

**SOCIAL CAPITAL AND TRANSFORMATION OF  
SMALL AND MEDIUM- SIZED ENTERPRISES IN  
TURKEY, YILMAZ REDUKTOR CASE**

Thesis submitted to the

Institute of Social Sciences

in partial fulfillment of the requirements

for the degree of

Master of Arts

in

Sociology

by

Saffet Erhan ERGINCAN

Fatih University

September, 2012

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## **ABSTRACT**

**Saffet Erhan ERGİNCAN**

**September 2012**

### **SOCIAL CAPITAL AND TRANSFORMATION OF SMALL AND MEDIUM-SIZED ENTERPRISES IN TURKEY, YILMAZ REDUKTOR CASE**

This thesis is prepared with the aim of analyzing the role of social capital in transformation of Turkish small and medium- sized enterprises. The detailed interviews done with the owners and managers of the firm, Yılmaz Reduktor are examined under the light of the studies in the literature in order to clarify the topic by the help of examples from the real life. The dimensions of social capital and how efficiently they are being used by Turkish SMEs in their transformation process are handled.

A profile of social capital that is used by SMEs in Turkey will be drawn at the end of the thesis. It is understood that although bonding social capital is mostly used by SMEs bridging one is often neglected. The reasons for this neglect and the proposals about its efficiently usage will help SMEs in Turkey to shape their future.

**Key words:** social capital, networks, trust, norms, small and medium sized enterprises, bridging, bonding

## KISA OZET

Saffet Erhan ERGİNCAN

Eylül 2012

### **SOSYAL SERMAYE VE TÜRKİYE'DEKİ KÜÇÜK VE ORTA ÖLÇEKLI İŞLETMELERİN DÖNÜŞÜMÜ "YILMAZ REDÜKTÖR ÖRNEĞİ"**

Bu çalışma, Türkiye'deki Küçük ve Orta Ölçekli İşletmelerin dönüşümünde sosyal sermayenin rolünü araştırmak amacı ile hazırlanmıştır. Yılmaz Redüktör firmasının sahipleri, Genel müdür ve müdürleri ile yapılan birebir görüşmeler literatürdeki çalışmaların ışığında belli başlıklar altında incelenmiştir Sosyal sermayenin boyutları ve bunların dönüşüm süreçlerinde KOBİ'ler tarafından nasıl kullanıldığı ele alınmıştır.

Tezin sonunda Türkiye'deki KOBİ'ler tarafından kullanılan sosyal sermayenin bir profili çıkarılmıştır. KOBİ'lerin daha çok bağlayıcı sosyal sermayeyi kullandıkları öte yandan farklı topluluklar arasında köprüsel işlev gören sosyal sermaye türünü ihmal ettikleri anlaşılmıştır. Bu ihmalin nedenleri ve bu tür sermayenin etkin bir biçimde kullanılmasıyla ilgili öneriler KOBİ'lerin geleceğini şekillendirmede yardımcı olacaktır.

**Anahtar Kelimeler** sosyal sermaye, şebekeler, güven, normlar, küçük ve orta ölçekli işletme, bağlayıcı, birleştirici

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## LIST OF ABBREVIATIONS

Chap., Chaps.	chapter(s)
e.g.	<i>exempli gratia</i> -for example
edit. edits.	edition(s)
<i>et al.</i>	<i>et alii</i> -and others.
i.e.	<i>id est</i> -that is (to say)
IFS	Industrial and Financial Systems
KOSGEB	Küçük ve Orta Ölçekli İşletmeleri Geliştirme ve Destekleme İdaresi Başkanlığı
OECD	Organization for Economic Co-operation and Development
p., pp.	page(s)
SME	Small and Medium-sized Enterprises
UNDP	United Nations Development Program

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## **INTRODUCTION**

Today, developing countries, having faced severe competition in business world, have had to develop their own strategies in order to become more competitive. Small and medium-sized enterprises are regarded as an important means for such countries since they are flexible and they are able to adopt the changing market demand and supply situations quickly. OECD data show that about 26 percent of OECD countries' exports belong to SMEs.

However, SMEs need to control resources that are beyond their boundaries since their resources and experiences are limited. They form useful inter-firm relationships in and outside of their sectors in order to manage this control. SMEs are able to develop, polish and utilize their own capabilities by accessing to different resources thorough these relationships. They count on their social capital in order to form and benefit from the relationship.

Turkish SMEs are expected to have an important role in textile and metallic goods industries. It has been estimated that about 90% of firms operating in Turkey are SMEs. They create approximately 75% of employment and 38 percent of value-added.

They mostly supply necessary raw and semi-manufactured goods for big firms. Moreover, they help economic revivals of regions by creating new economic centers.

Turkish SMEs started the process of integration with the global markets in 1960s. However; it was boosted in 1980 with the great structural changes in Turkish economy. The giant step was the creation of customs union with the European Union in 1996. It was also the time when the SME Action Plan was introduced.

Nevertheless, a great deal of Turkish firms were negatively effected from the crises of November 2000 and February 2001. Some firms were unable to recover and bankrupted. However, some others managed to survive have become much more competitive than before. Social Capital is among the other supporting factors that help Turkish SMEs achieve transformation.

Although some firms are identical in terms of physical capital, technology or access to markets etc, they can differ in competitiveness and productivity. Social capital helps to explain the reason. If the firm has high social capital, it gains a competitive edge since social capital gives the chance to operate with fewer transaction costs.

The aim of this study is to look deeply into characteristics of social capital in Turkish SMEs which were successful in transformation process.

In this study background information about small and medium-sized enterprises and the role of social capital in their transformation are given in the first chapter. Then detailed interviews with the owners and top managers

of the SME, Yılmaz Reduktor about the characteristics of social capital in firms' transformation are deeply analyzed.

The issues mentioned above are handled in two chapters. The method chosen for the thesis consists of literature survey and field work.

The related works in literature were searched beforehand, and then detailed interviews were done with the owners and top manager of the firm. That's to say that in the first three parts of the first chapter the subject is held theoretically and practically in the second chapter.

In the first chapter previous studies on social capital and Turkish small and medium-sized enterprises are looked through in detail. Dimensions, sources and measurement of social capital are studied in the first part of chapter 1. In the second part, main features, size and structure of the Turkish SMEs are examined. In the final part SMEs' transformation and the role of social capital are looked through.

In the second chapter, the interviews and surveys done with the owners and top managers of the firm are analyzed by the help of their own words and some works in the literature. Brief information about the respondents is given in order to have a general idea of their backgrounds. Then, the answers they gave to the interview questions are analyzed according to the main target of the thesis. In the course of these analyses the main focus areas are those related to the use of social capital in the early years of the



firm, the owners generalized norms, togetherness, everyday sociability, neighborhood connections, trust, group characteristics and network connections All these are examined in order to grasp a general picture of social capital usage through the examples of SME owners and managers. The analyses of the interviews and studies looked through in the literature review part are compiled and the end results are deducted in the end.

## **CHAPTER I**

### **SOCIAL CAPITAL AND TURKISH SMEs**

Social capital and SMEs in Turkey are two basic concepts that this study is based on. In this chapter a detailed literature survey will be made on social capital and SMEs in Turkey in two parts in order to build a comprehensive background for the field study. In the last part business transformation of SMEs and the role of social capital will be studied

#### **1.1. Social Capital**

Today the popularity of social capital in various social science disciplines is getting more significant. Many sociologists, economists and political scientists have started to apply social capital in order to find answers for the questions they have come across.

Pierre Bourdieu, the French sociologist, is regarded the first scientist who used the term social capital. In his essay, "The Forms of Capital" (1985) Bourdieu distinguishes between three forms of capital and social capital. He defines social capital as "the aggregate of the actual and potential resources which are linked to possession of a durable network of more or less institutionalized relationships of mutual acquaintance and recognition". He focused on the advantages to owners of social capital.(p.250)

The second basic definition of social capital belongs to James Coleman. In his paper "Social Capital in the Creation of Human Capital" (1988), he examines the role of social capital in the production of human capital. He defined " not a single entity but a variety of different entities having two characteristics in common: they all consist of some aspect of social structure, and they facilitate certain actions of actors-whether persons or corporate actors- within the structure. (p.109)

Coleman shared with Bourdieu the idea that social capital is a result of interactions among individuals. This sets both of them apart from Robert Putnam, the owner of third key definition of social capital. Putnam defined social capital in his study of the divergence in the quality of governance between Southern and Northern Italy (1993) as the " features of social organization such as trust, norms and networks that can improve the efficiency of society by facilitating coordinated 'action'.(p 83)

The common agreement on social roots of social capital lessens, when it comes to its conception as capital. It is because of the fact that social capital is less tangible than physical capital. Physical capital includes products and resources. However like all other forms of capital social capital facilitates a productive activity For instance, someone who is in a bind can receive assistance from close family members, friends and coworkers. The fewer and more limited relations one possesses, the more limited his or her social capital is and therefore the lower the chances that he will have to overcome

a problem successfully. Social capital resources refer to the social ties of a network. Individuals recognize these resources as information channels and generalized social support.

Norms, on the other hand, are the main forms of capital goods in which social capital resources can be invested. They help produce individual or collective goods.

