

CHAPTER VI.4

CULTURE AND MANAGEMENT IN TURKEY: STATE-DEPENDENCY AND PATERNALISM IN TRANSITION

ÜMIT BERKMAN¹ AND ŞÜKRÜ ÖZEN^{2,3}

Abstract. In this chapter, we focus on the change and continuity in the Turkish business system and managerial culture. First we discuss the distinguishing characteristics of the business system, family-owned big business groups, and their relationships with each other and the state. After a brief presentation of Turkish cultural values, we discuss the main features of Turkish organizational and managerial culture and their implications for the practice. We conclude that the state-dependent characteristics of the Turkish business system have started to erode due to the liberalization policies implemented over the last three decades. However, the dominating economic actors are still big business groups, invariably diversified vertically and horizontally, and controlled by the owning family members through pyramidal or complex ownership structures. We also conclude that Turkish managerial culture has gradually become less paternalistic and collectivistic, and more masculine and risk-taking.

1. Ümit Berkman has a Ph.D. in Public Administration from Syracuse University (US). He is a professor of Organization and Management Theory at the Faculty of Business Administration, Bilkent University, Ankara. His main research interests are business ethics, corruption and bribery in administrative systems, and organization development.

2. Şükrü Özen has a Ph.D. in Business Administration from Gazi University (Ankara). He is an associate professor of Organization Theory at the Faculty of Economics and Administrative Sciences, Başkent University, Ankara. His main research interests are new institutional theory, diffusion of business knowledge, and cross-cultural management.

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INTRODUCTION

Turkey is one of the emerging economies with a gross national income per capita of \$ 4 710 US and an annual gross domestic product growth rate of 7.4% in 2005⁴. Strategically located between Europe and Asia, Turkey has a dynamic economy with a complex mix of services, industry and agriculture: their shares in its GDP are 59.9%, 25.4%, and 10.3%, respectively. Although it suffered severe economical crises in 1994, 1999, and 2001, Turkey has succeeded to revive its economy through a new economic turnaround program first implemented in 2001 under the close scrutiny of the International Monetary Fund (IMF). The program has reduced the two-digit inflation rates to single digits for the first time in more than 30 years. It has failed, however, to solve unemployment, high deficit, and low foreign direct investment problems; the current unemployment rate is about 10%, the public sector deficit exceeds 6% of the GDP, and foreign direct investment is 0.9% of GDP.

The politics in Turkey can be understood by the centre-periphery conflict (Mardin, 1973). The centre has been represented by civil and military bureaucratic elite groups. These same groups designed the official ideology of the state on which the Turkish Republic was built in the early 1920s. Based on the principles of nationalism, secularism, republicanism, populism, reformism, and etatism, Turkish ideology was formulated by the founder of the Republic himself, Mustafa Kemal Atatürk, and still continues to shape the state-society relations and politics regardless of which political party is in power. On the other hand, the periphery has been represented by various social groups such as the emerging middle class, the rural upper class, artisans, and religious groups etc., who have challenged one or more principles (particularly secularism and the etatism) of the state ideology. These groups have been mobilized through various political parties since the transition to the multi-party system in 1945. These parties include the Democratic Party, the Justice Party, the National Salvation Party, and the Motherland Party. These political parties, which have been liberal and/or to varying degrees Islamist in nature, have frequently come to power through free elections, have been in conflict with the state elites in various degrees, and have been overthrown by the military four times in the 83-year history of the Republic. Currently, the Justice and Development Party (AKP), an Islamist-flavoured party, has been in office since its landslide victory in the

4. The figures in this section are taken from the websites of the World Bank (worldbank.org), State Planning Organization (dpt.gov.tr), Turkish Statistical Institute (turkstat.gov.tr), and the Central Bank of the Republic of Turkey (tcmb.gov.tr).

2002 election. AKP has followed a tight fiscal policy imposed by IMF and has realized the important economical and political reforms that are required for full-membership in the European Union. Although actual accession to the EU is far off, the reforms and negotiations with the EU are ongoing. Since the reforms required under the Copenhagen Criteria of EU membership mean radical political and economical changes, the current centre-periphery conflict in Turkish politics is based on the extent to which Turkey will compromise its nationalistic and etatist principles.

In 2005, the estimated population of Turkey was 72.6 million with a growth rate of 1.3% and a median age of 27.7. This relatively young population has a literacy rate of 87.4%, has, on average, 5.9 years of schooling, and lives largely (73%) in urban areas. The percentage of women who participate in politics or work outside the home is relatively low: 4.4% of women participated in politics in 2002 and, in 2004, 25.4% of women worked outside the home. Nearly all of the population is Muslim, but there are also Christian and Jewish minorities. According to Hofstede's (1980) culture survey, Turkish culture exhibits characteristics of high power distance, high uncertainty avoidance, high collectivism and mid femininity groups. In that sense, it seems to be similar to Latin, Mediterranean and Far Eastern countries in several respects, but distinct from Anglo-Saxon cultures. On the other hand, according to the results of the GLOBE survey (Bodur and Kabasakal, 2002), which has similar cultural dimensions, Turkey, together with some Arabic countries, is identified as a cluster different from other country clusters, not in terms of organizational practices, but of cultural values.

In this chapter, we first introduce the Turkish business system, including its distinguishing characteristics, its main business groups and their relationships and organizational features. In the following sections, we describe Turkish cultural values in general, and their influences on Turkish organizational culture and management style. The chapter concludes with a brief summary.

