good and stop further exchange, while the rest of the answers (7) were idiosyncratic. Some enterprise owners openly expressed their dissatisfaction with the judicial system, because they did not consider the system dependable and efficient, as suggested by Buğra (1998). This finding was also in accordance with Esmer's (1999) conclusion that the trust towards current jurisdiction system in Turkey was rather low.

²⁶ Illegal fraternity operating to collect unpaid debts either by threat or force.

CHAPTER EIGHT

8.1 Discussion

Small firms are increasingly being looked upon as viable competitive alternatives to business organizations of larger size in terms of their job creation record, their ability to innovate and to respond to economic crises. Our goal in the present investigation was to contribute to the general understanding of the value of trust in buyer-supplier business relationships. The study was carried out on a large group of enterprise owners representing several sectors of the Turkish small-scale business context. Despite considerable academic and managerial interest in the issue of trust between trading partners, to date there has been little empirical research on inter-organizational trust and on trust in different institutional contexts, as noted by Dyer and Chu (1996). Moreover, besides providing empirical evidence on interorganizational trust in buyer-supplier relationships, one of the endeavors of this research was to examine the differences of institutional contexts that the Turkish small-scale enterprises make business.

We also responded to a need expressed by Boyacıgiller and Adler (1991, p. 279) to provide information about non-US

management systems, and "... develop thick descriptions of organizational phenomena and the contexts in which they are embedded". During the study, besides employing a questionnaire for data collection, more qualitative natured data were also sought via semi-structured interviews. This dual approach of data collection provided a rich database about the antecedents of trust in the Turkish small-scale enterprise contexts. We believe that the results that were presented here could be utilized to achieve increased effectiveness in interorganizational relationships in general, and have implications for improving efficiency of business relationships and networks of small-scale firms.

One of these implications is related to achieving collective efficiency, which small-scale enterprises seem to find difficult to realize, because of high levels of competition and mutual distrust (e.g., Sugur, 1997). Previous researches, which were carried out in individual sectors (e.g., Buğra, 1998; Neidik, 1995; Semerciöz, 2000), pointed towards different bases of trust production in business relationships. The present investigation provided information from 10 sectors, and was able to show that there were significant differences in terms of sources of trust production between these sectors. Moreover, an important contribution of the

study was highlighting the differences in terms of work practices between the sectors that were institutionalized during two eras of free enterprise (Kumar, 1995): industrial and post-industrial.

Several authors argued that post-industrial phenomena required development of new forms of organization (e.g., Clegg 1990; Kumar, 1995; Parker, 1992). Such organization form could assume characteristics of a more organic, less differentiated, decentralized, flexibly specialized than those of bureaucratic design of modernity. The *modus operandi* of small-scale enterprises is rather parallel to this description of the new form of organization. The renewed interest in small business research could be regarded as a byproduct of this development (Perrow, 1992; Staber, 1996a). For the above reasons, the present investigation took interest in studying the issue of small-scale enterprises and antecedents of trust in buyer-supplier business relationships.

Organizations are embedded in larger groups of organizations ranging from suppliers to distributors and competitors. The main thrust of the present investigations was that the links between organizations, and substance of the links could range from formal

relations to personal relationships, as suggested by Powell (1990). Other organizations in the same environment can influence the actions of any given organization both through network links (Granovetter, 1992; Powell, 1990), and various dependency relations (Pfeffer & Salancik, 1978). Here, dependency does not only refer to material resources, but includes social relations that involve legitimation, competition or cooperation (DiMaggio & Powell, 1983). The present investigation indicated that the perceived level of maturity of intra-sectoral mechanisms was indeed strongly related to assessments of the respondents about others' dependability.

Maintenance of cooperation between business partners requires a common ground to start from (Powell, 1990), and investing into specific relationship (Özcan, 1995). One such ground is the perceived trustworthiness of the other party. The results of the present investigation showed that the perceptions of small enterprise owners, about their key suppliers' trustworthiness is significantly influenced by the amount of time of the two firms were in exchange relationship. This finding speaks for the assertion that with the passing time, buyer-seller interdependence leads to development of mechanisms that facilitate the transactions between them, mutually

adjust their operations, and reduction of uncertainty of transactions. Reliance on trust between organizations can thus be expected to emerge between business partners, if transactions were completed successfully in the past (Clegg & Hardy, 1996). Moreover, mutual perception of each other's reliance on the norms of equity (Ring & Van de Ven, 1994) increases the potential of maintaining interorganizational business relationship.

As the comparison between the conventional and the novel sector groups indicated, "length of relationship" was attributed more importance in the conventional sectors. The present finding may be a result of comparatively shorter time elapsed since the institutionalization of the novel sectors, or the differences in terms of principles related to work, because shared history and time is necessary to establish definitions of social reality and common understandings of what is acceptable and meaningful behavior (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). In a related fashion, the "perceived trustworthiness of the supplier" was also higher in the conventional sectors compared to the novel sectors, as an indication of business relationships having longer record and a more solid common ground to start from. In other words, the respondents, who have felt that there were well-established norms and work values, felt less

threatened by potential opportunistic behavior in business dealings.

The question of whether there were any differences between the two sector groups in terms of importance attributed to various work practices, or not, was also investigated. This analysis revealed that in the conventional sectors the enterprise owners' perceptions about the "strength of sectoral sanctions", and the reliance on "informal commercial disagreement handling" were significantly higher. Similarly, preference of oral contract use in business transactions was more common in the conventional sectors. However, some shop owners in the conventional sectors stated that rapid social change caused an anomy in the society, and created role confusion after the change in legitimate economic and cultural objectives after 1980s, leading to increased turmoil. It was claimed that nowadays, it became impossible to talk about a "trust environment" neither in business circles, nor in the society. In case of disputes, owners stated that they tend to contact the other party directly, and/or use intermediaries of various types to sort things out. Applying to formal institutions, such as court or trade associations, in case of commercial conflicts were less preferred alternatives.