Companies need bridging and bonding social capital in their everyday operations. Bridging social capital is vital to cover gaps among people from different backgrounds. On the other hand, bonding social capital is required in order to build cohesion among employees. But bonding social capital has 2 sharp edges. It builds strong in-group fidelity. It may also create a strong hostility for others. Therefore, its negative outer effects are more common.

### **1.1.1. Dimensions of Social Capital**

Social Capital scholars agree on three dimensions of social capital; Trust networks and norms,. Social norms might be regarded as the ordinary rules that shape human behaviors in different situations. Particular social norms involve helping an elderly pass across the street and not talking loudly in the hospitals. On the other hand, generalized social norms might involve being tolerant, acting decently etc

A social network is a coordinated group of people having a common point. They might like doing a particular sport or they may share some religious

principles. Each network might have its own norms and its members have a certain degree of reciprocal commitment

Finally, trust is the point of reliance ones have that others will behave as they think or the words they utter are trustworthy. Social trust on the other hand is about the common level of trust in society.

The essential dimensions; norms, network and trust are defined and explained in details as follow.

#### **1.1.1.1. Norms**

Social norms are informal rules and traditions. They modulate behaviors in different situations. Some universal social norms can be listed as having work ethics, being honest and helping the ones in need in some specific situations such as queuing at the bus stop, giving seats to old people on a public bus can also be regarded as social norms. Although social norms are generally unwritten they can be expressed through social sayings, literature, rhymes etc.

Norms are held in place by three different mechanisms. Some norms are continual by a management cause. For example driving on the left is a norm in many countries, so drivers are expected to stick on the norm in order to avoid accidents. It is a "social" phenomenon, because some common assumptions hold them in place for the proper solution to the traffic problem.

Some norms are continual by a pure coordination motive. If driving on the left is a norm, it is expected to stick on the norm in order to avoid accidents. It is a "social" phenomenon, because they are held in place by shared expectations about the appropriate solution to a given coordination problem.

Some other norms are also continual by the danger of social condemnation or penalty for norm abuse (Coleman, 1990). Queuing might be regarded as a norm; therefore one would be condemned when he tried get ahead without waiting on queue. If he did not challenge the one who insulted him, he might be disliked by others

The last enforcement mechanism takes place through the internalization of norms of proper conduct. If it is the norm not to litter, people will avoid littering even in situations where no one can see them.

Reciprocity is the hidden force behind the social norms It may be explained as 'treating others' as you would have them treat you.

Social norms differ in different societies. Some norms that are welcomed in one country differ from the ones in another country. While some norms generalized some others are strongly preferred by different groups in a society. Both psychological and external sanctions maintain the social norms.

#### **1.1.1.2. Networks**

A network is defined as a coordinated group of people having a feature in common. . The common point among these people might be enjoying doing

the same sport or having the same profession families and friend groups also show the characteristic of a network.

A person might be the member of more than one network at the same time. Besides being a family member, an individual can also belong to another network based on his (her) gender, profession, politics etc. Each of these networks may have different norms and generates different levels of generalized trust towards others.

Individuals are benefited from being parts of a network. When they are in need they get a strong social support or they can access the information easier. Networks also provide wider range of opportunities.

Social networks are the main paths which social capital operates through. Putnam considers the structure of networks and their influence on institutional outcomes in modern Italy in his study of the development of Italy's economic and social institutions (1993). Dissimilar to civil society, that is much broader, social networks are particular to the common interests of the contributing individuals. They can take part in various networks that often overlap. Putnam considered these networks as tools for organizing social capital that had many positive outcomes. Actually, Putnam states that these networks of civic commitment are social capital themselves. In a modern sense, these networks might be parent-teacher associations, political parties or tennis clubs. The density of the networks often dictates the

benefits of social networks. Density means the power of individuals and relations in the group. Principally, better collaboration for mutual benefit is easier in denser networks and harder in less dense networks. Putnam mentions some other ways which those networks promote its members. The abandonment of individuals from the desired outcome of the network is discouraged through making the individual aware of potential cost of defection. This promotes cooperation. Networks of civic engagement also encourage strong norms of reciprocity. The degree of trustworthiness of individuals can be easily identified through increased level of communication and information flows that are provided by the network. (Putnam 1993, p. 174)

### **1.1.1.3. Trust**

Trust is the level of confidence people has for others sayings, actions and reliability. The level depends on the perception of how trustworthy the others are. There are three types of trust: generalized trust, informal trust, and institutional trust.

Generalized trust can be described as the trust which we have towards other individuals in common. Generalized trust is hidden in both plain exchanges with others such as asking the way to a foreigner and expecting that he will give right reply and complex interactions such as trusting that you are not being overcharged by your local shopkeeper for goods. Baum



and Bush (2001) point out that an unwillingness to take part in communal activities may be result of having no trust in others. (p.201)

Informal trust points to the one that people may have towards others in their network, such as friends, family members, neighbors, colleagues. This type of trust shows the intensity of trust felt for individuals whom there commonly is some style of connection with. The trust improved here is founded on knowledge of the person, and a judgment of their honesty.

Institutional trust is about levels of trust that people have towards public organizations, such as government, hospitals, police force, and the judges. It also alludes to reliance in the competence of these institutions to take rational actions in the supervision of their tasks

Uslaner regards trust as a central consideration in many aspects of human activity (2002). While he accepts that trust is not the only way to achieve collaboration, he accepts the idea that a system of reciprocity highly depends on higher levels of trust. (ch.5)

### **1.1.2. Measurement of Social Capital**

Measuring Social Capital is not easy but not impossible. Many useful substitutes of social capital have been identified by using various types and combination of quantitative, quantitative and comparative research methods. However, it is probably impossible to get a single true measure because of

the fact that measuring the properties of ambiguous concepts such as “network and trust” is rather difficult.

#### **1.1.2.1. Quantitative studies**

Quantitative studies aim at gathering quantitative data. This information deals with the numbers. The results of these studies are shown in tables, statistics and graphs.

Social capital scholars have used data from different surveys. One of the significant surveys that is mostly studied is the World Value Survey. It is a global network of social scientists that have carried out representative national surveys over forty countries.

Authorities used World Value Survey in order to measure different aspects of social capital. Knack and Keefer’s study is a good example. In 1997 they used the statistics of trust and civic norms as proxies for the intensity of civic organizations. They wanted to test different proportions on the effects of social capital on economic growth. (pp. 1251-1288) The first proportion is called as Olson effects. Olson claims that associations do not grow because of their rent-seeking policies. The second one is Putnam effect. Putnam, on the other hand, suggests that associates ease growth by increasing trust.

Another social scientist that has studied on Values Survey is Inglehart (1997). He is Director of world Value Survey. He has done the broadest work on the implications of WVS.

Tanzania Social Capital and Poverty Survey was used by Narayan and Pritchett to set a measure of social capital in the country. In 1997 individuals living in Tanzania were asked about the degree and qualities of their activities in associations and their trust in different institutions. Then, Narayan and Pritchett matched the social capital measure with data on family income of the individuals. They have found that social capital has a positive effect on the raise of family incomes.

#### **1.1.2.2. Qualitative Studies**

Unlike the quantitative methods qualitative method does not deal with numbers. It is about exploring issues and understanding phenomena. Qualitative studies have also been conducted by social capital scholars.

Portes and Sensenbrenner's study on immigrant communities is a good example of qualitative studies. In 1993 they interviewed a number of immigrants to find out what happened to such communities when the economically successful members wanted to leave the community. The interviews show that the strong ties among the members place pressure on members. They are so strong that some members changed their names in order to be free of pressure. (pp 1320-1350)

Another study was done by Anderson in 1995. He studied the statue of "old head" in Afro-American community. They have been regarded the source of social capital for a long time among the poor Abran community.

Before, they guided youngsters with their wisdom. However, their effect is getting ignored nowadays and they are not respected any more.

### **1.1.2.3. Comparative studies**

Comparative research is defined as the act of comparing two or more things with a view to discover something about one or all of the things that are compared.

Putnam's research about the comparison of North and South Italy in terms of welfare of these two regions (1993) is of the most outstanding comparative studies in this field. In the research Putnam examined social capital in terms of the level civic participation.

### **1.1.3. Sources of Social Capital**

Social capital is generated from three main sources which are family, community and civil societies

#### **1.1.3.1. Family**

Family is the essential factor in generation of social capital (Hogon 1998 , pp 58-70) Relations in family promote the development of trust, that is important for the formation of outside relationship. Family dynamics also fasten reciprocity, an important factor in social capital production. It produces willingness to return this support.

Family ties are the fundamental sources of social capital for welfare and economic development (Sanders and Nee 1996) Extended Family gives a social safety net by meeting all kinds of need in difficult times. (pp 231- 249)

Besides all these positive effects, dense family networks can prevent one from integration with external networks. High levels of trust within the family can produce distrust of strangers and institutions.

### **1.1.3.2. Community**

Community is a network of people that get together for some common reason or festivity on a regular basis. The definition has three key features. The first one is that community is a network of people. Those people might have great diversities or even distances among them. They may be different in age, ethnicity, religion or background. Nevertheless, although they have all these differences, their shared aims or common cause makes them come together. This is the second key feature of community and the cement that forms the network. Despite the different characteristics of members in the network, their common cause dominates the differences they have and forms a great relationship. Finally, since the group of people goes on to meet and celebrate regularly, they start to structure behaviors and patterns and become a culture, which is the third key feature. These regular meetings tie the community members as they find out other ways that they are alike.