TURKISH BUSINESS SYSTEM

Distinguishing Characteristics of Turkish Business System

Despite gradual changes in the last two decades, Turkey has basically had a *state-dependent* business system (Whitley, 2000), which is characterized by a strong state actively coordinating and controlling economic activities, and the state-created big business groups (Gökşen and Üsdiken,

2001). This characteristic of the Turkish business system can be explained with its political and economic dynamics. The dominant features of Turkey's political economy have been regarded by a number of scholars as its patrimonial state tradition, and its weak civil society, largely inherited from the Ottoman Empire (Heper 1985; Sunar 1974; Mardin, 1973). In the early years of the Republic (1923-1949), the ruling political and bureaucratic classes followed a *statist* industrialization strategy due to the world economic conditions of the period and the lack of indigenous entrepreneurial leaders (Buğra 1994). The state performed a leading role in the country's economic development with its State Economic Enterprises (SEEs) and its policies intended to encourage the growth of the middle class (Sugar, 1964; Öniş 1992). Since the early Republican period, the state has also been a major source of uncertainty in economic, political, and legal terms (Buğra, 1994). There have been frequent radical changes in economic policies – for instance, policies were statist between 1923 and 1949, laissez-faire between 1950 and 1960, centrally planned import substitution between 1961 and 1980, and finally export-oriented from 1980 to the present; (Ceyhun 1988), and the implementations of these policies have varied according to the government in power. Another contextual variable shaping the Turkish business environment has been the political uncertainty characterized by proliferated political structure, unstable coalitions and frequent governmental changes, and four military coups in 83 years. Furthermore, as pointed out by Buğra, “the coordinates which define the legitimate domain of private sector activity and that of state intervention have remained ambiguous for a long time, which has, in turn, constituted an impediment to the development of a self-confident bourgeoisie” (1998a, p. 523).

As a consequence of import-substitution policy and worldwide oil shocks, the Turkish economy went into crisis at the end of the 1970s, which were characterized by high inflation, lack of foreign currency, a large budget deficit, and high unemployment. Thus, the government declared on 24 January 1980 that a stabilization policy, largely drawn and imposed by IMF. The policy was based on the export-led growth model containing such measures as wage freezes, balanced budgets, social spending cuts, tight money, deregulation, devaluation, and liberalized trade and foreign investment policy (Öniş 1986; Ceyhun, 1988). However, the liberalization policies followed in Turkey during the 1980s had also certain *unorthodox* features borrowed from the tradition of a highly centralized, patrimonial state in Turkey; for instance, the formation of Foreign Trade Companies (FTCs) that were heavily subsidized by the state for export, the persistence

of public dominance in capital formation and financial systems, and the further centralization of state power (Öniş 1991).

Despite the profound shift in economic trajectory established gradually since 1980, the rent-seeking behaviour of businesses persisted (Öniş 1991; Buğra 1994). As a result of heavy incentives for export, all the FTCs, many of which had organic links with large holding companies (violating the related law), increased their shares of Turkish exports, and accounted for about 50% of the total exports by the second half of the 1980s (Öniş 1995). Thus, the ratio of exports to GNP, which was only 5% in 1980, reached 15.6% in 1985, and was at 16% by the end of the decade (Taşkın and Yeldan, 1996). However, this export boom was largely due to the large influx of external finance to supply the key imported materials for production, the proximity of the Middle-East and the circumstances associated with the Iran-Iraq War, wage compression, the special incentives to FTCs, and the devaluation of the currency (Öniş, 1993). Thus, in the 1980s, the big holding companies diverted their production capacities, which had been under-utilized since the late-1970s, towards external markets by depending on relatively low labour costs and the devaluated currency without making new investments (Eser, 1994; Taşkın and Yeldan, 1996). In fact, the private share in manufacturing decreased throughout the 1980s, and the big companies relied on traditional sectors such as food and beverages, textiles, clothing, and iron and steel for export (Öniş, 1993 and 1994).

Public investment continued to be a dominant form of capital accumulation in Turkey; throughout the 1980s, the public sector accounted for more than 50% of total fixed capital formation due to intensive infrastructural investments (Öniş, 1991). On the other hand, the SEE's share of the GDP did not decrease significantly (see, Hoskisson *et al.* 2000), and the implementation of privatization policies was very slow and incremental (Öniş, 1999). Furthermore, the public banks expanded their share in total bank deposits, and the public sector issues accounted for around 90% of the securities issued on the Istanbul Stock Exchange, which was founded in 1986 (Öniş, 1991). Thus, the business groups continued to depend on the public banks and/or their affiliated banks for financial resources.

The overall performance of the economy was impressive; during the 1980-1986 period, the GNP growth rate rose from -1.1% to 8.1%, the inflation rate decreased from 108.6% to 29.6%, and the ratio of budget deficit to GNP fell from 3.7 to 2.9 (Öniş, 1993). However, from 1987 onwards, these figures became unfavorable. The economic conditions of the late 1980s were the increasing inflation and interest rates and budget

deficits, heavy external and internal borrowing, and the need to recover wages under pressure since 1980. In 1988, the government eliminated most of the export incentives, in part due to external pressures to comply with the GATT regulations, and also due to the abuse of the incentive system in the form of over-invoicing and fictitious exports (Öniş, 1993). In 1989, the government also raised the wages in the public sector by as much as 140%, which in turn led to an average wage increase of 90% in the private sector (Eser, 1994). As a result, by the end of the 1980s, the holding companies diverted their attention from external markets toward domestic markets because of increased labour costs and domestic demand (Taşkın and Yeldan 1996, p. 170).

Turkey's liberalization experience during the 1980s had not significantly changed the distinguishing characteristics of its business system because its patrimonial state tradition had so strongly conditioned the economic policies. The state-dependent nature of the system, in fact, had been further strengthened due to increasing government interventions. The family-controlled holding structure had been prevalent as the dominant nature of many firms. The liberalization experience, instead of promoting, had diminished interest in group representation of business classes that had begun to emerge during the late 1970s. In contrast, it promoted the traditional particularistic relations between business and government, and the rent-seeking behaviour of business. On the other hand, most of the domestic markets were still or became more oligopolistic in nature; the average concentration rate (CR4) in manufacturing sectors increased from 51% in 1980 to 55% in 1994. The Foreign Direct Investment (FDI) as a percentage of Turkey's 1985 GDP was 0.8% (in comparison to 28.6% in The Philippines, 15.4% in Brazil, 14.9% in Chile), and this ratio increased only to 1.1% in 1989 due to instabilities in the macroeconomic and political environments (Balasubramanyam, 1996; Öniş, 1994).