On the other hand, reliance on the "characteristic similarity" in choosing business partner, and the tendency of "applying to court" in commercial disputes were higher in the novel sectors. The higher tendency of the respondents from the novel sectors to go to court in the commercial disputes was an expected result, since the computer, telecommunication, vehicle spare parts and ready-made clothing sectors are more recently founded sectors, and lack strong intra-sector networks that could enforce sectoral level sanctions. Instead, the respondents seem to rely more on "characteristic similarity", that is acquaintances from school, family and kin ties, ethnic and religious likeness. This result should be taken into consideration in combination with the finding from a exploratory question that we have posed to disclose the influence of the respondents' regional bondage. This analysis revealed that "characteristic similarity" was more important for respondents originating from medium-low HDI regions, indicating that in choosing a business partner, this group of individuals has a higher tendency to rely on likeliness of some sort.

Nonetheless, there were also similarities in terms of business practices between the two groups. For instance,

in choosing business partners, process based trust production mechanisms of "references and reputation" about the credibility of the business partner, and "previous business experience" were valued almost uniformly. Similarly, the enterprise owners both from the conventional and the novel sectors relied equally on trade associations and chamber of commerce for disagreement handling in commercial disputes. It could be suggested that these associations could assume a mediator role in such disputes; however, initial attitudes of the enterprise owners was rather pessimistic, which could prove to be a barrier in that regard.

Further investigation on opinions of the respondents from the conventional and the novel sectors indicated that the "perceived strength of sectoral sanctions" was the single variable that holds true for both groups in explaining perceptions of supplier trustworthiness. This point was in accordance with the assertion that collaboration and trust in buyer-supplier relationships are influenced by the business owners' perceptions about the level of solidification of professional norms and standards (Powell & Smith-Doerr, 1994), as well as informal intra-sectoral mechanisms to enforce sanctions on the potential nonconformists (Humphrey & Schmitz, 1998; Mead, 1984).

This result proves the importance attributed to strength of internal networks by the enterprise owners in the studied sectors. It was suggested that the mode that is preferred for trust production is determined as an end result of concrete circumstances under which exchanges typically takes place (Zucker, 1986). Therefore, it could be concluded that intra-sector mechanisms of ethical and professional standards could be regarded as important mechanisms of uncertainty reduction and trust production, in addition to the duration of exchange relationship between business partners.

One of the premises of the New Institutionalization Theory was that as an organizational field develops, through various mechanisms, the ways or structures and practices of organizations in the particular field would over time become similar, or *isomorphic*. Several researchers (e.g., DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Oliver, 1992) have noted that the more geographically close, tightly connected or interactive is an organizational field, institutionalization of collective values and practices is more likely to occur. It was also suggested (Oliver, 1992) that network relationships could facilitate maintenance, imitation and diffusion of institutional norms and values.

The results of the statistical analyses were in support of our premise that there were differences in terms of the institutionalized ways of making business, handling disagreements, and the level of informality that was tolerable between the conventional and the novel sectors. In a nutshell, oral contracts and informal dispute settlement methods were accepted as legitimate ways of making business in long-term business relationships, more commonly in the conventional sectors. These results could be regarded as a product of the institutional environment that pushes toward homogenization of practices in the enterprises of the same organizational field (DiMaggio & Powell, 1983). This environment, which is full of other similar organizations and regulatory agencies, in a way force newcomers to the sector to endure institutionalized "ways" of any given sector or organizational field. Therefore, as suggested by Powell and Smith-Doerr (1994), we argue that the institutional infrastructure in which the Turkish small-scale businesses are operating leads them towards certain economic and organizational practices.

The influence of institutional frameworks is considerable on individual decision-making, as well as on organizations (DiMaggio & Powell, 1991). For that reason, we claimed that the enterprise owners perceptions

of their suppliers trustworthiness, and thus their decisions of retention of business relationship over extended periods, was determined by more than economic concerns. One such factor was the general suspicion of non-significant others, or low propensity to trust, that led enterprise owners to stick to their customary suppliers, because of the previous investment in the relationship on both parties was regarded as a valuable asset, and decreased the amount of uncertainty.

Moreover, relying solely on efficiency considerations in explaining the formation and retention decisions of business relationships, as suggested by Transaction Costs Economics (e.g., Williamson, 1989; 1996), could be regarded overly simplistic. The low levels of reliance attributed to written contracts by interviewed enterprise owners indicated that once an acceptable amount of trust between parties was established, either by social exchange or by experience of mutual fair conduct, the transaction costs, which could be quite cumbersome for small-scale enterprises, were readily avoided. As also suggested by Buğra (1998), this behavior may also be related to perceptions of entrepreneurs concerning the low levels of marginal utility of contracts in the Turkish business context.

To sum up, the main findings for all sectors indicated that the strength of sectoral sanctions is an important predictor of perceived supplier trustworthiness. This result implied that intra-sectoral networks could be relied on trust enhancement. This point will be further developed in the coming section on potentials for networks of small enterprises as an observable pattern of organization. Secondly, although it was argued in the opposite direction in the literature, the present study showed that written contracts do not secure trustworthy conduct in the eyes of the Turkish enterprise owners. Formalization of agreements in the form of written contracts was not relied extensively -although more in the novel sectors-, mainly because of high transaction costs, and perceptions of limited marginal utility. Instead, as the business relationship solidifies over time, there was less need to formalize contracts legally and oral agreements replaced written contracts. We conclude that once established trust between business associates, mutually supportive actions and extra-contractual agreements can supplement and/or replace formal mechanisms in small-scale business relationships. Through such associations increased collective efficiency among SMEs could materialize.

The assertion that there would be differences between studied sectors in terms of supplier trustworthiness perceptions found support through conducted multiple comparisons among studied sectors. Moreover, the results also indicated that the characteristically different institutional contexts did determined tendency to trust in supplier. When considered in combination with the findings for all sectors, our findings showed that the perceptions about the supplier's trustworthiness was higher in the conventional sectors, because strength of sectoral sanctions, length of buyer-supplier relationship and informal commercial disagreement handling in case of conflict could be relied on more than the novel sectors. Moreover, importance of characteristic similarity in business associate choice was more common in the novel sectors, since other sources of trust production was not established as strongly in these sectors.