One of the most important aspects of community is that it creates a sense of social capital for the members who belong. Social capital is the connections and relationships that build up around community.

Communities have a lot of characteristics, but one key feature is regularity. That is, for a community to be possible it must have some points of links and connection. That can be the celebration of the holidays or birthdays together for a family community. For a spiritual community, it would be weekly services and celebrations for holy days. That might be standard staff meetings for organizations.

When people get together regularly they find some other ways that they are connected. That is, when a person first appears in a community he is welcomed by the common interest of others in community. The more they come together the more they would find other connections with people in the community and form a deeper sense of bonding.

### **1.1.3.3. Civil Societies**

Civil Society is made of formal and informal groups that act indecently of the state and market. They promote different interests in society. What people make form groups and associations is the trust and willingness to cooperate.

Putnam focuses mostly on the trends of social capital in civil society in his works about the development of Italian society and the changes in American

society.(1993; 1995:2000) Although there are direct relationships between individuals and institutions which are very significant for social capital, civil society is a broad picture of the society

In his journal article "Bowling Alone: America's Declining Social Capital" Putnam indicates the total realities of enlarged political detachment that is the result of the changes in individual- to- individual relations and the changes in the creation of social networks. He argues that such changes redesigned the orientation American civil society.

Putnam shows that political involvement and voting have gradually decreased in the States. In order to see the reason of this political indifference he examines the changes that have taken place in civil society. He observes that American people are bowling more than before but participation in bowling leagues is less than before. Putnam claims that such leagues can also promote the enhance of social capital. He concludes his observation that social associations are weakening. He asserts that a negative move in "neighborliness" and "social trust" has gone with the decline in civic commitment.

## **1.2. Small and Medium Sized Enterprises**

In this part the main characteristics of SMEs are given first in order to have a clear understanding on these firms. Then various aspects of SMEs in Turkey are studied deeply

### **1.2.1. Definition and Main Characteristics of Small and Medium-sized Enterprises**

SMEs are distinguished from other businesses by their size. Although they have some common features, they are not always identical. SMEs may differ in their line of activities or their type of ownership.

In terms of size, the definition of SMEs varies across countries. In some of the most developed countries such as the United States and Canada, enterprises with fewer than 500 employees are called SMEs, in some European countries, enterprises with fewer than 250 employees are called SMEs and, 50 employees is the limit for SMEs in many developing countries

Besides having some common quantitative characteristics, SMEs also have common qualitative characteristics. They are not simply smaller version of big businesses and have some distinctive features. SMEs are independent businesses, not a part of or owned by larger companies.

The owners of the SME are often its managers. Capital and ownership are provided by one person or by a small group of people and their owners manage them. Most of them usually serve only local customers.



Owners or managers of SMEs gain most of the knowledge about business on the job and the money that is invested in the business is personal money (Bridge at al., 1998:137).

Moreover, it is the owner of the SME who decides on the values in the business. These values are exposed in quality standards in the products or services supplied and in employee relations. Owners or managers of SMEs are not usually willing to discuss the problems of their firm with others and they don't ask others for their advice. That's why, they have limited networks which are made of personal friends and relatives, rather than formal networks (Bridge at al., 1998:137).

### **1.2.2. The Studies on Turkish SMEs**

Policy makers in Turkey generally accept the significance of SMEs for economic development and their contribution for employment. However there is very little information about these firms. Therefore almost all of the academic studies are based on small-sample survey data and their coverage is usually limited, (Ayata, 1991; Kaytaz, 1994; and Özcan, 1995).

Studies on Turkish SMEs are mostly about the dynamics of SMEs specially in manufacturing sector. Thus, the main focus is on the issues of productivity, innovations, marketing etc. Manufacture industry survey data gathered by the Turkish Statistical Institute is the main source of studies (Erzan and Filiztekin, 2005; Taymaz and Kılıçarslan,2000)

Producing complimentary products, ones produced by big enterprises or producing lower quality products for low income customers are considered in the demand side. On the other hand, family members, being employed in the firm in order to help the survival of an SME can be regarded in the supply side.

Turkish SMEs are evaluated in terms of business environment SME-specific policies on technology services, financial support export promotion etc. The OECD's study being done 2004 makes some policy proposals.

Erzan and Filiztekin have studied factors that affect the growth of manufacturing industry. They found out that factors such as the level of exchange rate, the change in local demand, and instability of inflation have negatively affected the sector. On the other hand, nominal interest rates, import penetrations, are the factors that influence SMEs growth positively. (Pp.113-126)

Unfortunately, the studies and measurements of social capital are very limited. The ones that exist are not related to SMEs, For instance, the relation between corruption and social capital in some countries including Turkey has been studied by Akçay (2002). World Value Survey (Fidrmuc, J.andGërkhani,K. 2005) is the vital indicator in the literature about Turkey and the key proxy being used to measure social capital is trust. Turkey

seems to be at the bottom of list among the OECD economies (Healy and Cote,2001)

Dullupcu, et al (2006) analyzed and identified the attitudes of SMEs towards networking and trust in the lake District.

### **1.2.3. Definition of SMEs and Institutional Framework in Turkey**

Though SMEs make up a a main part of the Turkish economy there is no general and legal description of SMEs in Turkey. Organizations have divergent SME definitions in terms of their job descriptions and target groups

The definitions only include the manufacturing sector and leave out services and tourism that are growing fast. The definitions of Small and Medium Industry Development Organization (KOSGEB), the Undersecretariat of Foreign Trade and Eximbank, are more restrictive ones covering the manufacturing industry only. The broadest definition that covers many sectors and all size classes of SMEs belongs to Undersecretary of Treasury (State Planning Organisation, 2004:26).

Besides the definition problem, Turkish SMEs have also organizational problems. There aren't any legal or political organizations concerned with the SMEs in Turkey. Although both public institutions and private organizations in economic area exist, it is difficult to measure how effective they are in coordination among themselves in policy accomplishment.

The formulation and implementation of SME policies are under the responsibility of numerous public organizations. The Undersecretariat of State Planning Organisation (SPO) is one of them that is responsible for preparing long-term development plans and annual program for SMEs. It also covers SME policies (KOSGEB, 2003).

SME policies are implemented through Small and Medium Industry Development Organization (KOSGEB), established in 1990. (Law No. 3624) Its main responsibility is to implement SME policies to support the growth and development of SMEs in Turkey. KOSGEB performs the necessary development and support programs in order to improve SMEs' industrial skills, to develop their training and, to offer suitable fiscal mechanisms and to develop their executive infrastructure.

Though there is no financial institution established specifically for the purpose of financial support to SMEs, a public bank, T. Halk Bank provides various financial opportunities. Besides T. Halk Bank, SMEs are also supported for loans and guarantees through the Credit Guarantee Fund Operation and Research Co. Inc. (KGF A.Ş) and Union of Credit and Guarantee Cooperatives for Tradesman and Artisans of Turkey, TESKOMB (State Planning Organisation, 2004:13).

#### **1.2.4. The Current Status of SMEs in Turkey**

Free market economy, international trade freedom and removal of price controls were the main elements of the economic transformation in Turkish economy in 1980s. Although 1970s were the years for small and medium sized enterprises to flourish, the hype about new entrepreneurship and exportation appeared and private enterprise was encouraged in any segments of society. However the firms operating in service industry and commercial businesses were benefited from this stream better than business engaged in agriculture and traditional manufacturing firms. It is a well known fact that SMEs lagged behind the technological developments and they could not improve their abilities well (Ozcan,1995 pp. 45-54)

SMEs have an important role in service, production and commercial sectors with their overwhelming majorities despite their low efficiency in the existing economic structure (Alpugan,1998 pp12-14). Since SMEs make the transfer of personal and family saving into economy possible, they fasten the capital formation. SMEs also contribute the economy by creating large number of jobs. However the relative majority of very small-sized companies also stress the less developed structure of small business sector in Turkey (Ozcan, 1995, p.30)

When they are compared to their counterparts in other countries, it is noticed that SMEs in Turkey are much smaller and their contribution to country's national income is lower

Turkish industry has a more dominated structure compared to EU industry. In particular, the share of agriculture sector and rural population being employed in agriculture is much higher than EU average

Turkish SMEs are mostly piled in traditional fields such as manufacturing, textile etc. Technological developments, research and development activities are quite weak. Even, electronics, microprocessors and innovations in the field of genetics have just spread into the SMEs in Turkey. (Ozcan,1995, p 43)

#### **1.2.5. Qualitative Characteristics of SMES and Advantages**

While determining the place of small and medium-sized businesses in economic system, it is important to consider their both quantitative and qualitative characteristics. Basically SMEs have three important features independence, nature of enterprise and personal relationships

These features make SMEs different from large companies. They provide many advantages and added value to the country's economy. The advantages of SMEs are listed as follow:

1-They ensure more production and product diversity through less investment.

- 2- They create employment through lower investment costs
- 3- They have a structure that is less susceptible to economic fluctuations.
- 4- They are able to adapt to changes and diversity in demand
- 5-They can adopt technological innovations
- 6- They contribute to the balanced development among regions.
- 7- They contribute to a balanced distribution of incomes.
- 8- They are complementary to large industrial enterprises and to support them. ([www.kosgeb.gov.tr](http://www.kosgeb.gov.tr))

#### **1.2.6. Problems of SMEs in Turkey**

The problems of SME can be grouped under two titles : problems resulted from country's economy and problems that are caused by their own weakness.