However, there were also some changes despite these persistent or sometimes further strengthening features of the business system. For example, despite the persistent oligopolistic nature of domestic markets, the general quality and variety of commodities exchanged in the markets increased because of the foreign products imported largely by holding companies. Thus, the relatively low quality and high priced products that had large market shares in the import-substitution period (1961-1980) had little chance in the markets by the end of 1980s. On the other hand, the three financial crises experienced in 1994, 1999 and 2001 urged the Turkish governments to take measures that would make the economic system more liberalized, particularly by eliminating politics from economy.

Furthermore, to prove its eligibility for EU membership, the Turkish governments have to prove that Turkey has a functioning market economy that would conform to market forces within the EU. Thus, regarding the new economic turnaround program, which includes rapid and comprehensive privatization and market regulations implemented over the last five years, we can say that the state-dependent nature of the business system has gradually changed into a state-coordinated business system, if not a totally decentralized market economy.

Main Economical Actors and their Relationships

The high level of business dependence on the state has long inhibited horizontal alliances between firms in Turkey. Rather, they have tended to have particularistic relationships with political and bureaucratic elites to compete among themselves for the resources provided by the state, which has been quite critical for the economic success of many firms (Buğra, 1994; Öniş, 1992). This way of vertical particularistic relationships has also been preferred by the state, which has traditionally been antagonistic to organized interest representations (Bianchi, 1984; Heper, 1992). The traditional interest association for business, TOBB (the National Union of Chambers of Commerce and Commodity Exchanges) has been rather weak in influencing state policy due to its fragmented and quasi-governmental nature.

On the other hand, as a consequence of the protectionist policies followed since the early years of the Republic, some of the big private enterprises reached relatively strong economic power, and established their own association in 1971, TUSIAD (The Turkish Industrialist and Businessmen Association). It is interesting that they describe their reason for establishing TUSIAD as “not pursuing specific interest of businessmen,” but as “proving the social existence of the private sector” (Buğra, 1998a). In fact, TUSIAD’s role in the Turkish economic and political environment and its relationship with the state have displayed “a mixture of overlapping pluralist, corporatist and clientelist features” (Gülfidan, 1993). Since its establishment, its relationship with the government has varied according to the ideology and policies of the political party in power at any given time. It has been argued that until 1980 TUSIAD acted as an interest group in a pluralist sense by effectively reflecting both class and sectoral interests, but during the 1980s it lost its interest group characteristics, and turned to neo-corporatist and clientelistic relations with the government, largely due to the economic and political circumstances of the period (Gülfidan, 1993, p. 107-110). In fact, TUSIAD has not challenged the power of the state; rather it has attempted

to enhance the legitimacy of businessmen by frequently stressing their contributions to economic development (Buğra, 1994). For instance, TUSIAD has frequently sponsored and published scientific reports involving suggestions for the solutions to social and economical problems and has supported the nation-wide adoption of modern management techniques and models like TQM (Özen and Berkman, forthcoming).

During the late 1960s and the 1970s, new forms of holding companies, so called “Worker Companies”, emerged through the direct investments of small savings by Turkish “guest-workers” in Germany. However, most of these companies went bankrupt due to the poor institutional and regulatory regimes and the lack of institutions to promote impersonal trust in the economy that resulted in widespread abuses (Özcan and Çokgezen, 2003). However, the fragmented nature of business community (TOBB and TUSIAD) furthered by a new group that emerged as a result of the liberalization policies implemented during the 1980s. This group of relatively small organizations with lower concentration and internationalization rates vis-à-vis TUSIAD members were dispersed around various Anatolian cities (therefore, frequently called “Anatolian Tigers”), and organized around TOBB and MUSIAD (The Independent Industrialist and Businessman Association) established in 1990 (Buğra, 1997; Çokgezen, 2000). Thus, the business community contained mainly three groups: TUSIAD representing central (generally Istanbul-based) business groups; TOBB representing the fragmented interests of a huge number of small- and mid-sized organizations, but which became more powerful through the participation of some of the Anatolian Tigers; and MUSIAD, which emerged by resting on the Islamic movement challenging the state’s westernization project (Buğra, 1997 and 1998a; Alkan, 1998). The conflicts between TUSIAD and TOBB mainly represent the cleavage between both inward- and outward-oriented big conglomerates and largely inward-oriented firms (Öniş and Webb 1994). On the other hand, MUSIAD was generally composed of inward-oriented companies in conflict with TUSIAD, in terms of economic interests, but also with each other in a more ideological sense (Alkan, 1998).

Buğra (1997) emphasizes the coincidence between the rise of flexible manufacturing, or the post Fordist production system and the rise of SMEs in Turkey, namely the Anatolian Tigers. She argues that the term “Anatolian Tigers”, too clearly reflects both an admiration for the economic success of the East Asian development model and the characteristics of “flexible production” (1997, p. 53). The main rhetoric of MUSIAD, in fact, reflects a blend of a flexible production system and community spirit based on Muslim identity. For instance, MUSIAD defends neo-liberal formulae such as free

market economy and deunionization on the one hand, and emphasizes committed, hard-working and harmonious labour as a requirement of communitarian solidarity in Islamic business ethics on the other (Buğra, 1997, p. 54). In that sense, MUSIAD seems to be in conflict even with the Islamic-based labour union, Hak-ış, which has apparently pursued formal industrial relations (Buğra, 2003). On the other hand, comparing the economic performances of the Anatolian Tigers with those of companies in other provinces in terms of productivity and total output for 1975-1995 period, Filiztekin and Tunalı (1999) conclude that the Anatolian Tigers are not better than those from other provinces, therefore do not deserve the “Tiger” appellation. Filiztekin and Tunalı rather characterize the group of companies as a low productivity/low wage locus concentrating on the textile and clothing industries.