In addition to that, although applying to court in commercial conflict was quite seldom in the conventional sectors, it was more common in the novel sectors, because methods of informal commercial disagreement handling could not be invoked as readily, and the enterprise owners from the novel sectors did not perceived sectoral sanctions powerfully enforceable. It could be suggested

that chamber of commerce and/or trade associations should assume more active role in conflict resolution efforts and reduction of uncertainty in business environment. To conclude, the conventional and the novel sectors, as we argued, differ markedly in terms of the sources of trust production, and the institutionalized ways of making business. Thus, we can talk about two socially constructed normative and cognitive systems, or distinct institutional contexts, where small-scale enterprises operate.

8.2 Limitations

While realizing this investigation, a primary ambition was to achieve a good theoretical base and a sound methodological design, to add rigor into the study. Although this goal was realized to a certain degree, there had been some limitations in obtaining a representative sample. This limitation arose because of the dynamic nature of the subject matter and some uncontrollable factors that posed problems during the field study. For instance, in some sectors it had been highly difficult to persuade enterprise owners to participate. In others, the total number of enterprises was below targeted numbers for other sectors. Therefore, the data that was employed in the present investigation had the limitation of individual sector samples being not equal in numbers. To overcome this limitation, harmonic means were employed where applicable. Moreover, a series of checks that have been carried out during the analyses of the sub-samples on the dependent variables, which indicated that this inequality of numbers was unlikely to have substantially distorted the findings.

Furthermore, it was found that there was notable levels inequality of group variances in the data. This variance could be stemming from inclusion of relatively

heterogeneous and a large number of different sectors that was included into the present investigation. As a remedy, where applicable such variances were kept under observation. Additionally, in the case of the individual variables, which showed substantial non-normality, necessary transformations were carried out, as mentioned in the Results section.

As in the case of any attempt to quantify human behavior, the question of generalizability of the findings to other settings (Sekaran, 2000) could pose a limitation for the present investigation results. It could be suggested that the present study may have benefited from the use of a more vigorous sampling design and data collection procedure to increase generalizability of the findings. However, these measures were very likely to increase the research costs greatly, without substantially increasing the validity the findings. Nevertheless, it may be wise for the reader to be careful about drawing conclusions from these findings for non-identical situations and settings.

Finally, the inclusion of only the buyers' perspective did put certain restrictions in terms of the investigation of social control and consequences of trust relationship. It may be suggested that the study could

have benefited from including suppliers' standpoint to provide opportunities to investigate buyer-supplier networks. However, this type of an investigation would require the use ethnographic methods, such as interviews with individuals on the both side of the alliance, which would have increase the scale of investigation to a large degree. For the above reason, the present study has principally dealt with buyers' perceptions.

8.3 Conclusions

Someone who reads the daily Turkish newspapers would immediately notice how frequently the word "trust" was used while columnists talk about the absence of, the need to reestablish, or what could be done to increase the amount of trust to the state, to the political system and in the economy. However, the lack of trust that is voiced quite often lately, did not arise over night, but has been with us for several decades. Research showed that a large majority of the people in Turkey does not trust the political system, political parties, and media to a large degree (e.g., Adaman, Çarkoğlu & Şenatalar, 2001; Esmer, 1999). The centralization of political power in the state bureaucracy (Keyder, 1989; Sunar & Sayarı, 1987), company owners being unwilling to leave the discretion power to professionals (Buğra, 1994), are indications of lack of trust of the state and holding companies' executives in their own officials, in suspicion of the officials or the professionals alike, to behave "incoherently". A recent survey showed that a fairly large percentage of SME owners showed lack of trust towards the current political and economic administration (TOSYÖV Report, 2001). Moreover, trust to close circle and social networking was also found to be relatively low among ethnically Turkish entrepreneurs

relative to other ethnic minority groups (Alpay, et al., 2000). We believe that taken together, such macro and micro level characteristic could provide some clues about the persistence of the recent crises.

Crises do not arise because of distrust; however they do persist because of the lack of generalized trust in a society. An economic crisis, for instance, may arise because of incoherence between the demand and the supply. However, for a crisis to last, the situation should include a characteristic of low trust to the governing agencies. What seems to have happened was that the already scarce social capital in the society did run out after successive crises. These crises included the devastating earthquake of 1999, which shook the balances, and image of mighty state. The following two economic crises in late 2000, and early 2001 were rather harsh on, already fragile social capital in the society at large. Fukuyama (1995) differentiates between social capital and other forms of capital by arguing that, unlike other types of capital, social capital and trust are created and transmitted through cultural mechanisms like religion, tradition, or historical habit. Some cross country comparisons (e.g., Ingelhart, 1999; La Porta et al., 1999) indicated that people living in countries with predominantly hierarchical religions like Islam, Orthodox

and Catholic Christianity generally have the tendency of not trusting in others. These findings could be considered as pointing to one of the sources of low generalized trust in Turkish society.

Where distrust prevails, although the problems could be recognized, due to lack of a common ground on which people can work together and depend on each other, we suggest that *procrastination* takes effect. Overlooking obvious symptoms, and not dealing with fundamental problems, results in delay of finding a solution and applying it until there is a pressing crisis that eventually leads to both economic and social deterioration of some level. We believe that the commonly recited idiom, "one should not even trust to his/her own father²⁷", which to our knowledge only exists in Turkish, gives a fair idea about the level of generalized trust in the society. Hall (1976, p.16) contended that the descriptions used in a language should be taken seriously, because "they express the basic manner in which the related concept is conceived in that particular culture..." and provides a general framework on which everything else is built.

²⁷ "Babana bile güvenmeyeceksin".