Macro-economic situation in Turkey made SMEs face difficulties from 1990 to 2002. The main characteristics of economy in that period were high inflation and public debt, successive financial crises, a high increase in interest rates and excessive depreciation of the Turkish Lira.

Besides all these negative effects, Turkish SMEs also experienced big problems when Turkey became a member of Customs Union in 1996 because they were not ready for extreme competition.

SMEs' various problems create main bottlenecks that make it very difficult to gain competitive edge in both world and EU markets. (SME strategy and Action Plan,2004)

#### **1.2.6.1. Difficulties in Financial Environment**

The utilization of loan volume is one of the biggest problems about the financing SMEs. SMEs can benefit only 4% of the loans. There is no institution being established to meet the financing needs of SMEs in Turkey. Halkbank has to answer the SMEs needs. (OECD 2002) on the other hand, capital market opportunities that would serve Turkish SMEs haven't been improved. Because of the crises within the financial sector and the lack of institutional capacity to work with SMEs, SMEs cannot benefit from money and capital markets in EU in order to ease their credit bottlenecks. Even, many difficulties occur while transferring the financing opportunities that are offered to Turkey.

In addition, loan guarantees for SMEs, venture capital investment trusts, real estate investment trust, SME finance companies leasing companies for SMEs and some other finance institutions have either been realized in symbolic level or they have remained as a plan (SME strategy and Acting Plan, 2004)



### **1.2.6.2. Low Levels of Technology and Lack of Know-How**

Although Turkish SMEs make production with traditional production methods for Turkish markets they are forced to compete with foreign companies in several markets, particularly companies in the EU. However, the technology that is used in Turkey is far below the levels of European companies. SMEs produce sub-quality products with low-value added by using outdated designs, inefficient production methods, old machinery and equipment. According to a survey conducted by the World Bank, one of the principal reasons for Turkey to have a low level technology is the lack of new inventions and discoveries. The share of private sector R and D activities in OECD countries is about 65 percent of investments. However it is just about 35% in Turkey. Since University-industry collaboration is weak, technical equipment is inadequate, many difficulties have been experienced in the development funding and research laboratories. (OECD, 2004)

### **1.2.6.3. Shortage of Qualified Personnel and Training Issues**

One of the most important components in development is to enhance the quality of production through increasing production. This needs qualified human resources therefore SMEs need skilled manpower in order to increase their competitive advantages. However, even not a small industrialist or entrepreneur himself is seriously educated. In recent years, because of the increasing importance of small businesses and Turkey's efforts to become a.

member of EU many projects and educational programs are developed but they can not meet the needs.

#### **1.2.6.4. Publicity problem**

Both small firms' own weaknesses and inadequacies of institutional environment create a bottleneck. The most important factor that would make SMEs able to matter in the processes of national and international publicity, marketing and sales is to have the ability to follow closely new marketing models, products, tastes and preferences.

#### **1.2.6.5. Law and Legislation Issues**

A major portion of small enterprise problems constitute entrenched legal and institutional arrangements. Multiplicity of bureaucratic obstacles and formalities that should be complied with stop entrepreneurs from break through and prevent the growth of existing small businesses. Simplification of laws and provisions that complicate the oppressive presence of public enterprises in each stage may provide SMEs to sustain its activities more comfortably.

#### **1.2.7. Weaknesses of SMEs in Turkey**

The weaknesses of SMEs in Turkey draw from different sources. The main sources of the weakness are mostly financial problems and lack of technology and management

1) In most SMEs generally the owner of the firm is also the CEO of the firm. He controls all the main functions of management. However, he may not have a good experience about how to operate on the international market

2) SMEs are not able to finance themselves from capital markets.

3) They aren't able to make reliable financial, technical and marketing analysis.

4) They have a short decision making process. Since just a few persons take decisions for the firm, the research and analysis of data are insufficient.

5) Having strong family ties is usually a disadvantage. The members of family who founded the company have the principal functions. Therefore it is difficult to have "the right man in the right place". Changing a manager and substituting him with another who has better experience and professionalism is almost impossible.

6) SMEs often suffer from lack of information about their accessible and prospective markets, or the potentials for connecting with other companies.

7) SMEs' having limited financial resources influences their practices in many different ways. When they conduct operations at an

international level, where the period of making investments is usually longer and hence the possibility of self financing is limited.

### **1.2.8. Turkish SMEs and Exports**

It is difficult to analyze the export potential of Turkish SMEs because statistical information on the SMEs in Turkey is relatively fragmentary. The studies shows that SMEs in Turkey make a small contribution to Turkish exports

The field survey made by KOSGEB in 2004 is one of the most noteworthy studies in the field of SMEs capacity in Turkey

In the following paragraphs, the statistical data about the export potential of the SMEs will be explored.

#### **1.2.8.1. The Overall allocation of the Exporting SMEs I**

Although 57 percent of the firms taking part in the survey stated that they did not export, 43 percent of the companies stated that they exported

Table 3.The Share of the Exporting Companies

Direct exporting is the most preferred way among the firms stating that they were exporting. Besides, ORM sales make up the 17 percent of the aggregate sales. On the other hand the percentage of the SMEs' export directly, indirectly and using the intermediaries is 38 percent signifying that, the SMEs' main aim is to raise their export sales.

Though they are eager to export, that they have insufficient marketing strategies is a vital problem for them.

Table 4. Export Distribution Channels

The percentage of the exporting SMEs changes depending on region and the industry they are operating in. The rate of exporting SMEs in Istanbul is higher than other regions. The Destination Countries

The Destination Countries Most of the firms including in this survey export to Germany with a 33.3 percent. Other countries going behind Germany are Russia, Iraq, France and Greece with 19.2, 14.8, 14.5 and 13.7 percents correspondingly. The allocation of countries is shown with Table 5

Beside these countries, some nearby countries such as Bulgaria, Greece and Israel are among the countries that Turkish SMEs mostly export.

#### **1.2.8.2. The Weaknesses Which Prevent SMEs from Exporting**

The firms answering survey questions confirmed that the most significant factor that prevents them from exporting is the insufficient financial sources. Its weight among all stated features is 46.65 percent. Adequate local market, lack of knowledge about distant markets and troubles in finding an intermediary company are some of the other reasons that deter firms from exporting

Table 6 Distribution of the weaknesses

### **1.2.8.3. Information Technologies**

Having internet connections is an indicator for the export latent of the firms and their links with the global markets. It would be a good indicator that shows their capacity of tracking international markets. It is a hopeful signal that the share of firms having internet access is more than half of the total. However, the amount of firms carrying out e-trading is not at a good level.

Most of the firms use computer systems for accounting. Firms also use computer systems for research and developments, design and production purpose.

Table 8 Using information technologies

### **1.2.8.4. Technology and Quality**

Table 8 illustrates the allocation of the quality credential possession by the firms. Many SMEs need certificates issued by the Turkish Standard Institute for domestic market necessities and procurement by governments. Today, more and more firms are getting qualifications with the global standards such as CE, HACCP but it is still about 10 percent and this is a great barrier for international marketing.

### **1.3. SMEs Transformation and Social Capital**

#### **1.3.1. Business Transformation**

Most of Small and Medium-sized Enterprises begin their businesses in the traditional operations such as trading, manufacturing, or providing services. These SMEs can become key players in the industries with the persistence and hard working of family members. Nevertheless, technological changes frequently influence the behaviors of the market. New technology can add incredible capacity for a firm to pursue economy of scale or it can reduce marginal cost to zero. Furthermore, multinational firms expand their business fields by entering to the new markets in the globalization era. In order to have a competitive advantage over local companies they use the advance in technology. Technology is major driver for the increase in competition. SMEs that adopt the technology have competitive advantage over the others. Customers also demand more comprehensive products and services.

In order to endure and be head in the industry, these SMEs need to transform themselves or adopt some technologies to improve and get back their competitiveness.

#### **1.3.2. Forces for Change in Small and Medium-sized Enterprises**

Market conditions such as competitive environment, customers' demands, or rules and regulations constantly change in time, can influence the

company's success. If an SME wants to survive and to be successful it should supply services and products that answer the customers' need and should have capacity to compete with other firms in the market. Only the ones that can reform themselves to deal with these changes can realize long term survival.

Kanter classified these forces into three groups.( Kanter, et. al, 1992) *Environmental force* is the first one that takes in all external forces such as technological, competitive environment, economic, globalization, and political changes. The second group is *organic or life-cycle force*. It includes the internal forces that can threaten the survival of the company. For instance, a start-up SME might have problem about liquidity. The last one is *political force* within the SME. The interactions of individual groups within the organization can affect the permanence of the firm.

### **1.3.3. SME s' Transformation**

To cope with the forces mentioned above and achieve long term survival, an SME has to redefine itself. It has to progress, the connections between its various activities that contribute to the efficient manufacture and delivery of products and services. There are various actions that SMEs perform in order to handle changes such as reengineering business process, introducing brand management, implementing a merger, etc. And all these activities are called as business transformation.



In 1994, Barbara Blumenthal and Philippe Haspeslagh suggested three different types of business transformations which are: Improving Operation, Strategic Transformation and Corporate Self-Renewal

#### **1.3.3.1. Improving Operation**

It aims to realize a considerable progress in the company's competence frequently by dropping costs, making quality and service better.