In addition, the issue of trust has also affected the cooperation among business groups. The results of the World Values Survey of 1995-1996 indicate that Turkey, together with Brazil, is the lowest trust country. Some studies evaluate Turkey as the weak social capital society in which economic actors avoid cooperation and solidarity to achieve their common goals because of the low-trust problem (Buğra, 2001; Sargut, 2003). This low-trust problem is explained either by the failure of the Turkish state to build “system trust” that would make a person trust the unfamiliar other (Buğra, 2001) or by the in-group-out-group dichotomy, prevalent in collectivist cultures like Turkey, meaning that people normatively trust only those people with whom they have primordial ties (Sargut, 2003). As empirical support to the second explanation, Üsdiken (1983) argues that the low-level of formal cooperation within the tourism industry in Turkey can partly be explained by the family-ownership that places value on preservation of autonomy. However, in her study on the formation of the consumer durable market in Turkey after the Second World War, Buğra (1998b) explores how a nation-wide network of sales agents organized by the leading company Arçelik played a crucial role in the formation of the market where income inadequacy and a legislative vacuum prevented the development of formal consumer credit institutions. Buğra (1998b) argues that these drawbacks were compensated by “a highly original organizational form based on relations of trust and loyalty, binding the manufacturer, dealers and consumers” (p. 25-26). This conclusion supports the notion that economic actors who *do not* have primordial ties based on kinship and ethnicity are well able to develop trust and create social capital through the friendship ties developed over time on the basis of reciprocal economical interests. Moreover, this finding has also been supported by recent studies conducted on small

enterprises located within industrial districts (Özen and Aslan, 2006; Oba and Semerciöz, 2005). These studies imply that the Turkish people are able to build trust with unfamiliar groups as long as there are proper governance structure and reciprocal economical interests.

Main Characteristics of Business Groups

The nature of the firm as an economic actor in Turkey can be exemplified by the family-controlled big holding company, which has rapidly grown as a result of the state-supporting policies, and invariably diversified by following vertical and horizontal integration strategies (Buğra 1990 and 1994). With these characteristics, the Turkish holding companies resemble South Korean *chaebols* (Buğra and Üsdiken, 1995). The holding company form was the result of a slight modification in tax regulations in the early 1960s. By 1969 33 holdings were established; this number grew to 640 in less than three decades (Oh and Varçın, 2002, p. 718). In 1988 these holding groups held 314 of the 500 biggest industrial companies. Among these companies, 85 were owned by the biggest five holding families (Koç, Sabancı, Eczacıbaşı, Anadolu, Çukurova). With their relative economic power, holding companies have traditionally operated in oligopolistic market conditions; within the period of 1980-1994 the average concentration rate of the biggest four firms in various industrial sectors was 56%. In Table VI.4.1, the biggest business groups are listed, together with their numbers of affiliated businesses in different industries and their memberships in TUSIAD and MUSIAD. As seen in the table, business groups are diversified in an unrelated way; their investments range from the automotive industry through to grocery stores and private universities. The industries in which most investments are made are tourism, information and media, construction, banking and finance, and food. Among 40 big business groups only four are MUSIAD members.

Table VI.4.1
TURKISH BUSINESS GROUPS

Business Groups	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	AH	Total	
1. Koç (T)	2	9	1	2	11				6	2	3					6	1						12							10					6	71
2. Çukurova (T)			1	1	1	3				4	1	2							1	3									12			2		32		
3. Sabancı (T)	1	5	2	1	2	5			1							2												4			7	1	32			
4. Doğuş (T)					3	4										8													2	1	10	2	30			
5. Eczacıbaşı (T)			3	1	6						1					1			5	3									2	1	5	2	30			
6. Kombassan (M)	4	4	2	2	1	2	1						1	1	3	1	1		1	1			2	1				1	1	1			29			
7. Zorlu (I)			9						4	1	4				2							4							2			1		27		
8. Doğan (T)						1				1	1				5							1							13		2	2	26			
9. Dedeman (T)						2	1							2	13											2			1			3	24			
10. Enka (T)	2		1	1	8	1	1				2	4			2																	2	24			
11. Kale (T)			2	2	2	2				2	1	3			2										4				2			2	24			
12. MNG (T)					8					1	3	1			2													1	3		4		23			
13. Yimpaş (M)	1	2			2	1	1							1	3	2	1		2	1	1				2	3		1	1	1		22				
14. Anadolu (T)	2	6				4				1	1				1											1		1			4		21			
15. Şahinler (T)		2	8			2							1		2																5	1	21			
16. Nürol (T)	1	1	6		1	2	1			1	1	1	1	1	4														3		4	1	20			
17. Sanko (T)	1	1	6		2	1				1					1											1			1		2		20			
18. Tepe (T)		2		1	6			2						1	1													1	1		2	2	20			
19. Toprak (I)	1	1	1	2	1				1	1	1	2	2	1	1										4	1							19			
20. Tefken (T)				1	4					2				1	3				1										1		3	3	19			
21. Yaşar (T)	3	6	3	1	1								1								2								1		1		19			
22. Bakıoğlu (T)	1	1		1	1	2				1	2		2						2										2				18			
23. Sönmez (I)			4		1	1					2		2		3														5				18			