In the current economic realm where instability prevails, and competition over scarce demand is fierce, establishment of trust between business parties seems to be rather difficult (Sabel, 1993; Sugur, 1997). As argued by Sabel (1993), if trust is absent, even at the cost of sacrificing the gains of cooperation, no one would be willing to take the risk. In this environment, the state's role should be to establish dependable and enforceable regulations, for institutional-based trust proved to be the most resilient trust production mechanism. (Zucker, 1986). However, given the lack of trust to institutions, be it bureaucracy, banks or regulations, in the Turkish society (Esmer, 1999; Ingelhart, 1999), and the scarcity of trust in business relationships among small-scale enterprises owners (e.g., Sugur, 1997), we believe there is need for agents in addition to the state to take action to restore trust relationships between individuals, organizations and state apparatus both at business circles, and at the societal level.

Oliver (1992) suggested that an institutionalized practice tends to be questioned when its performance is no longer considered either adequate or when preferable practices become available. She noted, "...the utility of an institutionalized practice will ... be addressed when

economic criteria of efficiency and effectiveness begin to conflict with, or intrude on, institutional definitions of success." (p. 572). Thus, it might be the time for the Turkish business circles (and society in general) to question the utility of distrust, and try to find efficient forms to substitute it. So, the question that was raised here, was about what can be done to improve the level of trust in business life? In the literature, networks of small organizations were considered as a viable alternative for producing such trust among businesses (e.g., Perrow, 1992; Sabel, 1993).

Trust between members of a community could be described as an established expectation or belief system, and thus it is a cognitive phenomenon. Zucker (1986) argued that the level of trust in a given society could be regarded as an end result of the institutionalized values and norms. But, once trust is disrupted, it might require disproportionately large amounts of time and resources to building institutional confidence. Oliver (1992) stated that unexpected deviations from taken-for-granted norms and inharmonious information in an organization's environment may destabilize shared understandings, reliance on collective trust or professional ethics, however idiosyncratic they may be. These events may trigger implementation of a set of regulations or

monitoring devices, which were not regarded necessary up to that point. "Business transactions traditionally established by a handshake, for example, may be replaced by formalized contracts among members of the network" (p. 574). Nevertheless, Oliver maintains that with vigorous institution-building efforts, the damage done could be reversed.

One of our motives in carrying out the present study was the perceived need of identifying the determinants of trust before an explicit strategy for developing trust could be realized, or considered feasible. For realizing this deliberate attempt of institutionalizing high trust level in the business environment, there is need for a combined effort of enterprises, trade associations, trade unions, educational institutions and local governments. It should be noted that what has been described is not blind trust, or undying loyalty, yet it is suggested that cooperation should be based on intentional effort to organize enterprises, and particularly SMEs for larger effectiveness. Based on the results of a business networking experience (Sabel, 1993), it was argued that it could be possible to produce "vigilant trust", even in the sectors where there is a long tradition of entrepreneurial independence, and cut-throat competition being considered a fact of business life.

As argued by DiMaggio and Powell (1983, p. 152), professional and trade associations could be powerful tools for "the definition and promulgation of normative rules about organizational and professional behavior." Similarly, Perrow (1992) concluded that professional or trade associations, being important carriers of normative pressures, and they could be organized to disseminate a more trusting environment in the business circles. Thus, it could be suggested that various agents should be encouraged to stimulate long-term business networks that would operate under free market conditions. This necessity was also acknowledged in the National Program (2001), by pointing to the need that a legislation adjustment is necessary to support long-term relationships between companies, on the basis of mutual benefit and trust. It was reported that there were some professional associations, such as chambers of commerce in Southeast Anatolian cities, which coordinate local businesses for improved efficiency (Toptaş, 1998). It could be suggested that the representative organizations that are involved with coordination of SMEs, such as KOSGEB, TOBB, TESK, and others should be supported with new personnel, equipment and financial resources so that the services the organization offers could reach to a higher number of districts.

8.4 Developing Networks of Small Enterprises

Network organizations of enterprises of different sizes could be generated deliberately by founding structures or creating appropriate context, and via these networks trust between enterprises could be encouraged. This last point fits well with Coleman's (1988, p.26) notion of "appropriable social organization" where he asserted that once an organization "...brought into existence for one set of purposes, can also aid others, thus constituting social capital available for use." The Third Italian experience of SMEs could be regarded as an example of "spontaneous" social networking, which was established on the basis of long term bonds. A similar pattern of networks based on family, kinship ties and local was observed in medium sized Turkish cities (Özcan, 1995). Williamson (1993) refers to this type of trust that emerges relying on personal relations of trust and loyalty as "network-trust". Our study showed that for trust production in the conventional sectors one could rely on the strength of already established norms of business making. However, in the novel sectors characteristic similarities, or personal relations were regarded a more important source for trust production. It may be suggested that deliberate networking could prove to be useful in the novel sectors. There are such

example organizations, which are organized around and act to attain a goal. There were called as "organized" networks by Axelsson (1995). According to him EUREKA-cooperation, entrepreneur syndicates, price cartels, as well as joint ventures should be regarded as examples of organized network governance. Moreover, in some European countries, like Norway, Denmark and Britain, state has played an important role in creating institutional isomorphism around the network form of organization (Clegg & Hardy, 1996).

Network governance could be defined as long-term, preferential and structured set of autonomous enterprises, firms or nonprofit organizations, which act together to create products or services based on open-ended contracts (Powell, 1990). These contracts, more often than legal, are socially binding, and aimed at coordinating and providing safety against opportunistic behavior between enterprises (Jones, Hesterly & Borgatti, 1997; but see Williamson, 1996). It could be argued that networks of small enterprises are more loosely coupled than organizational hierarchies, but they are more tightly integrated than in open markets. In other words, their autonomy is structured but not tightly controlled (Staber, 1996a). Similarly, Williamson's (1991) "intermediate" mode of governance, or hybrid form, was

characterized by various forms of long-term contracting, reciprocal trading, regulation, and the like. Network forms of organization, thus could be argued to require an intermediate level of administrative apparatus, works under a semi-legalistic contract law regime, and employs both market mechanisms, such as price (Williamson, 1991), and preferential, mutually supportive actions within network (Ebers & Grandori, 1997).