Characteristically, such changes necessitate staff to work in teams, and play a superior function in identifying and resolving problems. Managers, on the other hand are forced to gain new abilities, such as training and assisting instead of monitoring and controlling.

#### **1.3.3.2. Strategic Transformation**

It is the practice of changing the SMEs' strategies. Strategic transformation seeks to get back a maintainable viable benefit by redefining business goals, generating new capabilities, and exploiting these competences to meet market prospects

#### **1.3.3.3. Corporate Self-Renewal**

This transformation seeks to create the skill for a company to predict and handle the changes in order to minimize the operational and tactical gap. Business Self-Renewal should be promoted in a period that is extensive enough to create an essential performance change in the executive lines.

#### **1.3.4. The Contribution of Social Capital**

Studies about social capital – performance relationship have revealed both positive and negative results. Zaheer et al. (1998) exposed an optimistic connection between inter organizational trust and performance. . However other researchers have revealed that social capital–performance connection is either minor or negative. A technology-based study of SMEs noticed that the relations to other companies,, business enterprise associations, financial organizations and government haven't considerably affected managerial performance (Lee et al., 2001).

SMEs' social capital has two main types: familial and organizational. Familial social capital is the result of the relations and connections within the family.

Although familial capital is valuable to the operation of the company, it sometimes generates value for the owners. On the contrary, organizational social capital that is the result of SMEs' relations and interactions with various outer stakeholders enables them to get resources from other firms (Arregle et al., 2007). An SME can get in touch with other firms in order to get the information that is essential to motivate entrepreneurs by generating new businesses and rising revenue flows that produce profits and expansion through organizational social capital. These commercial actions also defend against fanaticism that might destroy SMEs and menace their endurance.

Over time, some SMEs become conservative, they cannot get used to transformations in their surroundings. In order to defy it, SMEs should benefit from different information sources and productively use them in advancing commercial activities that regenerate their operations. However, connecting with new business enterprises might be difficult for SMEs since such ventures are mostly difficult to recognize (Porter, 1980). Therefore social links are vital to identify, reach, and approach these ventures (Larson, 1992).

Organizational social capital provides an important role in relationship-creating activities. Networks of an SME might help business transformation if they present access to information about the needed change and to new markets, technology or talent (personnel). However, if the networks a firm is connected to are not innovative, but are inward-looking or unwilling to expanse overseas, the social capital in such a case might become a barrier to change.

In the same way, if trust within a business is high, it can help the introduction of new actions and processes. The employees and managers can act quite quickly because realization of new changes is only possible when there is high trust among the internal stakeholders of the firm. However at the same time, the high internal trust may cause low trust of strangers. The SMEs whose owners and long-term employees have tight ties to the exclusion of outside influences may face such a situation.

The role of social capital as a resource might be positive or negative depending on SMEs needs. No one can suppose that the presence of social capital is certain guarantee of growth and development. It is very well known that Turkey is a country that is characterized by low trust and this characteristic is an obstacle to the growth of SMEs.

The positive and negative prospective of social capital as a production factor has been the matter of significant discussion. Putnam(2000) stated that while social capital let bridging between people, connecting them together and allowing human exchange, boundary social capital can be considered as being glue (Putnam, 2000), Social scientists have been trying to find the answer of the question of whether social capital acts as glue or lubricant, or both depending on the situation.. Anderson and Jack (2002) found that social capital carried out both roles in entrepreneurial networks

#### **1.4. Internalization of SMEs**

The competitive environment for SMEs has changed considerably because of the globalization of the world economy. They have to access the global struggle much earlier now (L. Holmvall, 1995, p. 56). Many of them need to develop due to fully utilized and saturated domestic markets. In order to survive and improve their profitability SMEs have to step into internationalization process. (L. Holmvall, 1995, p 57). These firms are

frequently obliged to track tactics that include global activities and travel overseas to contact with knowledge and technology to stay competitive

Going abroad increases the prospects for SMEs to be entrepreneurial and innovative. They can enlarge their business and increase international sales on foreign markets.

Haahti lists the reasons for SMEs to do business in global scale as follow (A. Haahti, G.Hall, 2000 p. 154):

- SMEs are able to be more competitive since they can find inexpensive sources
- Firms are able to get ready for coercions and profit from occasions if they are aware of global business fluctuations
- SMEs are able to achieve economies of scale through market development
- Firms can find foreign markets which offer high profit margins
- Firms can expand the product life span through foreign market expansion
- SMEs can set up tactical coalitions to keep up the critical mass that is needed for R&D.

However, authorities have stated that internationalization among family firm SMEs are not as common as non-family firms (Fernandez and Nieto 2005, pp. 77-89). They might either have restricted growth goals (Donckels and Frohlich 1991, p.152), or they try to avoid risk. Moreover, the owners of such firms might have limited executive capacities and don't have enough linking network ties (Graves and Thomas 2004, p.20). The tendency may be the result of their extremely strong inner bonding social capital (Salvato and Melin 2008, pp. 259-276 ), which can be assumed to have an effect on the manner in which they build and develop bridging social capital

In general, family involvement in management has been regarded as a barrier in the internationalization processes of family firms. (Kontinen and Ojala 2010, pp. 97-107. )

## **CHAPTER II**

### **FIELD STUDY**

This chapter will discuss and analyze a Turkish SME, Yılmaz Reduktor in profound detail. First, brief information about the firm and early years of the company are presented in order to have a clear image about the firm. Then, business transformation of the company is described. Finally the survey and detailed interviews are analyzed in terms of social capital dimensions; trust, networks and norms

#### **2.1. The Company at a Glance**

Yılmaz Reduktor is a chef gearbox producer in Turkey. The firm was originally established in 1958 by Mesut Yılmaz. It concentrated on gearbox production and it has become an expert for serial, standard and economical high quality gearboxes..

Now Yılmaz Reduktor produces vibrationless, high efficient, standard and serial products in its factory integrated fully CNC plants, modern machines and transfer lines. Its annual production is three hundred thousand pieces.

Yılmaz Reduktor exports its products to various countries in EU, USA, Middle East and Africa through distributors or directly with before sale and after sale services. The firm's turnover was more than 50 million US Dollars

last year. The share of export in the turnover was about 30 percent. Yılmaz Reduktor is among the first six companies of the sector in Europe.

## **2.2. Social Capital in the Early Years of Yılmaz Reduktor**

Mesut Yılmaz, the founder of Yılmaz Reduktor was only 16 years old when he came to İstanbul with the hope to find a job. İstanbul was such a big city for young Yılmaz that the only shelter he could find was the attic of a coffee house belonged to a man from his own village.

“My father was spending his time at the coffee house chatting with fellow townsmen. When it got darker he used to go up to attic to sleep.” (M Yılmaz)

That is what Mr. Putnam calls; bonding social capital. According to Putnam bonding occurs when one is socializing with people who are like him. Since the ties among townsmen were so strong that Mr. Yılmaz did not suffer from homesick. It was also one of his townsmen who introduced him to a Greek lather master and made it possible to work in his workshop as an apprentice.

Mr. Yılmaz worked with his master for some years. He was always in good terms with him. Although the master had an ethnic ethnicity it never caused a problem.

“My father was such a hardworking and honest person that his Greek master trusted him a lot.”(M Yılmaz)



The tie between the master and apprentice was trust that is one of the social capital tripods. After working as a master for sometime Mr. Yilmaz talked to his master about his intention of having his own business. What he needed to run his business was a lathe. The master let him work in the evenings and on Sundays at the workshop to make his own lathe.

Mr. Yilmaz used the molds in the workshop to make the lathe. However he could not find all the molds he needed there. So he borrowed some from other workshops.

“There was a strong solidarity among the masters there.

It took him two years to have his own lathe” (M Yilmaz)

1968 was a milestone for Yilmaz Reduktor. One of Mr. Yilmaz’s friends working in Duzce Lumber mill, a state enterprise, encouraged him to bid for chain.

“We made a big profit then. However, that man was sure that we would get the tender because my father was a great master.” (M Yilmaz)

Another significant turning point in Yilmaz Reduktor’s history was in 1970. In Those years Mesut Yilmaz was producing v-belt axle-pulleys for a Greek businessman He was very pleased to do business with Mr. Yilmaz.

“One day that businessman wanted my father to produce chain wheels for him because he was very satisfied with the v-

belt axle-pulleys we produced for him. But, my father did not have milling machine in his workshop. When he told them that he could not do, the businessman offered him to sign and pay the bills for the machine and my father could pay his debt by producing chain wheels for him. In this way, we would have a milling machine besides the lathes in the workshop. We were ready to produce gearbox” (M. YILMAZ)

There was only one gearbox producer in Turkey in those years. Çayeli lumber mill initiated a tender for 119 gearboxes And, Yılmaz Reduktor won the tender. Other tenders followed it. State enterprises were the only gearbox customers. After 1975 Yılmaz Reduktor started to produce gearboxes for private sector in Turkey.

Yılmaz Reduktor’s first exportation efforts started in 1990s. “Our production capacity was enough only to meet the domestic demand,” said E. Yılmaz, marketing and export manager

Yılmaz Reduktor targeted European Market for exportation. It had to compete with its German, Italian and British rivals. Germany is the first export market. Now it gets almost half of the Yılmaz Reduktor’s annual export

Yılmaz Reduktor has an interesting experience in British market.