Business Groups	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	AH	Total	
24. İhlas (T)	5				2				1	1						3										1			5							18
25. Kamer (M)		3	2		1	1					1							1	2	2		2	1													16
26. Kibar (T)		1				2				2	5							1		1		1						1					2	1	16	
27. Vakko (T)		1	3	1										2	4													2	3						16	
28. Elginkan (T)		1			1				1								6					1	1	4											15	
29. Eren (T)			4	2									2		2	2			2							2				1				15		
30. Maser (I)			9		1							1		1	2																			2	15	
31. İnci (I)					1	5			1	1	3	1				1																			14	
32. Başer (T)		1	3	1							1								1																13	
33. Diler (I)		1	1	1		1				3	3	1			2																				13	
34. Borusan (T)							3	1		1	5																1								12	
35. Cankurtaran (T)									4			4											2								2				12	
36. İtrifak (M)		3			1	1	1			1						1			1	1	1		1				1							12		
37. Polat (T)					4							2		2	1	3								2											12	
38. Transtürk (T)		1	1		1	1	2				2					1											3							1	12	
39. Bayraktarlar (T)					1	8						1		1																					11	
40. Alarko (T)					2				1	1			1			3				1															9	
Total	18	51	56	17	16	72	52	15	6	22	29	10	21	43	4	7	86	7	6	15	7	1	4	22	5	19	14	2	9	75	3	14	60	32	820	

M: MUSIAD Members; T: TUSIAD Members; I: Independent Holdings

A: Education, B: Food, C: Textile, D: Chemical, E: Forestry, F: Construction, G: Automotive, H: Machinery, I: Furniture, J: Durable goods, K: Transportation, L: Plastics, M: Steel and Iron, N: Energy, O: Leather, P: Mining, Q: Tourism, R: Foundry, S: Agriculture, T: Packaging, U: Livestock, V: Jewellery W: Metal, X: Petroleum, Y: Footwear, Z: Ceramic, AA: Health, AB: Defense, AC: Cement, AD: Information and Communication, AE: Pharmaceutical, AF: Clothing, AG: Banking and Finance, AH: Miscellaneous.

Sources : Web sites of individual business groups, and TUSIAD and MUSIAD.

Yurtoğlu (2000, p. 195) summarizes the characteristics of Turkish corporate governance systems as follows. First, few Turkish companies are traded. Second, Turkish traded companies have highly concentrated and centralized ownership structures. Families, directly or indirectly, own more than 75% of all traded companies and keep majority control (see also Yurtoğlu, 2003). The separation of ownership and control is mainly achieved through pyramidal or complex ownership structures and by building coalitions with other families or foreign firms. In this respect, Turkey is much closer to Italy and Austria than, say, to Germany. Third, an active market for corporate control does not exist given the concentrated ownership structure. Business groups have generally reached financial resources through their own banks. Yurtoğlu (2000, p. 195) emphasizes that almost every private bank is under the control of families who typically control a large number of other financial and industrial companies. This type of governance structure has persisted in Turkey since the mid-1960s due to its tax advantages, transferability of capital between affiliated companies, and easy and direct monitoring of managers by a small number of large owners (Buğra, 1994; Demirağ and Serter, 2003, p. 42; Yurtoğlu, 2000, p. 195).

These advantages enhance the survivability of business group firms vis-à-vis independent firms in Turkey. Yurtoğlu (1999) compares two groups of Turkish companies: the group firms that are owned by diversified business groups centered on a holding company and the independent firms that have weaker links to a main bank and presumably face greater problems raising capital. Her findings indicate that the investment of independent firms is three to four times more sensitive to the availability of cash flow than for group firms. On the other hand, Yurtoğlu (2004, p. 10) analyzes 172 of Turkey's largest manufacturing firms for the 1985-1998 period and finds that a persistently profitable firm in the Turkish context is characterized by a relatively high market share in a concentrated market, a domestic market orientation, and membership to one of the stable business groups.

In business groups, boards of directors in head offices and affiliates are constituted mostly by the members of the owning family in kinship relations. Individuals who have gained the confidence of the family due to their long service in the company, retired high officers from the Turkish army, and retired/resigned higher bureaucrats from key public organizations can also be found on the boards of these companies. This is a consequence of the long lasting strategy of holding companies to enhance their legitimacy in the public eye and/or to use these board members' connections with the state for the purpose of risk-reduction or opportunity-seizing. The financial, administrative, and investment decisions are made centrally to coordinate

and control diversified companies; leaving little room for the discretion of professional managers employed in affiliated companies as general directors. There has apparently always been a trust problem between professional managers and owning families in the Turkish holding companies, whose dealings with each other can be characterized as love-hate relationships (Buğra, 1994). Recent studies analyzing the composition of the board of directors in business groups and head offices have found that the hierarchical control of the owning family is still the overriding principle of corporate governance in Turkey, despite more than two decades of radical economical and institutional changes (Gökşen and Üsdiken, 2001; Yıldırım and Üsdiken, 2005).

The liberal convergence has not yielded radical changes in the strategies of business groups in Turkey. Gökşen and Üsdiken (2001) find that groups founded before and after 1980 (or first and second holding generations) do not differ in terms of market orientations. These findings imply that export-oriented policies implemented since 1980 do not seem to make the second generation more internationalized; in contrast both holding groups are largely inward-oriented. However, some industry-specific researches have found evidence of some changes. For example, in the Turkish banking industry, core banks at the centre of the sector are more inert, whereas peripheral banks undergo more change (Kıbrıscıklı, Sorge, and Üsdiken, 2001). On the other hand, this research also indicates that strategies and their time of adoption differ significantly between core and peripheral groups of banks, whereas old and new banks do not significantly differ. Despite these strategic changes, the Turkish banking sector is still highly concentrated. The same pattern of continuity can be observed in managerial practices implemented within the big companies in Turkey. Relevant studies (see Özen, 2002; Nichols and Suğur, 2005) indicate that Turkish companies have partially adopted modern management models like TQM and BPR while keeping their paternalistic management styles.