Previous experience suggests that access to managerial expertise, and newly developed technologies were among the major barriers for developing efficient networks of enterprises (Sabel, 1993). In this respect, small-scale enterprises could be encouraged to cooperate in issues such as joint purchase of raw material, know-how, or pooling of resources to employ consultants; a strategy that had been proved to be useful in earlier examples (e.g., Lazerson, 1988). With the help of external consultants, who can bring divergent and fresh ideas, could facilitate overcoming most of these problems. However, for this model to be useful there is need for a well-defined strategy.

The strategy to develop networks of small enterprises could benefit from already accumulating knowledge in this field. A relevant literature review suggested a set of

characteristics that would be more likely to generate trusting than self-interest-maximizing behavior in small firm networks, and these organizations could be expected to reduce opportunistic behavior by creating a framework within which individuals, organizations, firms, local associations interact repeatedly, enhancing trust among members:

- Network should consist of a finite number of parties that are known to each other (Coleman, 1988) and network boundaries should be relatively closed (Sydow, 1996) for collective sanctions that would ensure trustworthiness of the parties can be applied.
- Sufficient similarity in processes and techniques among firms so that one can understand and judge each other's behavior is necessary (Perrow, 1992). Therefore, little difference among firms by size, power, or strategic position (Sydow, 1996) may be preferred.
- It appears that reputation of trustworthiness could be very valuable asset in achieving cooperation of potential partner enterprises. This reputation could be built up by repeated exhibition of

trustworthy behavior under similar circumstances.

Sharing and discussing information on markets, technologies, pay scales, and profits of firms could enhance this trustworthiness (Perrow, 1992).

- Network relations should be arranged so that it would assume long-term relationships, but possibly quite irregular contacts (Perrow, 1992) could be expected.
- Experience of getting helped by another firm (Perrow, [1992] suggests that the design of firms could be organized in such a fashion that it would lead to asking for help or borrowing) could be an asset. Thus, once established, networks of small enterprises should initiate interaction with the potential new partners to overcome the barriers to trust.
- Collective leadership (Sydow, 1996) or rotation of leadership could be required to represent a collection of firms (Perrow, 1992). A common understanding of network goals might be hard to achieve, and thus especially at the formation stage of the network, there is special need for leadership (Staber, 1996a).

- Similar financial rewards to the firms and to the employees within them should be required. Firms should collectively experience the economic advantages of increased sales and profit margins (Perrow, 1992).
- An awareness of mutual economic dependence and hence a need for trust, generated by firms, trade or professional associations, municipal service groups, unions, and the like (Sabel, 1993) should be created.
- Network relations between firms were considered as being motivated by norms of reciprocity (Powell, 1990).
- Network dynamics are expected to be stable but not static (Jones, Hesterly & Borgatti, 1997); they would gradually change in response to changes external and internal to network (Easton, 1992).
- To avoid inertia in network relationships (Hannan & Freeman, 1988) necessary precautions should be taken, since once structure or activity got

institutionalized, "...institutionalized elements become embedded in networks, with change in any one element resisted because of the changes it would entail for all the interrelated network elements" (Zucker, 1991, p. 105).

- Administration of network forms of organization could rely on tools such as planning systems, budgets, negotiation and bargaining, accounting and reporting (independent), programmers, or inter-organizational information systems (Ebers & Grandori, 1997). This approach could prove to be useful, for it would provide an auto-control mechanism that would also ensure accountability.

It appears that

- understanding the process of network building,
- organization of interfirm division of work,
- balancing of autonomy and dependence,
- measures to create and sustain trusting relations

are necessary preconditions to understand the ways of effective networking.

8.5 Restrictions of Networks of Small Enterprises

There is little question that within the network form of trust requirements of dependability and efficiency for the involved parties are high, and the consequences of failing to meet them is severe. Network members are expected to "forego the right to pursue self-interests at the expense of others" (Powell, 1990, p. 303). If the parties cannot be persuaded to give up their preexisting habit of distrust, the system is bound to fail. Thus, *maintenance* of trust could be as crucial as trust building. There are such cost of bargaining, information, and the costs of safeguarding against possible opportunistic behavior by networking partners, or broadly defined transactions costs, still prevalent in hybrid or network forms of organization (Ebers & Grandori, 1997), although these are by definition at a much lower level compared with markets and hierarchies (see Williamson, 1991). Sabel (1993, p. 1159) observed that those who participated such networking efforts, "...all have found that they overestimated the costs and underestimated the benefits of cooperation."

It needs to be mentioned that exploitation of labor, and informality in small-scale businesses have always been major problems (Özcan, 1995). Nevertheless, networks of

small enterprises supported and regulated by local government (Perrow, 1992; Weiss, 1988), by trade association of small producers, and in some cases by unions (Perrow, 1992) were considered effective means of limiting exploitation of labor and informality. Similarly, Toptaş (1998) suggested that small businesses should be provided educational and consultancy support by chambers of commerce of each sector. She held that necessary for social security umbrella to include apprentices that are not covered by these measures. Considering apprenticeship being a widespread practice in Turkey, this could be considered a worthwhile effort.

We suggested that to be able to utilize the potential of networks of small-scale businesses, or organizing today's hierarchies in the form of flexible networks of smaller firms, is related to the degree of social capital present in the broader society. Nowadays, thanks to rapid development in the information technology and Internet, various types of networks and virtual teams are more viable than ever (Lipnack & Stamps, 2000). In Turkey, there were attempts in this direction, as well. In recent years, in collaboration with European Information Center, KOSGEB has been disseminating information about EU legislation and business opportunities. Moreover, KOBI-Net, a governmental Internet agency, has been

working on establishing information and business networks, as well as familiarizing firms with Internet and e-commerce (National Program, 2001). However, a recent investigation on entrepreneurs who were members of civil society organization representing multitude of SMEs showed that the amount of firms, which owned their web site, was about 1% only (TOSYÖV Report 2001). The fact that successful network forms of organizations were created in high-trust societies like northern Italy and Japan (Fukuyama, 1995), requires us to be cautious about the possibility that a low trust society might not be able to take advantage of this potential, even with the efficiency that the information technologies provide.