“One of our rivals in British market asked us to outsource manufacturing for them. However, we did not accept their proposal and offered them to be our distributor in England. After a while, they stopped their production and started to sell ours” (E Yilmaz)

### **2.3. Business Transformation at Yilmaz Reduktor**

The first business transformation at Yilmaz Reduktor took place in 2002. Till that year the firm had been producing handmade molds for gearboxes. However, such molds were not able to answer the customers' needs and they were not precise enough. In order to keep its place in the market and compete with multinational giants the company made a radical decision. It computerized the whole production process through SolidCam software. It is able to produce, high efficient, standard and serial products in its factory integrated fully CNC plants and transfer lines.

The firm had another transformation in order to keep the efficiency in all processes of production through IFS ( Industrial & Financial Systems). Those processes include Enterprise Resource Planning, Enterprise Asset Management, Supply Chain Management Financials, Project Management and Service management CEO of the firm , Mr. Yilmaz states that It is not at all an easy job to keep all product variety under control, to follow all production steps , to make purchases and to manage inventory. IFS has

helped them a lot. The first transition to IFS took place in 2005. The firm has increased its production from 28000 pieces a year to 300000 pieces.

#### **2.4. Social Capital Measurements**

The following paragraphs explain study results on social capital as a factor in transformation process of a Turkish SME in metal business sector that I conducted in Istanbul. The study consists of a survey and detailed interviews. Question items being used in this survey were taken from the questionnaire that was printed in the study *Social Capital in Asia: An Exploratory Study* (Prof. Tan Wee-Liang, 2003). Managers of eight divisions at the factory and three business partners were supposed to be the target of the study. However, the partners were reluctant about any surveys or interviews with division managers. Therefore, I was unable to get in touch with executives. I had to carry out the field study only with three partners. The owners' reluctance will be discussed under the title "trust". The interviews done with the owners of the firm are analyzed by the help of their own words and some works in the literature. I will describe the profile of three respondents first and then I will classify their responses to question items into four categories. I will conclude this part by indicating some of the directions for future modification.

### **2.4.1. General Description of Respondents**

I have chosen three executive-level respondents for this pilot survey in order to understand the nature of social capital of business executives, I will call three respondents as R(M), R(S), R(E) hereafter. They all have more than 20 years of metal industry experience. While two of them possess graduate degree, one gave up his education as soon as he finished the first 5 years of his primary school education. They are brothers. R(S) is the CEO of the firm R(M) is the production manager and R(E) is the Sales manager. Their ages are all within 40-55 years old and they are all male. I revealed the aim of this survey to each respondent and each interview took for about forty five minutes

### **2.4.2. Results of the Survey and Interviews**

Findings of the study are examined in terms of the owners' generalized norms, togetherness, everyday sociability, neighborhood connections, trust, group characteristics and network connections

#### **1.4.1.1. Networks and Characteristics**

When network types in which the responders are affianced in are taken into consideration, grouping with their townsmen, their prior classmates are more frequent. It can be noticed that university education has an important role in their social attachment. Unlike the others, R( M) does not attached to

any groups. He does not believe in benefits of networks for him and his company.

“I don’t think that we would get any benefits from the networks to increase our profits. I am not a member any of them. They are useless. If we go on producing well qualified products with reasonable prices we will increase our share in the market.”

He also complains about the NGOs. He says that he is asked to involve in their activities but he is too busy to join them. He is also doubtful about the money they are donated

Other two respondents have positive thoughts about the necessity of networks and they are members of different networks, rate of contact with their social networks vary from every one to three months. Financial expenses owing to their participation in social networks were positively related to the number and rate of grouping activity.

The sales manager R(E) admits that networks have an important role to find new markets. He often uses both formal and informal networks to increase their sales and increase the market share. The company often joins national and international fairs which help them establish new networks

The CEO (S) also agrees on the necessity of networks.

“Some informal networks I have contribute our success to win tenders. In fact you need such networks in order to survive”

#### **1.4.1.2. Generalized Norms**

All of the respondents exposed an intermediate point of trust to individuals around them. I have noticed that participants' own experience and insight affect the response very much. R(M) took a strong position in making the self-interest assumption on human behavior and this reflected in his skewed answers. He states that he is always very careful in dealing with people especially with employees since he thinks that they try to take advantage of him if they get the chance. On the other hand, R(E) says that he has some friends that can be trusted and they are trying to be helpful. However, he also mentions that business world is full with people who only look out for themselves. All respondents have mentioned about their positive personal experiences about neighborhood. They all live in the same district where gentry people resides. Both R(M) and R(E) gripe that they do not know their neighbors well. Since R(M) is the production manager he has to spend most of his day at the factory. Therefore he is at home late at night and leaves home early in the morning. R(E) visits other cities or countries to join fairs and find new markets. He is usually at home twice a week. R(S), on the other hand, is much luckier about making contacts with his neighbors. Every morning he gets up early and goes jogging with his neighbors. Unlike the

respondents their wives have closer neighborhood relations. They come together fortnightly. Finally R(S) says that he has rarely heard dissensions among neighbors.

#### **1.4.1.3. Everyday Sociability**

There are some differences among the participants in their daily sociability. R( M) pointed out that he was a dull person with other people and for that reason showed very few habitual social activities with others outside his family. A fairly similar situation was also observed in R( S). Even R( E) kept up a very few spare time activities with his friends though he has relatively wide social linkage Turkish people are known as quite hospitable. However, all of the participants have complained about heavy workload. They are too busy to invite others. The ones who visit them are mostly their relatives and friends.. Respondent (M) stated that he did not prefer eating out. But sometimes he had to go for business dinners. Other two respondents said that they very often had to eat out with their customers and distributors. Finally, all of the participants replied that they had never asked their neighbors for help or to take care of their sick children although they are all getting well with their neighbors.

#### **1.4.1.4. Trust**

The results of the survey in terms of trust might be evaluated under three headings; Trust for acquaintance and trust for strangers and trust for



institutions. All the participants stated that they trusted their family members in a very great extent. Both respondents R(S) and R (E) trust people in their neighborhood to a great extent. Moreover they do not trust people from different ethnicity and religion as much as they trust the ones from same religion and ethnicity. The trust for public service providers is neither in great nor does small extend.

Besides the survey results about trust the interviews with the respondents have given some clues about their attitudes towards informal and institutional trust. The partners' strong resistance against my intention of making interview with the managers of eight divisions can be regarded as their lack of informal trust against the employees. The respondents' trust towards institutions varies. R(M) has a moderate amount of confidence in the police force. R(S) does not have very much confidence in the media (via press, radio, film and television, the internet) He complains that most of the news in media is either biased or not true. R(E)'s confidence in government and bureaucracy has increased for the last 10 years. Finally all of the respondent have quite high confidence in doctors and hospitals

## **CONCLUSION**

Small and medium-sized enterprises (SMEs) play a very important role in Turkish economy due to their big share in total number of ventures and in total employment. They are able to provide more production and product diversity through making less investment. They can also adapt to changes and diversity in demand. However, they have some weaknesses. Since they are mostly small family firms they don't have enough consciousness of technology, innovation and R&D. They are also unable to use bank credits, and access to finance sufficiently. Moreover, they suffer from insufficient usage of modern marketing techniques. They mostly don't have consciousness of quality and trademark notions. Owners of such firms are not educated enough to be aware of the necessity of institutionalization and harmonization to global standards

Besides all these weaknesses, multinational companies enter to the new markets in order to enlarge their business fields by in the global world They use their competitive advantage of advanced technology. Therefore, SMEs that adopt the technology have competitive advantage over the others. They can also welcome the demands of their customers for more comprehensive products and services.

Some external and internal forces make SMEs transform in order to survive and compete with other SMEs and giant multinational enterprises. External

forces refer to competitive environment, globalization, and political changes. These forces cause some organizational changes. Internal forces, on the other hand can threaten the survival of the company. Lack of liquidity at start-up level or the interactions of individual groups within the organization might force an SME to make some transformations.

SMEs perform variety of actions in order to handle changes in the globalised world and internal and external forces that threaten them such as reengineering business process, introducing brand management, implementing a merger, etc. All these activities are some examples of business transformation.

Business transformation might occur in three ways. Improving Operation is about to improve the competence of the SME by improving quality of products and services that the firm provides. Second type of transformation is the Strategic one. It is to redefine business objectives and creating new facilities in order to regain the competitive advantage. The final type of business transformation is Corporate Self-Renewal which is to create the ability for a firm to predict and handle the changes in order to minimize the operational and tactical gap.

Social capital plays an essential role in family SMEs. In the case study it is seen while the business is set up and being developed. The founder, Mr. Yilmaz, needed a lathe to start his business. However, he did not have

enough money to buy one. So he decided to make his own lathe. There was such a solidarity based on trust between his master and him that his master let Mr. Yilmaz stay at the workshop and use molds to build his lathe. Even, he was able to lend molds that did exist in his place from other workshops. In those years Mr. Yilmaz had a strong network. His friends working in Düzce Lumber mill, a state enterprise, encouraged him to bid for chain and he won the bid in 1968

Social capital that is created by trust between business leaders and their employees enables firms to change and grow. Mr. Yilmaz, the manager responsible for the production states that the element of trust is especially prominent for the quality of production. He is proud of establishing trust between him and his department managers and workers. He says that they are all aware that they would get promoted as long as they do their best.