TURKISH CULTURE

Historical Heritage

Turkish societal culture and hence organizational culture is a blend of traditional and modern values. In order to understand the nature of this culture, one has to start by examining the key features of the Ottoman socio-political system and its basic assumptions about humanity, society and change. The Ottoman political system can be briefly defined as a highly centralized and autocratic system where the ruling class was extremely

dominant and whose subjects had no say or control in this structure except to fully obey to their rulers (for a detailed account of the Ottoman system see Shaw, 1976; Inalcık, 1978). As discussed below, it can be argued that this largely accounts for the acceptance of high power distance, prevalence of autocratic and paternalistic leadership styles, lack of individualism and criticism.

Some basic assumptions and values about life, social structure and the human role shaped traditional values and furthered their dominance. These can be summarized as follows:

- The universe is extremely complex and humans can neither understand nor control events (which may explain “the external locus of control” of individuals, which is dominant in Turkey);
- Therefore, fate and destiny should be accepted (which may explain “the lack of long term orientation”);
- Therefore change is not desirable (which may explain the “high uncertainty avoidance” commonly seen in Turkish managers and employees);
- Therefore traditions and customs should be closely followed; conformity is the golden rule (which may also explain “high power distance”, submission to authority and the reliance on excessive formalities in Turkish organizations); and
- Individuals are expected to behave in a manner set for them, which basically does not tolerate differences, individualism and competition (which may explain the “collectivist” nature of Turkish culture) (Cüceloğlu, 1997, p. 241).

The combination of these values and the operation of the socio-political system left little room for change and individualism, while traditions and submission to authority characterized the system.

On the other hand, the economic system was based on the taxation of conquered lands, a system in which the military and the civil bureaucracy had key roles, and thus became dominant forces. There were no entrepreneurial groups other than those among some of the minority groups. In a sense, the Ottoman economic system did not produce a capitalist class that would be instrumental in the emergence of an industrial society which in turn led to the emergence of new classes and groups and a new state structure in Western Europe. In the absence of such an industrializing force, the Ottoman societal system failed to renew itself (Sugar, 1964; Heper, 1985).

The civil society remained weak and the state remained dominant with a patrimonial characteristic (Sunar, 1974; Heper, 1985).

After the downfall of the Ottoman Empire and the establishment of the Turkish Republic in 1923, several radical reform attempts were made to modernize the Turkish polity and society from an empire to a republic. However, it should also be noted that reform attempts dated back to the second half of the 19th century when the so-called “Westernization” attempts took place, albeit with limited success (for an account of this reform see Lewis, 1961). The end result of the Ottoman-Turkish experience was an interesting combination and a co-existence of modern and traditional values; a dual culture embodying both Eastern and Western values in a complex mix.

Contemporary Organizational Culture and Management Style

As expected, the Ottoman-Turkish cultural values shaped the Turkish administrative and organizational values significantly. It can be argued that individuals join organizations with a rather determined set of values set by socialization processes at the familial and school levels, leaving not much room for that organization to change them (Sargut, 2001: 215; Özen, 1996).

We will try to examine Turkish organizational culture along the lines of Hofstede’s well-known cultural dimensions. Hofstede’s (1980 and 1983) work involves collecting and analyzing data about the cultural values and prevailing norms of 40 countries⁵. He identifies four dimensions that he regards as distinguishing these cultures, and argues that they had significant impact on organizational cultures and practices⁶. Briefly, these dimensions can be described as follows:

- Power distance: The extent to which hierarchy and inequality exist and are accepted in the society.
- Uncertainty avoidance: The degree of tolerance of individuals for ambiguity and uncertainty and the extent to which they try to avoid them.
- Individualism/Collectivism: The extent to which individuals identify themselves by their groups and feel obliged to submit to the group’s goals

5. It should be kept in mind that cross-cultural studies involving the use of questionnaires and surveys have to deal with problems such as sample inequivalence, differences in connotations and in response styles, translation complexities as well as the usual “socially desirable response” problems.

6. Hofstede’s work has received its fair share of both support and criticism as well. For supporting research see, among others, Dorfman and Howell (1988) and Smith and Bond (1993) and for criticism see, for example, Child (1981) and Roberts and Boyacigiller (1984).

and demands despite any potential inconvenience to themselves, thus placing their individual interests and desires in a secondary position.

- Masculinity/Femininity: The relative predominance of assertiveness and a high degree of competition, a focus on success and performance, and low emotional relations with others; versus a focus on equality, solidarity, compromise, and high emotional relations with others.

To Hofstede's four dimensions, we add paternalism (James, Chen and Cropanzano, 1991). Paternalism can be defined as the extent to which the relations between superior and subordinate involve reciprocal social roles and expectations of protection by the superior and loyalty on the part of the subordinate.

Hofstede's research finds that Turkish culture is high in power distance and uncertainty avoidance, and low in individualism and masculinity. In fact, this portrait or combination is characteristic of developing countries in general. For example, Aycan *et al.* (2000, p. 207) in their comparative study of ten countries report that the power distance is high in Turkey, India, Pakistan, China, and Russia compared to Germany, the US, Canada, Israel and Romania. Trompenaars and Hampden-Turner (1998), in a 38-country study, found Turkey to have the steepest hierarchical structure in its organization. In Schwartz's (1994) survey of 38 cultures, Turkey ranked fifth in "hierarchy" values. Danişman and Özgen (2003, p. 110) compared Turkish and Canadian firms and reported that hierarchical tendency was higher in Turkish firms. Erdem (1996) also employed the Hermes questionnaire (between 1992 and 1994) and reported that the power distance was high in the firms and managers included in her study (p. 129-136). Another recent study also revealed that high power distance was one of the main characteristics of Turkish culture (Kabasakal and Bodur, 1998). According to Paşa (2000), due to high power distance granted authority is dominant in Turkish organizations.