8.6 Suggestions for Efficient Financial Means to Support SMEs

Access to capital for SMEs could be among the most important barriers at the outset, since banks could be reluctant to give loans for new ideas (Sabel, 1993). In Turkey, the amount of resources available for investment is scarce, and the constant competition emerging from the Turkish State's borrowing needs makes it quite costly. A state owned bank, Halkbank, is in charge of providing financial support to SME's with low interest rates. However, Halkbank has suffered a loss that amounted to 238 trillion TRL. in 1999, due to high interest rates the bank has to pay while collecting these resources in the Turkish internal market (Müderrişoğlu, 1999). This figure gives a clear idea that there is need for replacement of the current financial institutions that are not functioning effectively in providing necessary resources for the SMEs. This need was realized by the government, and a fund²⁸ to insure the credits issued by Halkbank, and an investment company²⁹ to provide financial support to SMEs, were established (National Program, 2001).

²⁸ Kredi Garanti Fonu (Credit Insurance Foundation)

²⁹ KOBI Yatırım A.Ş. (SME Investment Inc.)

It could be suggested that there is need for competition of private agencies to provide resources for the SMEs beyond political influence and under market conditions. As it was the case in north and central Italy around 1970s, banks could adapt an approach of distributing relatively small amounts of loans widely, as a risk reduction strategy (Amin & Thrift, 1992). Plus, the amount of fiscal and other incentives offered by the state to small-scale enterprises should be increased. However, the loans that would be allocated for the use of SMEs should be strictly controlled and allocation of funds should be made with maximum transparency to avoid the possibility of political bribery or corruption. For these reasons instead of government agencies, private banks and agencies could issue these loans under state monitoring. As argued above, private banks should be encouraged to support SMEs, and this could be done in the form of long term credits provided to private banks by the local government, and other multinational governmental sources such as EU funds (see Sayın & Fazlıoğlu, 1997). If these goals could be achieved, there may be a sizeable opportunity for crafts enterprises and SMEs in Turkey.

Another solution for financial needs of SMEs could be provided by development of venture capital funds, also

supported by the European Funding Bank, to boost commercial development. Specialized law offices may act as "information intermediaries" to deal with these transactions (Suchman, 1995). It may be suggested that there may be a need for time for development of a trustworthy image of these intermediaries. Moreover, it may be difficult for single enterprise to establish that type of an association. However, we suggest that trade associations and chambers of commerce may play the role of such intermediaries. Our study showed that in general, the small-scale enterprise owners relied minimally on trade associations and chambers of commerce in resolution of commercial disputes. This result shows that these civil society organizations should establish a more active function, and assume a more effective and trustworthy role in the business circles.

Another alternative for financial funds could be obtained through promoting the Regional Markets in the Istanbul Stock Exchange (ISE). The "Regional Markets" was established with the aim of promoting trading in stocks of small and medium size companies incorporated in all parts of the country, in a reliable and transparent environment. Companies meeting the criteria for trading on the Regional Markets are admitted to this market upon

the decision of the Executive Council of the ISE³⁰. There is currently a project going on related to the realization of this plan that will be based on the example of NASDAQ (Gürek, 2000).

8.7 Future Research

The antecedents and consequences of the lack of trust in institutions in Turkey, which was shown by several recent research (e.g., Adaman, Çarkoğlu & Şenatalar, 2001; Esmer, 1999; Kabasakal & Bodur, in press) could be an important avenue for future research. The cultural, historical and economic reasons, and respective consequences could prove to be very important to deal with current problems that the country faces today.

Power within network forms of organizations could be an important issue for further research. As indicated by Thorelli (1986), power is one of the central concepts in network analysis. As a general rule, it could be stated that in any given network some actors are more powerful than others. "How is the network influenced by the actions of one or more actors that are more or less

³⁰ Istanbul Stock Exchange web page: www.ise.org/

dominant?" is a question that can be dealt with in future research.

The efficiencies that could be achieved with network forms of organizations are not restricted to for profit organizations, according to our judgment. Instead, this type of an organization could also be very useful in creating a synergy between voluntary associations. One such example could be the coordination of district disaster preparedness groups in Istanbul, which flourished rather recently, and at present try to organize in their own capacity. A network structure built on mutual trust relationships between these associations could prove to be successful in dealing with disaster management. This point could be another field of further investigation for network forms of organizations research.

The issue of the effects of internal migration on trust production seems to be rarely investigated in the literature, although it appeared a number of times during the discussions with the small-scale enterprise owners. A major exception of this negligence was Zucker's (1986) study of trust in USA around the turn of the century, based on secondary data. She investigated the replacement of process-based trust (where trust is tied

to past or expected exchange) by institutional based trust (where trust is tied to formal societal structures). High rates of immigration, internal migration and instability of business enterprises during this period, were put forward by Zucker as reasons for the disruption of process-based trust. In the emerging economic order, rules and formal structures became institutionalized and dominated transactions, to insure that the rights of the involved parties will be protected. Similarly, some enterprise owners in Doğubank and Egyptian Bazaar alike complained that the fact that people from cities outside Istanbul replacing many shopkeepers in their sector, has altered the general business atmosphere in a negative way, lowered solidarity and the profit margins substantively. In our study, we have found that regional background of respondents had substantial effect on their perceptions about others. To our mind, this point should be further investigated for its own sake, to be able to delineate the effects of high geographic mobility on the low levels of trust in the society.