Mr. Yilmaz, the sales and marketing manager of Yılmaz Redüktor, developed the firm's social capital so as to gain entry into global markets. He participated in trade fairs and expositions to gain a quality reputation among primary firms in world markets.

On the other hand, internationalization among family firms is not common. This might be the result of their limited growth objectives or they don't want to take risk. Sales and marketing manager of the firm states that foreign markets were not among their priorities till 1995 since their

production capacity could only answer the domestic demand. After 1995 s they did first exportation to Germany then other European markets. He also emphasizes that they do not prefer the markets in Middle East or Asia although they would gain more than they do in European markets.

Extremely strong inner bonding social capital has a negative effect on building and developing bridging social capital. The CEO of the firm insists on the necessity of strong ties between the partners. According to him the bright future of the company depends on the unique coherence and unity among brothers. He states that they don't need any social and industrial networks to sell their products. If they provide best quality products with reasonable prices, customers would find them, in fact this is what they have done since the early years.

SMEs can use their social capital efficiently if they develop their bridging social capital. However, this requires a great transformation in the owners' mentality. In a globalized world they cannot compete with multinational giants unless they get in touch with networks and increase their informal trust towards others

## APPENDICES

### Appendix A : Tables

**TABLE 1:** Distribution of SMEs in various manufacturing industries

<b>Manufacturing industries</b>	<b>%</b>
Metallic goods	26,1
Textiles, clothing, and leather goods	25,6
Wood an Furniture	24,3
Food and drink	12,7
Paper	3.9
Other sectors	7,3

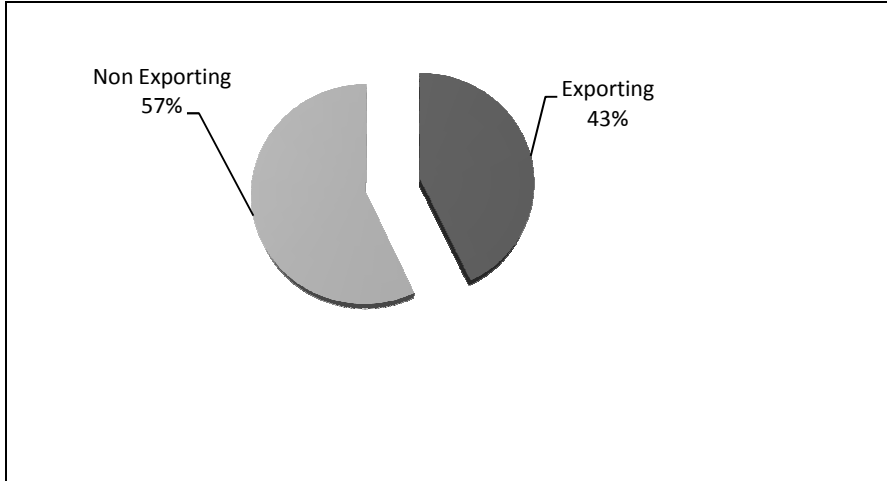
Source: United Nations Development Programme (UNDP),(  
2004)

**TABLE 1:** Geographical Distribution of SMEs

<b>Regions</b>	<b>%</b>
Marmara	38
Aegean	17
Central Anatolia	16
Mediterranean coastal region	11
Black sea region	9
South-eastern Anatolia	6
Eastern Anatolia	3

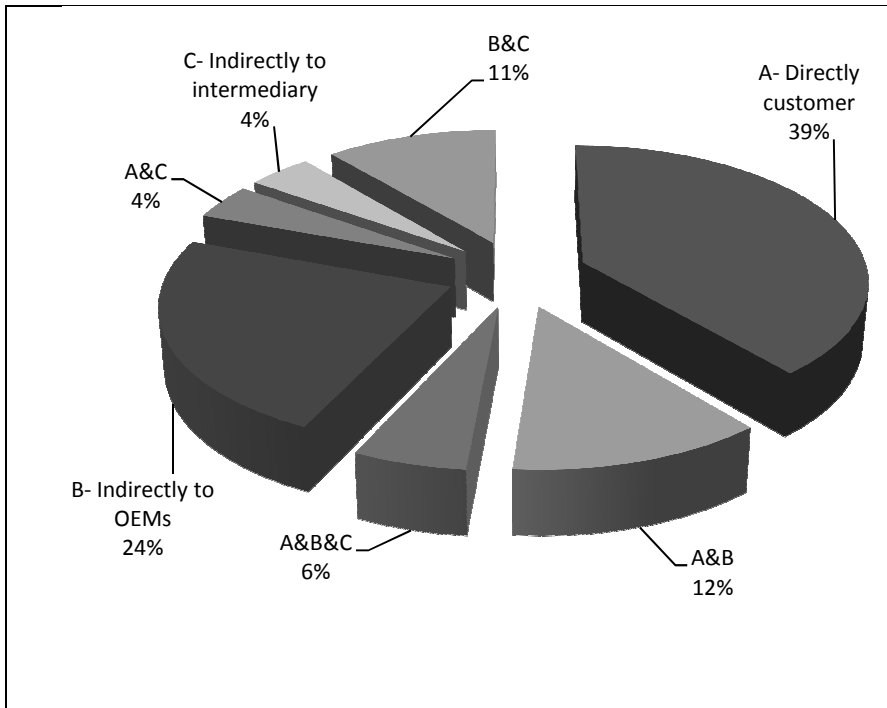
Source: United Nations Development Programme (UNDP),  
(2004)

**TABLE 2 The Share of the Exporting Companies**



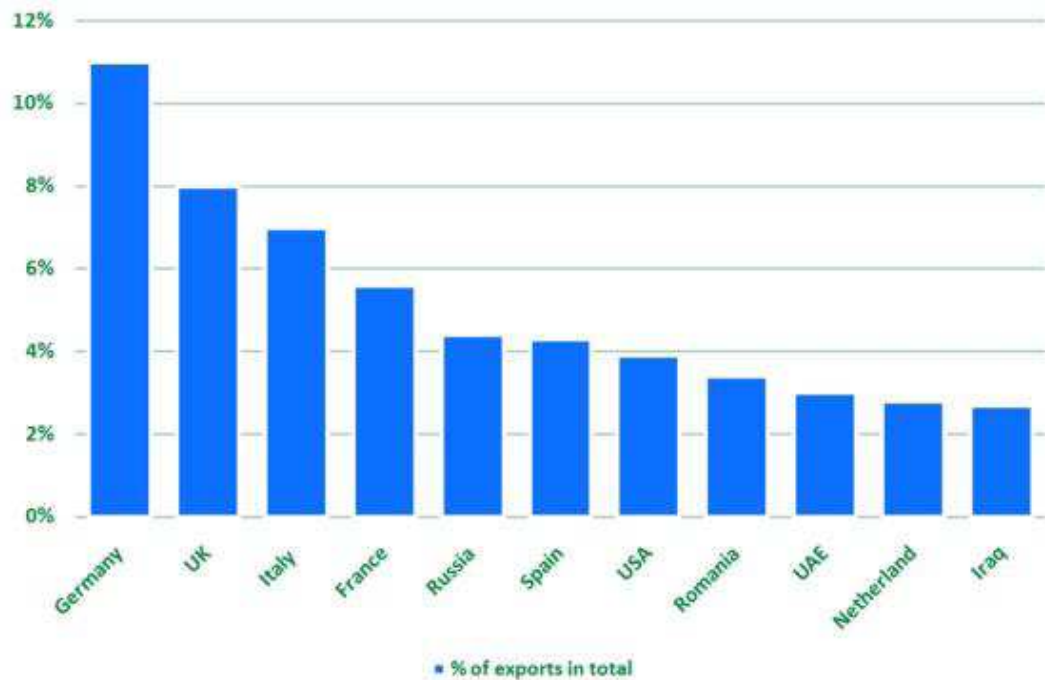
Source: KOSGEB, SME Survey Data, 15.01.2006

**TABLE 3: Export Distribution Channels**



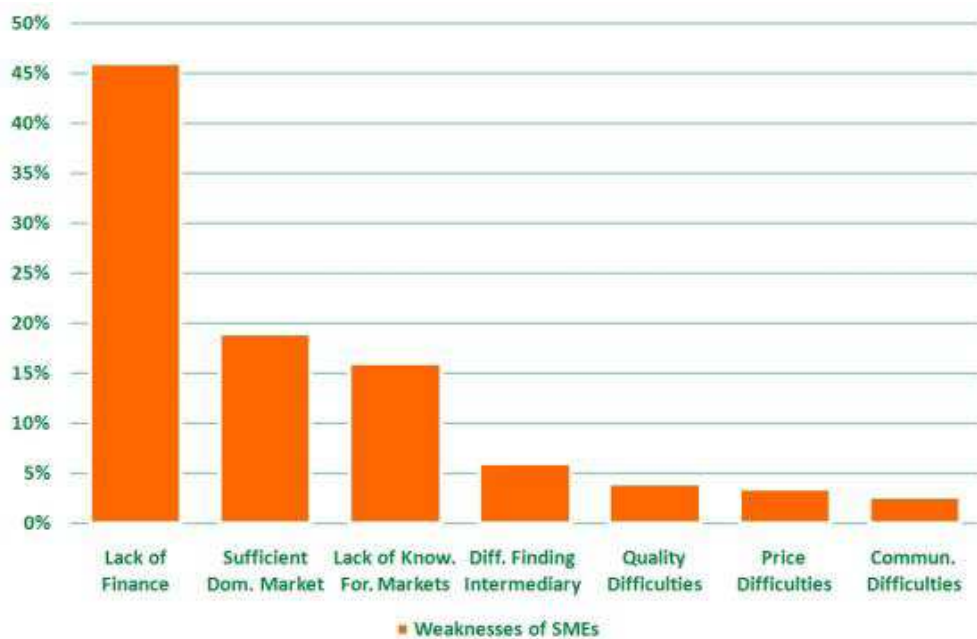
Source: KOSGEB, SME Survey Data, 15.01.2006