The high power distance of Turkish culture can be seen in its high respect for authority (Kağıtçıbaşı, 1970). As mentioned earlier, this stems from the Ottoman culture, which valued traditions and customs, and the Ottoman political-administrative system, which demanded full obedience to the rulers. In a sense, it was a case of acceptance of authority for authority's sake, reflecting Weber's "traditional authority". In fact, respect for authority starts within the family; Turkish parents have indicated that the single most important thing for their children was that they should follow their advice (Kağıtçıbaşı, 1998). Children are not encouraged to think and act independently, which leads to passivity and dependence (Cohn, 1967).

Obedience seems to be the key word throughout the socialization process, in the family, in school, and at work. When obedience itself becomes the end, any kind of criticism is regarded as an act of hostility disturbing the harmony and the set order of things. Criticism, at times, can even be seen as treason (Caldwell, 1967, p. 36).

The nature of the perceived authority is basically autocratic and hierarchical rather than rational and professional. The end result of this is highly centralized administrative and organizational structures, where decision-making is made very close to the top of the hierarchy (Bradburn, 1963) and where there is very limited delegation of authority (Aldemir, 1979; Dilber, 1967; Kozan, 1989; Lauter, 1969). In this context, the participation of employees in the organizational system in general and in the decision-making process in particular is not common. However, one should also note that, in this regard, there are differences between public and private sector organizations and hence between public administrators and business managers. The former expects more respect for their authority and status. According to Arbak *et al.* (1997) and Aycan (2001) public sector managers resemble Hofstede's model, whereas private sector managers do not. Furthermore, Aycan (2001, p. 253) argues that since Hofstede's research, Turkey has become somewhat "less hierarchical." We will come back to these points later on.

Yet Turkish organizational life is still characterized by its high power distance. However, one should also look into the paternalistic nature of the superior-subordinate relationship to fully understand the exact nature of the high power distance dimension. Researchers such as Ataol *et al.* (1992), Kozan (1994), Aycan (2001) Paşa (2000), Paşa, Kabasakal, and Bodur (2001), and Arbak *et al.* (1997) have argued and have found in their studies that Turkish managers show autocratic and paternalistic leadership patterns. On the other hand, the employees also expect their superiors to act like father figures, protective and concerned (Sargut and Özen, 2001). This means that even personal, family-related problems of the employees, such as their children's choice of university and program, are handled by the manager. Turkish organizations can be categorized as "family-type" organizations (Trompenaars and Hampden-Turner, 1998), and the leader is regarded as a "caring father" and assumes "the role of a parent" (Paşa, 2000, p. 423). The result is the "paternalistic-considerate" behaviour of the superior/leader.

This paternalistic aspect of the superior-subordinate relationship is striking especially when compared with Western countries where this concern with the employees' personal, private life might be regarded as an

invasion of privacy (Paşa, Kabasakal, and Bodur, 2001). However, managers in Turkey are expected to fulfill social roles besides their traditional managerial functions (Paşa, 2000, p. 423; Sargut, 2001, p. 171-172). It is interesting to note that in social roles the power distance decreases, yet back at work it reappears (Paşa, Kabasakal, and Bodur, 2001, p. 580). For instance, a manager may act like an elder brother or sister towards his/her subordinates, let say, by helping them solve their private problems. However, back at work he/she quickly wears his/her frosty managerial role.

The superior-subordinate relations in this cultural context exhibit interesting characteristics:

- Employees refrain from expressing disagreement with their superiors (Wasti, 1998, p. 620), and prefer an “accommodation style” (Kozan, 1989, p. 793).
- Both managers and employees avoid direct confrontation and conflict with each other (Kozan, 1994; Sargut, 2001, p. 231). Indirect ways are used to convey and communicate messages rather than outright statements. Lauter (1969, p. 374) reports that “an American general manager [in a Turkish organization] was upset that he would not get straight answers from his subordinates”. For example, “*inşallah*” (we will look into it) is a typical response.
- Participation is used to make subordinates feel part of the group rather than incorporating their ideas into decision-making. In a sense it is seen to be an “inclusion mechanism” for the employees (Paşa, Kabasakal, and Bodur, 2001, p. 580).
- On the other hand, employees are not disturbed to be told what to do (Wasti, 1995).
- Loyalty is expected from the subordinate and in return gets consideration from the superior; thus performance is secondary and relationships prevail over tasks (Sargut, 2001, p. 195).
- When criticizing a subordinate the manager prefers to use collective terminology like “*we* should” rather than “*you* should”.

This brings us to the collectivistic aspect of Turkish organizational culture. It is argued that in highly collective cultures generally in-group loyalty and harmony are valued (House, Wright and Aditya, 1997). In research undertaken as a part of the GLOBE study covering 62 countries, one of the findings on Turkish culture is the dominance of in-group collectivism and power distance (Kabasakal and Bodur, 1998). Another study reports that “collectivism stood out as the most dominant organisational

value being perceived” (Paşa, Kabasakal, and Bodur, 2001, p. 574). Sargut (2001) too argues that individual goals are regarded as secondary to group goals, and self-sacrifice and harmony are highly valued.

In this cultural context, singling out high performers such as selecting “the employee of the month” may turn out to be problematic since it is believed that open competition will disturb group harmony and hence both the high performer and the other employees will feel uncomfortable (Aycan, 2001). In fact, Aycan *et al.* (2000, p. 207) report that Turkish culture ranks high in loyalty towards community, which can be regarded as another indicator of the collective aspect of the Turkish culture. Aycan (2001, p. 256) mentions that one of the most popular recruitment channels is employee referral and that this is a reflection of the collectivist culture. This point was highlighted much earlier by Bradburn (1963) who observed that a good portion of the clerical and support personnel in family-owned firms were relatives or friends of the employees. The collective aspect of Turkish culture may also have roots in local religious beliefs and its tradition of lengthy service in the military (Wasti, 1998, p. 628).