Finally, common religious background as a trust production mechanism (Fukuyama, 1995; Ingelhart, 1999) in business relationships was beyond the scope of this investigation. The economic dynamism of religious

networks and groups that concentrate their energy on private economic activity was paid attention rather recently (Buğra, 1999; Sunar, 1996). Considering that an overwhelming majority of the Turkish population considers itself as belonging to Muslim religion (Çarkoğlu & Toprak, 2000), this could also provide the necessary backdrop. However, La Porta et al. (1999), found that in those countries where a majority of people predominantly belonging to a religion that retained a strongly hierarchical way of life (defined as Catholic, Eastern Orthodox and Muslim), tend to have comparatively lower levels of social trust. Such results points to the fact that researchers who would like to carry out investigations in Turkey should caution about the possibility of the effects of the predominant religion on the value questions such as general trust.

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APPENDIX A

Subscales and Individual Items of the

"Trust to Supplier" Questionnaire:

Perceived Trustworthiness of the Supplier*

This supplier always keeps promises it makes to our firm.

I have confidence that this supplier has the proficiency to fulfill the requirements of the business.

This supplier genuinely concerned that our business succeeds.

We believe the information this supplier provides us.

I trust this person/firm.

Buyer's Propensity to Trust*

It is not a good habit to tell every detail about one's life to his/her relatives for that they might take advantage of you.

One should trust only to those people who he or she knows very well.

Most of the people will repay your kindness with ingratitude.

It is not good to tell every detail about one's life to his/her acquaintances for that they might take advantage of you.

Importance of Characteristic Similarity*

Regional bondage

Being a member of a well-known family

Similarity of ethnic origin

Being from the same school

Similarity of religious conviction

Perceived Strength of Sectoral Sanctions*
In this sector, everyone knows each other.
The criteria that will be employed in business deals are known by everyone.
There are internal mechanisms of this sector that would punish those people who behave against these criteria.
If someone should do something against these criteria that will immediately be noted by others in this sector.
Informal Commercial Disagreement Handling*
Asking someone to act as an intermediary between you and the other party.
Asking another craftsman in your sector to act as an intermediary between you and the other party.
Asking a fellow countryman to act as an intermediary between you and the other party.
Drawing attention of elder members of the other party's family to this matter.
Formal Commercial Disagreement Handling*
Applying to chamber of commerce in case of conflict
Applying to court in case of conflict
Importance of Process Based Confidence*
Reputation of the person
Previous business experience with that person/firm

*All the items in this list were measured on a 4-Point Likert type or rating scale, where the maximum was 4 (totally agree) and the minimum was 1 (totally disagree). For subscales, which contained "reverse coded" items, necessary recoding was made.

APPENDIX B

Trust to Supplier Questionnaire

a. In Turkish

b. In English

İş yaptığınız sektör: _____

İşyerinizin kurulduğu tarih: _____

Kendiniz mi kurdunuz? _____

Ailenizde bu işle uğraşan var mı (oldu mu)? Kimler: _____

Yanınızda çalışan kişi sayısı: _____

Yaşınız: _____

En son bitirdiğiniz okulun adı: _____

Memleketiniz: _____

Aşağıdaki soruların doğru ya da yanlış cevapları yoktur. Bu soruların cevapları bireyden bireye değişmektedir. Lütfen soruları, sadece kendi bakış açınıza göre cevaplandırınız.

Aşağıdaki ifadelere ne derece katıldığınızı lütfen, aşağıdaki skala üzerinde belirtin.

	Hiç Katılmıyorum	Pek	Biraz	Tamamen Katılıyorum
• İnsanın akrabalarına kendi hayatı hakkında herşeyi anlatması, suistimallere yol açabileceği için, iyi bir alışkanlık değildir.	1	2	3	4
• İnsanların çoğu dürüsttür ve ahlak dışı bir iş yapmaya kalkışmaz.	1	2	3	4
• İnsanlar yalnızca iyi tanıdığı kişilere güvenmelidir.	1	2	3	4
• İnsanların çoğu onlara yapılan iyiliğe nankördür.	1	2	3	4
• İnsanın arkadaşlarına kendi hayatı hakkında herşeyi anlatması, suistimallere yol açabileceği için uygun değildir.	1	2	3	4

İş yapmakta olduğunuz kişileri seçerken, aşağıdaki faktörler sizce ne derece önemlidir? Önem derecelerini aşağıdaki skala üzerinde işaretleyiniz.

	Önemsiz	Pek Az	Biraz	Çok Önemli
• Bu piyasada iyi bir üne sahip olması.	1	2	3	4
• Hemşehrilik	1	2	3	4
• Hangi aileden olduğu	1	2	3	4
• Hayata bakış açınızın benzerliği (politik görüş v.b.)	1	2	3	4
• Etnik köken benzerliği	1	2	3	4
• Aynı okuldan olmak	1	2	3	4
• Dini inanışlarda benzerlik	1	2	3	4
• Geçmişte birlikte iş yapmış olmamız.	1	2	3	4
• Diğer (Lütfen yazın) _____				

Çalıştığınız sektörle ilgili aşağıdaki ifadelere ne derece katıldığınızı lütfen belirtiniz.

	Hiç Katılmıyorum	Pek	Biraz	Tamam Katılıyorum
• Bu sektörde herkes birbirini tanır ve bilir.	1	2	3	4
• Yaptığımız işte, işin hangi kıstaslara göre yapılacağı herkesçe bilinir.	1	2	3	4

- Bu kıstaslara aykırı hareket edenleri cezalandıracak sektör içi mekanizmalar vardır (diğer iş sahipleri tarafından dışlanmak vb.). 1 2 3 4
- Bu sektörde benimsenen kıstaslara uygun iş yapılmadığı takdirde bu hemen duyulur. 1 2 3 4

Aşağıdaki soruları en önemli toptancınızı / tedarikçinizi düşünerek yanıtlayınız.

- Bu kişiyle ne kadar süredir iş yapıyorsunuz? _____
- Bu kişiyle son bir ay içerisinde kaç defa alışveriş yaptınız? _____
- Bu kişiyle iş yaparken aşağıdaki anlaşma türlerine ne sıklıkla başvurduğunuzu yüzde olarak belirtiniz.