**TABLE 4:** Percentage Distribution of Destination Countries



Source: KOSGEB, SME Survey Data, 15.01.2006

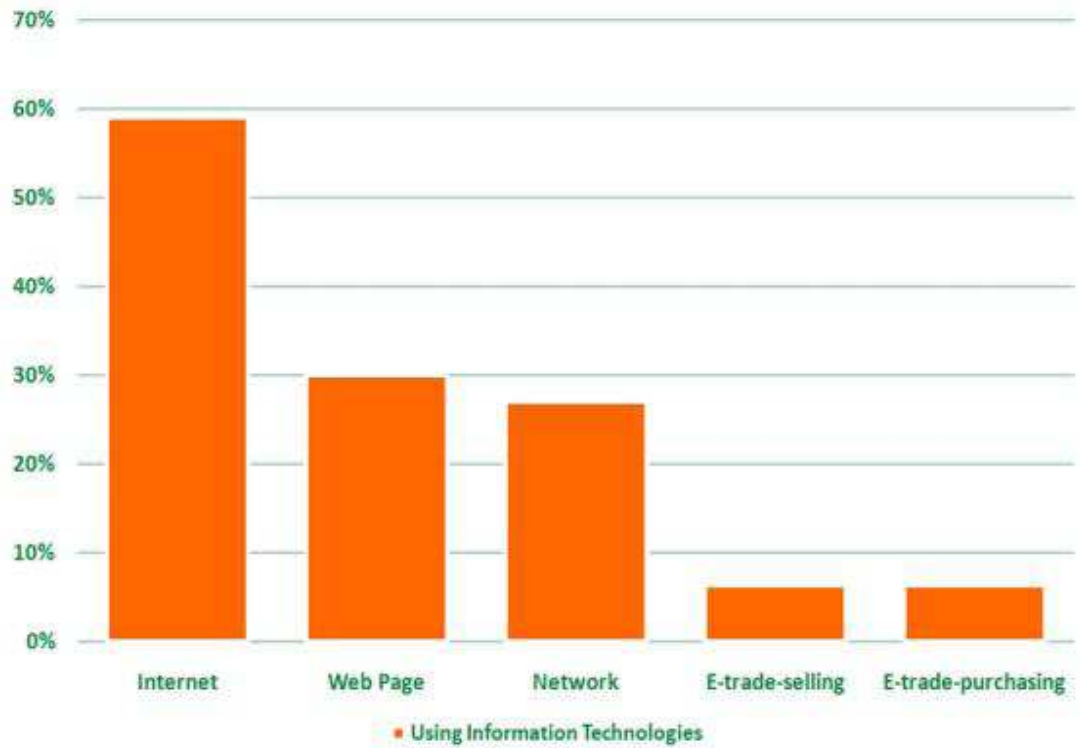
**TABLE 5 :** The Weaknesses Of SMEs



Source: KOSGEB, SME Survey Data, 15.01.2006



**TABLE 6 : Using Information Technologies**



Source: KOSGEB, SME Survey Data, 15.01.2006

**TABLE 7: Distribution of the Certificates SME' s Owns %**

TSE	59,68
ISO 9000	27,11
CE	7,13
HACCP	3,43
ISO 14000	1,39
ISO 16949	1,26

Source: KOSGEB, SME Survey Data, 15.01.2006

## Appendix B : Interview Questions

**TABLE 8:** Group Characteristics

ITEMS	SCALE
<p>How many groups or organizations do you belong to?            These could be religious groups, sports teams, or just groups of people who get together <i>regularly</i> to do an activity or tasks.</p>	<p>a) <b>1-3</b>            b) <b>4-6</b>            c) <b>7-9</b>            d) <b>10 and more</b></p>
<p>On the average, how much money, if any, do you contribute to the groups to which you belong in a month</p>	<p>a) <b>1-100</b>            b) <b>101-200</b>            c) <b>201-300</b>            d) <b>301 and more</b></p>
<p>On average, how often do you participate in the activities of the groups to which you belong in a month?</p>	<p>a) <b>1</b>            b) <b>2</b>            c) <b>3</b>            d) <b>4</b></p>
<p>To what extent do you participate in the group(s)'(s) decision-making?</p>	<p>1. To a very small extent.            2. To a small extent.            3. Neither a small nor large extent.            4. To a large extent.            5. To a very large extent.</p>
<p>Thinking about the members of this group, would you say that <i>most</i> are from the same:</p> <ol style="list-style-type: none"> <li>1. Neighborhood/village/</li> <li>2. Family or kin group?</li> <li>3. Religious group?</li> <li>5. Educational background and income level?</li> <li>6. Gender?</li> </ol>	<p>Record response:</p> <p><input type="checkbox"/> Yes</p> <p><input type="checkbox"/> No</p>

**TABLE 9:** Generalized Norms

<b>ITEMS</b>	<b>SCALE</b>
Generally speaking, would you say that you can't be too careful in dealing with people, or that most people can be trusted?	<ol style="list-style-type: none"><li>1. You can't be too careful.</li><li>2.</li><li>3.</li><li>4. Most people can be trusted</li></ol>
Would you say that most of the time people are just looking out for themselves, or they are trying to be helpful	<ol style="list-style-type: none"><li>1. Are just looking out for themselves.</li><li>2.</li><li>3.</li><li>4. Try to be helpful</li></ol>
Do you think that most people would try to take advantage of you if they got the chance, or would they try to be fair?	<ol style="list-style-type: none"><li>1. Would take advantage of you.</li><li>2.</li><li>3.</li><li>4. Would try to be fair.</li></ol>

**TABLE 10:** Togetherness

ITEMS	SCALE
<p>How well do people in neighborhood get along these days? Using a five-point scale where 1 means not getting along at all and 5 means getting along very well, how well are people in your neighborhood getting along?</p>	<ol style="list-style-type: none"> <li>1. Not getting along at all.</li> <li>2. Not getting along very well.</li> <li>3. So-so</li> <li>4. Getting along quite well.</li> <li>5. Getting along very well</li> </ol>

**TABLE 11:** Everyday Sociability

ITEMS	SCALE
<p>On the average, how often in a month do you get together with a group of people recreational activities?</p>	<ol style="list-style-type: none"> <li>a) 1-2</li> <li>b) 3-4</li> <li>c) 5-6</li> <li>d) 7- more</li> </ol>
<p>Who are these people with whom you do recreational activities?</p>	<ol style="list-style-type: none"> <li>1. Family members or friends.</li> <li>2. Friends from the same religion/ ethnic/education/ wealth/gender group.</li> <li>3. Friends from <i>different</i> religion/ ethnic/education/ wealth/ gender groups</li> </ol>
<p>Who are the people with whom you spend time outside the household in other ways, such as doing shopping, talking, drinking, or just spending time together</p>	<ol style="list-style-type: none"> <li>1. Family members or friends.</li> <li>2. Friends from the same religion/ ethnic/education/ wealth/gender group.</li> <li>3. Friends from <i>different</i> religion/ ethnic/education/ wealth/ gender group</li> </ol>
	<ol style="list-style-type: none"> <li>1. Family members or friends.</li> <li>2. Friends from the same religion/</li> </ol>

Who are the people who visit you at home?	ethnic/education/ wealth/gender group.  3. Friends from <i>different</i> religion/ ethnic/education/ wealth/ gender groups
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**TABLE 12:** Neighborhood Connections

<b>ITEMS</b>	<b>SCALE</b>
how likely is it that you would ask your neighbors to take care of your children for a few hours if you were sick?	1. Very unlikely 2. Unlikely 3. Neither unlikely nor Likely 4. Likely 5. Very likely
how likely is it that you would ask your neighbors for help if you were sick?	1. Very unlikely 2. Unlikely . Neither unlikely nor likely 4. Likely 5. Very likely

**TABLE 13a:** Business Relationships

**1. Are any of the following networks useful for your export business?**

*(Circle the number that most closely corresponds to the level of usefulness.)*

	Very Useful		Moderately Useful		Least Useful
Extended Family Networks	1	2	3	4	5
Social Networks	1	2	3	4	5
Industry Networks	1	2	3	4	5
Professional Networks/Associations	1	2	3	4	5
Informal Networks	1	2	3	4	5

**TABLE 14b:** Business Relationships

**2. In what ways are these networks useful?** (*Tick any of the boxes that are relevant to your business*)

	<i>Family Networks</i>	<i>Other Social Networks</i>	<i>Industry Networks</i>	<i>Professional Networks</i>	<i>Other</i>
Help in raising capital for export venture					
Help in meeting production targets					
Help in obtaining special knowledge of export market					
Help overcome barriers (legal, political, etc.) to market entry					

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