The prevalence of group goals, high value for harmony, intolerance for difference and competition also account for the “feminine” characterization of Turkish organizational culture. According to Hofstede (1980), Turkish culture’s masculinity is low, and Sargut (2001, p. 176) reports that his research on university students supports Hofstede’s findings. On the other hand, Sargut and Özen’s (2001) survey results indicate that most Turkish employees expect their managers to nurture and support them in work processes. Furthermore, studies on leadership style in Turkish public administration also show that Turkish bureaucrats are largely consideration-oriented rather than task-oriented (Ergun, 1981; Özen, 1996).

Uncertainty avoidance is linked to the notion that customs and traditions are highly valued, while change is seen as threatening; individualism as disharmonious; and risk taking as highly undesirable. In an extensive survey by TUSIAD (1991), 46% of those in the sample were found to be fatalists. Zel (2000, p. 333), comparing Turkish and British managers, argues that Turkish managers prefer to deal with routine goals and very much dislike taking risk. When faced with no routine Turkish managers tend to take a long time to assess the situation; in a sense they become more conservative. According to Sargut (2001, p. 180), excessive reliance on written rules is an indication of uncertainty avoidance. Yıldırım (1999, p 701) in his survey on workers finds that 88% ranked job security as the most important issue. Most Turkish firms prefer internal promotion, and generally make

these decisions based on seniority (Uyargil, Özçelik and Gönen, 2001: 31). This would ensure that the position is to be filled by someone whose loyalty, trustworthiness, and compatibility have been tested and that no risks are taken. Furthermore, this would also fit with the in-group dynamics of the collective aspect of Turkish organizational culture.

Although socio-cultural variables greatly influence management philosophy and practices, modern industrialization and the current trend toward globalization have led to convergence, if not full uniformity, of values among societies (for example Ronen and Shenkar, 1985). Erçek (2006, p. 662) observes that Turkish firms with ties to foreign partners were more receptive to new human resource management practices, whereas domestic ownership, small size, nascent formal structures meant less practice and more rhetoric.

Ayca *et al.* (2000) argue that Turkish organizational culture is becoming less hierarchical and less collectivist. On the other hand, Kabasakal and Bodur (1998) think that uncertainty avoidance is losing its predominance. More interestingly, Bodur and Kabasakal (2002), in their comparative study, find that Turkish firms *do not* differ significantly from their Western counterparts in organizational practices, although they *do* differ with respect to organizational values. In another study by Arslan (2000), it is argued that Turkish managers were increasingly becoming more individualistic and work-oriented, and thus close to the protestant work ethic. So, it seems that with the intensification of the globalization process, “fashionable managerial discourses have become evident” (Erçek 2006, p. 652) and increasingly the discrepancy between rhetoric and practice is fading away, especially in large firms with international business and ties with foreign firms. In this context the relations between top and middle managers can be based more on universalistic principles and approaches, whereas the relations between middle and lower managers and employees tend to focus more on culture-specific values. For example, an achievement leadership style at the top level with a directive style at a lower level may be more effective and operational than a participative style.

However, all in all, the main characteristics of Turkish organizational culture still remain relatively collectivist, high in power distance, and paternalistic. Therefore, management practices should not overlook this cultural context. For example, a directive leadership style may be more effective in Turkish organizations compared to an achievement style. Or, for example, participation should be tailored to the contextual factors. Top managers can involve middle managers’ full and effective participation for generating new ideas while middle and lower managers may use a different strategy and

style such as limited and guided participation mainly for providing a feeling of belongingness rather than generating ideas. The superior should show concern for the personal problems of his subordinates. Reward systems should be carefully constructed, taking into consideration the collectivist character of the culture; for example reward systems should be constructed in such a way that collective rewards and group recognition are emphasized at the lower levels while at the top level reward systems can be based more on individualistic and competitive considerations.

Although differences in national culture mean differences in management practices, in the final analysis it can be said that both culture specific (emic) and universal (etic) approaches have validity, the degrees of which depend on factors such as the size, leadership vision, globalization of business of the firm in question, the composition of the middle and lower managers, and the employees.

CONCLUSION

Turkey is a late-industrializing country which was established in 1923 on the centuries-long Ottoman heritage, and located strategically at the intersection of the Balkans, the Middle-East, and the Caucasus. Due to the state's central role in its industrialization, the Turkish business environment has acquired certain state-dependent characteristics (Whitley, 2000) where the state-created big business groups have long dominated the economy. However, Turkey has gradually transformed into an emerging economy (Hoskisson *et al.* 2000) becoming more integrated with the world capitalist system through liberalization policies implemented in Turkey beginning in the early 1980s. Despite this liberal transformation, the dominating economic actors are still the family-controlled business groups (or holding companies) that have rapidly grown with help from state-supporting policies, which are invariably diversified vertically and horizontally. The owning families have centrally controlled their business groups through pyramidal or complex ownership structures and by building coalitions with other families or foreign firms. New economic actors that have emerged as a result of liberalization have also adopted similar governance structures and growth policies, despite the differences in their political and economical orientations from the central business class. The prevalent managerial culture within Turkish companies has been generally paternalistic, collectivistic, and uncertainty-avoidant which has been largely shaped by high power distance, the collectivistic, feminine, and uncertainty-avoidant values of Turkish culture. However, recent studies indicate that as Turkey and its companies

have become more internationalized, Turkish managerial culture has gradually become less paternalistic and collectivistic, and more masculine and risk-taking.

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