- Yazılı kontrat % _____
 - Senet /Çek % _____
 - Sözlü kontrat % _____
 - Nakit % _____
 +-----
 % 100

- | | Hiç
Katılmıyorum | Pek | Biraz | Tamamen |
|--|---------------------|-----|-------|---------|
| | 1 | 2 | 3 | 4 |
| • İş yaptığım bu kişi verdiği sözleri her zaman tutar. | 1 | 2 | 3 | 4 |
| • Bu kişinin işini en iyi biçimde yapabilecek niteliklere sahip olduğuna inanıyorum. | 1 | 2 | 3 | 4 |
| • İş yaptığımızda bu kişinin benim çıkarlarımı da gözettiğine inanıyorum. | 1 | 2 | 3 | 4 |
| • Bu kişinin işle ilgili verdiği bilgilere güvenirim. | 1 | 2 | 3 | 4 |
| • Bu kişiyle çalışırken temkinli davranıyorum. | 1 | 2 | 3 | 4 |
| • Bu kişiye güveniyorum. | 1 | 2 | 3 | 4 |

İş ilişkinizde karşı taraftan kaynaklanan beklenmedik bir ticari anlaşmazlıkla (örnek: paranızı alamamanız) karşılaştığınız takdirde aşağıdakilere ne sıklıkla başvurursunuz?

- | | Hiçbir
Zaman | Bazen | Sık
Sık | Her
Zaman |
|---|-----------------|-------|------------|--------------|
| | 1 | 2 | 3 | 4 |
| • Ortak tanıdıkları aracı koymak. | 1 | 2 | 3 | 4 |
| • Doğrudan kendisiyle konuşmak | 1 | 2 | 3 | 4 |
| • Bağlı olduğunuz bir ticari dernek veya odaya başvurmak. | 1 | 2 | 3 | 4 |
| • Esnafı arabulucu koymak | 1 | 2 | 3 | 4 |
| • Hemşehrileri arabulucu koymak | 1 | 2 | 3 | 4 |
| • Karşı tarafın aile büyükleriyle konuşmak | 1 | 2 | 3 | 4 |
| • Mahkemeye vermek. | 1 | 2 | 3 | 4 |
| • Diğer (Lütfen yazın) _____ | | | | |

Sector: _____

Foundation date: _____

Are you the founder? _____

Others in your family involved with the business? _____

Number of employees: _____

Age: _____

Education: _____

Regional bondage: _____

There are no write or wrong answers for the questions below, since the answers vary from one individual to another. Please answer these questions based on your own point of view.

Please indicate whether you agree or disagree with each statement by circling the number that best represents your answer.

	Strongly Disagree	Disagree	Agree	Strongly Agree
• It is not a good habit to tell every detail about one's life to his/her relatives for that they might take advantage of you.	1	2	3	4
• Most people are conscientious and would not behave immorally.	1	2	3	4
• One should only trust to those people who s/he knows very well.	1	2	3	4
• Most people will repay your kindness with ingratitude.	1	2	3	4
• It is not good to tell every detail about one's life to his/her, Acquaintances for that they might take advantage of you.	1	2	3	4

How important are the following factors in choosing your business associate? Please indicate your opinion by circling the number that best represents your answer.

	Not Important	Slightly	Some	Very Important
• Good reputation in the sector.	1	2	3	4
• Regional bondage	1	2	3	4
• Being from a well-known family	1	2	3	4
• Similar convictions (political, etc.)	1	2	3	4
• Similarity of ethnic origin	1	2	3	4
• Being from the same school	1	2	3	4
• Similar religious beliefs	1	2	3	4
• Previous work experience	1	2	3	4
• Other (Please write) _____				

Please indicate to what extent the following statements apply to your sector.

	Strongly Disagree	Disagree	Agree	Strongly Agree
• Everyone in this sector knows each other.	1	2	3	4
• Everyone knows the criteria for business making.	1	2	3	4

- There are intra-sectoral sanctions that will punish those that go against the criteria of fair business making (e.g., blacklisting). 1 2 3 4
- Misconduct of a sector member would be immediately heard. 1 2 3 4

Please answer the following questions in relation to your key supplier.

- Length of your business relationship? _____
- During the last month, how many transactions have you made? _____
- In the business dealings with this person at what percentage did you use the following methods?

- Written contract % _____
 - Promissory notes % _____
 - Oral contracts % _____
 - Cash % _____
 +-----
 % 100

- | | Strongly
Disagree | Disagree | Agree | Strongly
Agree |
|---|----------------------|----------|-------|-------------------|
| | 1 | 2 | 3 | 4 |
| • This supplier always keeps promises it makes to our firm. | 1 | 2 | 3 | 4 |
| • I have confidence that this supplier has the proficiency to fulfill the requirements of the business. | 1 | 2 | 3 | 4 |
| • This supplier is genuinely concerned that our business succeeds. | 1 | 2 | 3 | 4 |
| • We believe in the information this supplier provides us. | 1 | 2 | 3 | 4 |
| • I am extra careful in out business dealings with that person. | 1 | 2 | 3 | 4 |
| • I trust this person/firm. | 1 | 2 | 3 | 4 |

In your commercial relationship, if you encounter a misconduct (e.g., unpaid debts) how often would you employ on the following methods?

- | | Never | Some
Times | Very
Often | Always |
|--|-------|---------------|---------------|--------|
| | 1 | 2 | 3 | 4 |
| • Asking someone to act as an intermediary. | 1 | 2 | 3 | 4 |
| • Talking to the person | 1 | 2 | 3 | 4 |
| • Applying to the chamber of commerce or trade association. | 1 | 2 | 3 | 4 |
| • Asking another craftsman in the same sector to act as an intermediary between you and the other party | 1 | 2 | 3 | 4 |
| • Asking another craftsman in the same sector to act as an fellow countryman between you and the other party | 1 | 2 | 3 | 4 |
| • Drawing attention of elder members of the other family to this matter | 1 | 2 | 3 | 4 |
| • Applying to court | 1 | 2 | 3 | 4 |
| • Other (Please write) _____ | | | | |